FORTIS INC.

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CORPORATE PARTICIPANTS

Rob Catellier *CIBC - Energy Infrastructure Analyst*

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

PRESENTATION

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Hey, welcome back, everyone. I'm Rob Catellier and I cover energy infrastructure companies for CIBC, very happy to welcome you back to our 21st Annual Whistler Institutional Investor Conference.

This session, we'll be hosting Fortis. I think everybody knows Fortis is a large North American utility, $47 billion of assets now on a rate base of about $25 billion, spread among 10 utilities. What's interesting about Fortis is that they've been listed on the TSE for 30 years, and have one of the longest dividend growth track records in the country at about 44 years, so a fantastic track record.

Very pleased to have Karl Smith with us, EVP and CFO of the company. And before we start the Q&A, I've asked Karl to make a few opening remarks. So, over to you, Karl.

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

Thanks, Rob. Good morning, everybody. And let me apologize upfront for my voice. I've been coughing an awful lot over the last couple of days; I've been fighting a flu, so I apologize for that if it does get in the way of some of the conversation.

So, Fortis, as Rob mentioned, but we're a U.S. utility company based in St. John's, Newfoundland, how's that? And I'll talk a little bit more about that. And the challenge for me in a setting like this is where to start my reference point in terms of update. We would have -- we would have updated the market with our new capital plan back in October when we did our Investor Days. Not a lot has changed significantly since then. That's the nature of the business, but I do have a couple of things I would like to talk about, including the U.S. tax reform.

So I'm assuming most people in this room know the story. But just as a quick update, as Rob mentioned, we're about $47 billion in assets as of September 30th, importantly 97% of our asset base is regulated -- purely regulated assets, 91% is either transmission or distribution, and that's another very important stat. We have about 3.2 million -- 2 million customers currently and about 60% of our earnings are from the U.S.

2017 was a very successful year for us. We'll be announcing our results in about three weeks from now, so we'll have some more specificity then, particularly around the U.S. tax reform.

We had two major objectives entering 2017, one was to integrate ITC, which we closed on in late 2016, and also to manage a reasonable outcome in our first Arizona rate case, first case that we had filed since we owned that company. Both have been accomplished successfully.

And you have to understand, our business model is such that integrating new businesses into our fold is not all that involved. Our business model is predicated upon autonomous operating subsidiaries. We have independent boards in place, management teams are local and so on, so integrating ITC went as we would expect. And here we are, a little over a year later, and it feels like they've been in our fold for five or -- five or so years.

In Arizona, we had a really good outcome in our case. Importantly for us, we had invested quite a bit of money in that business when we acquired it, including day one, we injected $250 million in equity. And then during the course of our ownership up to the time we filed that rate application, we invested over $400 million in rate base. And both of those things were acceptable at a commission ultimately, and we were awarded a 9.5% return on the 50% equity -- the new equity that we had put into that business. So, I think 2017, from my perspective, demonstrates a new earnings power for us, the higher level of earnings, including ITC and that adjusted revenue stream from Arizona.

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Also, I think this is important, we made significant progress in diversifying and deepening our shareholder base in the U.S. So today, from a standing start of almost zero two years ago -- here we go -- excuse me -- almost 30% of our institutional shareholder base was now residing in the U.S. So, Barry and myself have spent a lot of time over the last two years, sort of cultivating, and nurturing that investor base. And I think, anyway, based on the track records of a lot of other Canadian companies, that we've made good progress in getting that new shareholder base in the U.S.

A major undertaking in 2017 was becoming U.S. SOX compliant. That's something that we had to do as a consequence of being a New York Stock Exchange registrant. And even though we don't have the final shareholder report yet, we think we're there -- I'm absolutely certain we're there. There's a lot of work involved though, in order to do that.

Strategically, we've pivoted in 2017. We've grown through acquisition, as you know, and we've built quite a business -- $47 billion in assets, 10 utilities. We're at the stage now where we think we have a great portfolio of utilities with some really low risk high visible growth.

So, we've turned our attention away from M&A, because valuations have become in my mind so stretched to working on growing organically. And we think we have a platform for the foreseeable future, the next five years at least, where we can grow our business at around 5% mark with some upside, with some of discreet projects that we're working on.

