FORTIS INC.

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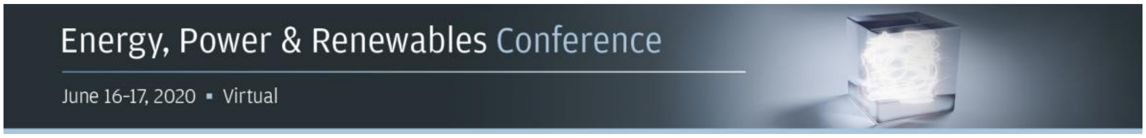

Fortis Inc.

Fortis Inc. presentation delivered at the 2020 Energy, Power & Renewables Conference on Wednesday, June 17, 2020 at 9:30 AM EST

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Richard Sunderland: Good morning. It is my pleasure to welcome Barry Perry, President and Chief Executive Officer of Fortis to the J.P. Morgan 2020 Energy, Power, and Renewables Conference.

As a brief reminder to our audience, please submit any questions to the conference website during today's session. Barry, I'll turn it over to you for opening remarks and any additional thoughts before beginning Q&A.

Barry Perry: Well thank you, Richard. Good morning, everyone, coming to you from my office here in St. John's, Newfoundland. I'm going to cover a few topics this morning, basically provide a COVID update, talk a little bit about regulatory and our growth opportunities, and I'll finish off just talking about some ESG initiatives that we have on the go. Then we're going to take some questions.

For folks that really don't know the company, we are a geographically diverse energy delivery business. I know you have the slides deck. I plan to use a few of those slides as I go through my presentation.

We're sort of spread out across North America. We have 10 utility operations across the continent, focused on the regulated utility business. 99 percent of our assets are on the regulated side. Rate base last year was about 28 billion. It'll be about 30 billion this year when we get through 2020. We serve about 3.3 million customers overall.

Actually, 93 percent of our assets are focused on the T&D space. Basically, poles, wires, and gas lines, that's what our focus is. Our business right now, 65 percent of it, our earnings are coming from the US with the rest primarily coming from Canada.

I will say, in terms of businesses, we own ITC, the largest independent owner of transmission in the US. We bought that business back in 2016. That's a high-quality business, FERC-regulated.

The rest of the businesses that we own are state-regulated or provincially regulated in Canada.

Again, regulation is essentially very, very similar in both countries. We're very used to intensive regulatory oversight and really pride ourselves on maintaining very reasonable regulatory relationships.

Let's just talk a little bit about COVID. As you can see, I'm sitting in my office. Our corporate office here in St. John's, we have just 60 people in our corporate office. Overall, the company has about 9,000 employees across North America. About half the employees in corporate office came back on June 8th. The rest are planning on returning on July 6th.

Newfoundland, the province of Newfoundland has about a half a million people. We only have one active COVID case here in the province currently. We're in very strong shape. The healthcare professionals have done a great job managing the crisis here in Newfoundland. They locked the place down pretty tightly early on.

Even today, basically unless you're a resident of Newfoundland, you can't come into the province. If you're a resident returning, you do have to quarantine for 14 days. Because we're an island, I think that's helped here. We're sort of very much similar to, I suppose, New Zealand and Tasmania over in Australia. Very similar outcomes, well-managed at this point. Hopefully, we can keep it that way.

In terms of our business overall, we have about 5,000 people working from home now across the group of companies. That's gone really well. In the field, the 4,000 or so that are still working, that's going well. Clearly, now, these workers have all the PPE that they need.

We're executing well. Our capital plan is still intact. This year, we're spending about $4.3 billion in capital. We're not seeing any change to that plan at this point in time. In the Q1 report, we identified that we had spent $1.2 billion in the first quarter. That continues pretty well at this point in time.

We've had no supply chain issues, really. We've had a couple small things but nothing material. Clearly, have done things like sequestering certain employee groups, especially control room operators, practicing good social distancing and good hygiene practices throughout the company.

I got my sanitizer here and all of that. We each had a care package when we came back to work, on our desks. That's gone really well.

Overall, from a business perspective or a financial perspective, we did disclose in Q1 that 82 percent of our annual revenues were protected by regulatory mechanisms or from residential sales. That's a pretty strong place.

We also said that we had strong liquidity. Coming into the crisis, you may recall last year we sold a large asset for a billion dollars. We also issued $1.2 billion of common equity and used those proceeds to pay down debt.

We came into the crisis with probably one of the strongest liquidity positions in the entire sector, ranking the sixth best liquidity for the entire sector, up with some of the very large companies.

We also have some tailwinds around FX. The Canadian dollar has weakened here during the crisis. That, given our exposure to US assets, that's been a tailwind for the company. We do have regulatory mechanisms around pension expense, as well. In many of the utilities that is helping mitigate any issues around that.

Overall, I would say we're in pretty good shape. In the first quarter, we did talk about each of our regions, about how COVID was impacting load. Consistent with other utilities in the industry, we were seeing an increase in residential load and a decline in commercial and industrial load.

The areas that we had some real exposure that weren't protected by regulatory mechanisms were Arizona and the Caribbean. Overall, we were seeing a decline of about three percent in load in these areas. I would say since the quarter end, since the period that we assessed, which is from mid-March to mid-April in the quarter end, things have improved, especially in Arizona.

The weather has gotten really warm down there. Right now, the overall load, it's probably up year over year given the weather because last year we had a really cool May. Overall, we're not seeing those load impacts. The big impact in Arizona is the delayed outcome for our rate case.

It's been pushed back until the end of the year now. We were expecting that in the April/May period, but because of the crisis we had to push that back to the getting a decision now late November or December. That's going to impact that business.

From a load perspective, we're not seeing that issue, given that we've been running successfully, now, a number of days there at over 100 degrees. That's helping out a lot.

The Caribbean is a small part of our business overall. It's like three percent of the assets overall. That business is suffering, I would say, because of the tourism, travel going to zero. Large hotels are basically empty. We are seeing some impact. Fortunately, there, it's a pretty small part of the overall business.

Our biggest business, as I mentioned, is ITC, the transmission company. That's about 40 percent of the overall company. That has a very strong regulatory mechanism. It gets to true up its cost on an annual basis and is well-protected from the impacts of the pandemic.

Even there, I think some of the low numbers. They get to bill on peak load. Because of some of the weather that we've experienced in the Midwest, I think we're hitting some really good peaks. The impacts are not as great there. Those impacts are recoverable anyway. It's nice to see that we're getting back to some better numbers there overall.

I would say, overall, we're managing the crisis pretty well, really focused on our employee safety. I should mention we are working in a much safer manner.

Historically, we've had some of the best safety stats in the industry. We're in the top quartile on a consistent basis. Since the beginning of the year, our numbers are running at half those levels. We're even much better than we've been, on average, for the last three years.

We actually were better in the first two months, January and February. About 50 percent better before the crisis, but that's continued now, during the pandemic. We do think we've put a real big focus on safety in the organization. That's paying off.

Even now, during the pandemic, I think our employees are very, very much looking out for each other and following good work practices. That's showing up in our safety numbers.

I've said to all my team members that if we can come through this pandemic and look back and say that it was the safest time in our history, that would be a pretty amazing accomplishment. I'm hoping that we can do that.

On regulatory, maybe moving to that. This is slide 18. It's a summary of our regulatory proceedings. We've made a lot of headway on ITC with the return on equity matters at FERC. I think the body of evidence is now growing that FERC is supportive of reasonable ROEs for transmission.

We just got the recent decision, upgraded the base ROE from 9.88 to 10.02. With the adders that ITC has, that allows them to earn 10.77 on their 60 percent equity.

I think that another positive sign at FERC is being really focused on making sure that ROEs for transmission are set appropriately. We're optimistic that this issue is receding more now, hopefully.

Also, FERC announced a review of incentive adders. They've outlined some thoughts around that that are positive, I think, and hopefully, we'll see some more information on that soon, as well.

All in all, we're feeling more comfortable about the situation there. Clearly, we could be surprised, I suppose, but I think FERC has left themselves a lot of flexibility in this recent decision to withstand any complaints that might come forward that suggest ROEs are high.