We did introduce a new year -- a new five-year capital plan in 20 -- late last year, it's $14.5 billion. All are very specific projects. There's no placeholders. There's no -- excuse me -- amounts that we think we're going to fill in. They've all been identified and they -- and the largest projects would be -- we have a couple of projects that are $100 million in size, but beyond that, we have just thousands and thousands and thousands of small projects, that means some very low risk that's highly executable, and importantly, regulatorily benign.

We did extend our dividend growth guidance to 2022, so we are committed to growing our dividend by 6% a year for the next five years.

On the regulatory front, there's a couple of significant regulatory items that are outstanding. One is a CH rate application that we made just recently, our three-year settlement with the regulator in New York was coming to an end on June 30th, so we filed for new rates. We're currently in negotiations. We hope to come up with a similar type of arrangement coming out of that.

In the ongoing FERC MISO complaints -- are still finding our way through the process. I suspect we'll have some conclusion on those, at least in the MISO jurisdiction by midyear. But we're not overly exposed to that. The administrative law judge has recommended a return on equity of 10.68%. We're currently earning 11.35%. And the delta would be about $0.05 or $0.06 in our earnings.

So, we have a couple of large opportunities that we don't have included in our base plan. And one is a transmission project in Ontario, and one is a transmission project between Ontario and Pennsylvania. And we've also been doing a lot of work on our Tilbury LNG facility in the lower mainland here. And we're optimistic about that.

So, I'm going to stop there.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Fantastic. Thank you [very much].

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

Take a drink.

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QUESTIONS AND ANSWERS

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

I think you've alluded to it, but obviously the company has a significant amount of U.S. exposure, and it's been a growth area in recent years. Understanding you're going to provide a more fulsome update on U.S. tax reform in a couple of months, I want to probe you on that one a little bit. What are you telling your shareholders currently and what is the impact on your financial management strategy?

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

Yes, it's -- and it's still unfolding, and is developing as you know. But my read on tax reform is generally positive. The ultimate outcome is positive to the utility sector space, in my view. We were a bit concerned, this time last year, about the potential for losing deductibility of interest for example that was a big one for us. That didn't materialize. The cessation of bonus depreciation has been positive for the sector as well.

So, if you think about it -- if you stand back and sort of look at the big picture of it, tax reform will be a positive for utilities. It gives us more room -- headroom to invest further, and I think that applies to all utilities, not just Fortis, but we'll benefit as well.

The short term negative is cash flow. And that's as a consequence of charging customers less for taxes. You may have noted last week that Moody's came out with a piece that put a number of utilities in the U.S. on negative watch as a consequence of tax reform. We weren't included in that group, but we will then have some more involved conversation with both S&P and Moody's. We're scheduled to do that next month.

My sense is that the credit rating agencies will be willing to work with the various companies to work our way through this, because it's really the first couple of years, after that we -- most of us should get back to where we would have been before tax reform.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Right.

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

I think -- I think it's -- I mentioned our capital plan of $14.5 billion, as a consequence of tax reform, that's likely to be higher I think, because we will -- it will create room for to find other ways to invest that.

And my theses on investment in the utilities space, particularly in the U.S., is that there's been a pent up -- pent up demand to invest further in the utility space. And the governor on that investment has been the bills and the revenue and the rate impacts. So, with the taxes being lower, I think there's lots of opportunity to invest more in utilities. And it's necessary, and it's appropriate and it helps customers and everything else, resiliency and cyber security and all these things. So, there's lots of opportunity to invest. And I think tax reform creates an ability for utilities to -- the good ones to be able to take advantage of that --

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Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Right.

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

-- that's why I feel positive about it.

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Rob Catellier - *CIBC - Energy Infrastructure Analyst*

You can touch on a little bit here some of the opportunities in the U.S., but we could also argue that current presidential administration isn't necessarily all that supportive, particularly of renewable policies. So, how do you -- how do you see that impacting your growth strategy in the regulatory environment?

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

Yes, I don't think it matters that much anymore, to be honest with you. I mean it's -- it started off with -- particularly renewables. First of all, renewables, the only jurisdiction that really has an impact on us or an opportunity for us is in Arizona. And that trend is fully entrenched right now. The state is onboard to move towards those cleaner sources of generation and will continue to do so. So let's start it with a clean power plan as a catalyst -- doesn't require a catalyst anymore. I think societal trends, the cost, the profiles of renewable generation now, I mean we're seeing some incredibly low prices for solar and wind generation on a long term basis.