I will say that at 10.02 there's still lots of state ROEs that, even recently, have been decided in the high nines. To have FERC at 10.00 for transmission doesn't seem very unreasonable to me, that's for sure.

TEP, the rate case there. We had filed this case mid-2019 using 2018 as a test year. The last time that we had set rates, we used a test year of June 30th, 2015. We're updating our rates from back then.

We are trying to get about $700 million US of rate base into rates. That would provide a fairly significant lift to our earnings. Having the case delayed till late year was a significant impact to the company. We're hopeful the regulator understands that. We've expressed our concerns around that clearly.

I'm very hopeful, at this point, that we'll get a decision around late November, so for new rates, January 1, which should provide a fairly significant lift to Fortis' earnings for the '21 year.

There really is no contentious issues remaining in that case. The ROEs will have to be decided. We asked for 10.00, currently earning 9.75 and the staff recommended 9.28. I'm hopeful that we'll do a bit better than 9.28, but that's sort of the only remaining issue.

The staff recently filed some testimony around some post-test year adjustments that we had done related to capital. We have installed some reciprocating engines outside of Tucson, about $200 million worth of those, and also bought another unit at Gila River. It looks like there's no real concerns around that. That was a positive.

Staff filed some evidence on that recently. Overall, I think we're in pretty good shape there.

We are expecting a decision in British Colombia on a new multi-year plan. Again, there were no real contentious issues on that. We should get that decision in the next few weeks. I do expect that to be positive.

I will point out that we filed in BC an environmental assessment for our Tilbury LNG plant facility. That's a plant that's very near Vancouver on the Fraser River. A lot of potential upside for investment for Fortis in that plant, so we filed a full-scale environmental assessment that allows us to expand that plant in several different areas.

Pretty exciting stuff there. That's one thing to watch, for us, in the next few years.

Finally, on the material regulatory matters, FortisAlberta, there was a cost to capital hearing that was started for the industry in Alberta. That's gotten delayed a bit here because of the pandemic. It was going to establish cost to capital for 2021 and onwards.

Recently, the commission has asked for some input on how to restart that hearing, but there's been no final determinations made on that.

Finally, last year we did get a decision that was appealed on transmission assets in Alberta. We're primarily a distributor in that province, but we did have some transmission assets. The AltaLink franchise, which is owned by Berkshire Energy, felt that they should own those assets because they are mainly focused on transmission.

The regulator, after this third regulatory proceeding on this issue. The first two they agreed with us. The third one they agreed with them. Asked us to transfer those assets to Alta Lake. We appealed that decision. Now, the regulator has asked for more evidence on that.

We expect a written proceeding in September with a decision before the end of the year. That's the deal with about $400 million worth of assets. Ultimately, if it is transferred, we will get paid for those assets, but clearly, we feel we should retain them.

That's an update on regulatory. I'll quickly move to growth. We've been guiding the Street that we're...our capital budget over the next five years, out to 2024, is about $18.8 billion, call it $19 billion. That's going to allow us to grow our rate base by about seven percent a year on average over the period.

We're actually looking at adding about $10 billion of rate base growing from $28 billion in 2019 to about $38 billion in 2024. We're on track with that. It's going well. That clearly supports our dividend growth guidance, up six percent.

We've guided on the dividend for a while now. In Canada, we tend to provide dividend guidance instead of earnings guidance. We still have a big contingent of retail shareholders. One third of our stock is held by retail shareholders, so very important, the dividend growth is for them.

We have a record in Canada of increasing our dividend for 46 consecutive years. That's an important metric for the company. The capital investment supports the earnings growth and, obviously, supports dividend growth.

In terms of the businesses that we're getting that growth from, fortunately for Fortis, it's coming from our larger businesses. ITC continues to perform well. It's investing a Canadian basis close to a billion dollars a year in its transmission system.

Then, we have our Arizona business, Tucson Electric Power, continues to grow well. We're really focused a lot around renewable energy, cleaner energy. I think that's going to fund or going to create growth for a long time for us in Arizona.

Finally, our BC business, our large gas distribution franchise, we serve over a million gas customers in BC. I think it's probably the most progressive, innovative gas franchise in North America. We're doing lots of great things around renewable natural gas, gas for transportation, bunkering of ocean vessels with natural gas.

We're actually shipping containers of LNG, ISO-sized, truck-sized containers to China, the first Canadian company to send LNG to China not by ship, but by containers on ships. Again, that's all supported by the regulator, all regulated investment. We're allowed to put fueling stations in rate base, those kinds of things, so very excited about the growth prospects for that company overall.

We typically update our five-year capital plans once a year. Clearly, typically it's been done in the fall. This year, we haven't yet decided given the pandemic, but pretty optimistic about the overall growth of the company.

I do want to comment finally on sustainability or ESG. We have, over the last number of years, spent a lot of time in this area. We're fortunate at Fortis because we have a great footprint, 93 percent of our assets are in energy, and are in transmission and distribution. That provides a pretty light environmental footprint for the company.

We're in a strong place. That's been recognized by the different surveys. MSCI have upgraded us over the last five years from BB to AA. That's almost a five-notch improvement in their assessment of Fortis. That has come from us engaging with them in conversation about our business, and our plans and the performance. They've rated us really, really high at this point.

The areas where we are focused on improving mostly are in Arizona. That's a vertically integrated utility at the Tucson Electric Power. We're moving away from coal there over time and moving much more into renewables.

We'll be coming out with some new targets in the second half of this year around more aggressive greenhouse gas reductions for that business. I think that's going to drive more growth in the business, more renewables, wind, solar and transmission over time, as well.

In BC, our gas business, they've actually focused on customer emissions on using gas and are aiming to reduce those greenhouse gasses by 30 percent by 2030. A lot of it on energy efficiency focused on renewable natural gas, clean LNG. BC's LNG is made from renewable power, hydroelectric. They're marketing it as the cleanest LNG in the world.

There's a lot of positive things happening there. That's supporting those targets.

In terms of the other areas, social, we've done a lot of great things there. Especially during the pandemic, we've been big parts of our community in charitable giving. That's been a hallmark of Fortis over the years -- great on safety and reliability, as well.

In terms of governance, I will say that we've been ranked very high by the various rating agencies on this area. There's one in Canada that ranked all public companies. Fortis is typically in the top decile in terms of governance. We have a strong board. We rank really highly there.

I think for us, overall, we're well-positioned on ESG to be a leader. That's definitely an area that we can continue to focus on. We will be rolling out our new sustainability report here in the next month or so. You'll see lots of great information in there that shows what the company is doing in this area.

We feel that we're well-positioned and we'll continue to focus on clean energy, going forward, and even get stronger in this area. Richard, I'm going to stop there and maybe take some questions if there are any. We'll go from there.

Richard Sunderland: Thanks, Barry. We'll start from one question from our audience. Turning back to Arizona and the rate-base discussions, you bracketed ROE between your announced band, the staff position.

Do you have any more thoughts around where the ROE may fall within that range, and if those expectations have changed at all as the cases evolve from the April, May time frame to a more extended process?

Barry Perry: I don't think that's changed really. It's going to be what it's going to be at this point. The evidence, there's a hearing next week on some final matters. The briefs are in August, September, I think. Richard, state ROEs are still being established at higher levels than that.

DTE just settled at 9.91 in Michigan, so 9.28 is on the low side. It's on the low side, so we would hope we'd do better than that.

Especially given the historical test year in Arizona, we're just talking about updating rates from 2015. I feel the company has done its job in Arizona. We have really invested heavily in that business, moving it much further along the clean energy curve I'll call it. We'll continue to do that.

When you put all that together, the ROE needs to be appropriate there. Hopefully, we'll do a bit better than the 9.28.

Richard Sunderland: Sticking with Arizona, the remaining procedural schedule sounds relatively straightforward in the sense that you listed what was contested and what's not. It seems like you're progressing through, albeit on a schedule.

Do you see the elections and just timing there impacting the rate case at all, or by the time you get to the November, December decision, do you have confidence you'll have new rates?

Barry Perry: We're not seeing it. Clearly, you never can tell. You don't want to be in front of an election. I suppose that's a positive. Once we knew it was going to be delayed, to delay it beyond the election, both for the commission and for the federal election, makes some sense, I think.

We've done, like I said, a good job in the state. Our rates have been well-managed. On average, last decade, rates have only gone up about one percent a year. It's not like there's been large rate impacts for customers. Yet, the business and quality of the service in terms of cleaner energy that we're delivering has improved so much over that period of time.

The regulators, I hope, will realize that. I think the decision will be made by the existing commission rather than if there are new commissioners coming in. They don't get inaugurated until January. We're hopeful obviously that the commission that we've been dealing with will make the decision.

We've been here before. This has happened historically, that commission between the election and their inauguration of new commissioners, the commission still operates, basically. I will say, someone asked me recently, "Are you guys concerned about Arizona? Will you be a seller in Arizona?"

I just about fell off my chair. I said, "No, we're a buyer. If there are assets in Arizona, we're a buyer." We believe that the long-term growth potential for our business there. We knew coming in that it was a historical test year, that the earnings would be sawtooth pattern of growth.

I would hope that over the long term we could maybe get some of that changed, but it's not going to dissuade us. The business is a strong business and the demographics in America support that state so much.

People are still moving to Arizona. That's going to continue and we're very happy with our investment there. We're hopeful that we'll get a reasonable outcome in the rate case late this year.

Richard Sunderland: Great, thank you. Maybe stretching to ITC real quick, great to see the MISO decision. I'm curious to get your thoughts, one, on the transmission incentives as you've briefly referenced.

Maybe just expectations for FERC’s seemingly positive or open approach to addressing incentive adders, as well as long-standing growth for ITC through a potential another round of regional transmission build-out. Both on the growth and the ROE front, where do you see the outlook for ITC right now?

Barry Perry: Right now, based on what FERC's outline and the incentive docket I guess you could call it, this idea of doubling the RTO adder from 50 to 100 basis points, but losing the Transco adder, which for ITC is 25. Net/net, just on those two points alone, that's 25 basis points that if FERC confirmed that's where it was going, that ITC's ROEs would go up. That 10.77 would be 11.02, I think it is, so that would be a positive.

They've talked about other adders that ITC could go after. This concept of the 250-basis point range where historically we would have been capped out on some of these adders, that provides a lot more flexibility to earn a little more, frankly. I think that's pretty exciting. That points to a more positive view at FERC about these matters in my view. Hopefully, there will be a little more upside for ITC there.

From the beginning, Richard, the market is finally getting it that ITC is growing faster than what anyone thought was going to grow when we bought it in 2016. They had a declining CAPEX curve back then. I remember saying to my board that the outer years back in 2016, the ITC was down five percent growth rate, whereas the 2017-2018 year, they were at seven percent.

I said, "If we can grow ITC at seven percent consistently, it's going to be a home run. It's going to be good anyway, but it's going to be a home run for the company." We're there. We're at seven percent growth.

They really are participating in the build-out of renewables in the Midwest. With the incumbent transmission lines, they own 16,000 miles of transmission. People can't understand how much that is. That's massive. It's five times across Canada, from Newfoundland to Vancouver, stringing a line five times.

It's irreplaceable infrastructure. I see that growth continuing. The multi-value projects that you mentioned, ITC just got approval to do the last five of those projects. That's a couple hundred million more in their five-year plan related to that. Every time one of those projects got turned on, they were at maximum capacity. It tells you that, first of all, it was a great idea to do those interregional projects.

They were needed, but they should have been bigger. There should have been more capacity because, when they were turned on, they were at max capacity. That's how much wind and solar is being built out in the Midwest. The MISO cues are off the charts, basically. That's not going to change. It's not all going to get built, but a lot of it's going to get built.

You see the targets that are being set by ITC's main customers -- Alliant, CMS, and DTE -- around greenhouse gas reduction, renewable penetration. That's all going to drive growth at ITC. From a franchise perspective, I think it's one of the best franchises in all of North America. It has a very strong regulatory compact.

I'm just really, really happy that we were successful in acquiring it back in 2016.

Richard Sunderland : Well, Barry, thank you for the presentation and the Q&A. Thanks for joining us today.

Barry Perry: Thanks, Richard.