So, I don't think the administrative -- the administration's stance is really going to make that much of a difference in the -- in the longer term here. And all the trends are very supportive.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Yes, we agree with you. I think Mark Jarvi and I -- Mark Jarvi covers our power companies, and I think we'd agree that it's pretty hard to put the renewable genie back in the bottle. What concerns us maybe a little bit more on the -- on the macro level is the -- both Canada, U.S., some other jurisdictions, have these big infrastructure spending ideals that never seem to gain traction. So, what has to happen to get the -- to cure the infrastructure gap, particularly on the transmission side? When are we going to see some of that money start to hit the industry?

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

Yes, from my perspective, and from Fortis' perspective, we're feeling more positive with the new FERC Commission for instance. The previous commission, I think had wavered from their original mandate or reason for being, and it turned into almost a policeman. For those of you that aren't familiar with FERC, their mandate really is to incentivize investment in transmission assets in the United States, because nothing had been spent for about 30 years. It really hasn't been as successful as people thought it would be at the outset, but again, I think it sort of gravitated away from its original mandate.

The conversations that we're having so far with the new FERC suggest to us that they're now focused on the original mandate again to incentivize transmission. Combine that with the trend towards renewable generation, which obviously will require some transmission investment to make that -- to make that work or make that happen.

So, I think it's -- the private sector, the investor owned utilities will drive that trend. And I think it's more societally acceptable now. When you -- when you -- when you combine transmission with renewables, it's very different than just having transmission around us all.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Yes.

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

So, that's one thing we're starting to see -- I mean it's not -- not everybody is saying yes, build transmission lines in my backyard type of thing, but there's a more rational conversation that's taking place, I think.

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Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Your company has a long history with making acquisitions in the U.S., pretty successful one at that. But in the last -- call it 12 months, we've heard the company talk about elevated valuations in the U.S. So, the messaging has been keep your expectations in check in terms of M&A. So, as you do that, and you look inward, what are the best opportunities to continue to get value out of some of the more recent acquisitions like ITC?

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

Yes, I mean it's right across the board for us. What I've been saying to our shareholders about the pivot in our strategy is -- well, first of all, I don't -- the economics don't make much sense to us anymore in terms of M&A. And the valuations are stretched so much, but not only that, but the regulators are insisting on more and more. It seems like with each -- with each announced acquisition, the bar gets a little bit higher in terms of regulatory concessions, so -- and that's another aspect of it in addition to the valuations.

So, what we're doing in our organization -- so, we've been very acquisitive. So, for 10 years, what we've asked of our executive teams in the various operating subsidiaries is just run a really good utility for us. Focus on the customer. Make sure reliability's good. Be safe, et cetera, et cetera. But that's all we're asking of you.

And over the last 12 months, we've -- in addition to that said: Okay, now you also have a growth mandate. We want you to be thinking about growth and focusing on growth. Because before that, they looked at Fortis Inc. and they said: Okay, those guys will buy something that's to grow -- that takes care of growth. That's not the case anymore.

What I've -- what I've noticed is that the mindset has changed within our executive teams in that they've really taken up the banner with respect to growth. And year over year, our five-year plan, for instance, is we've surfaced another $1.5 billion in investment opportunity. That likely would not have happened if we hadn't -- if we hadn't changed the focus and the mindset in the organization.

So, that's a very important point that's not always obvious, but is powerful when it does happen. So, every -- so that starts with that, every organization has its growth mandate. ITC will try to take advantage of the trends that we we've been talking about in terms of renewable generation. They're positioned really well to do that. Their footprint is in the best wind regime in North America, for instance. They have a great reputation as a -- as a -- as a good builder of transmission assets. And they're dealing and working with a lot of people to come up with new projects. We've spent some time in Mexico. We've talked about that in the past. I think that fits the bill for ITC.

We don't expect them to grow at the rate they've grown in the past, but we do expect them to grow at higher than the average -- or consolidated (inaudible).

Here in B.C., we see a lot of -- a lot of opportunity in the gas business, because we really haven't been looking at that as a -- as a -- as a place to invest a lot of money. We have been investing a lot of money in pipes in New York. The pipes are older there, but we're getting to the stage in British Columbia now -- and again, this is a broader trend across North America, where you know, the integrity of the pipeline system is really, really important. So, we're investing a lot of money in that. And again, it's something that customers and regulators are supportive of.

Central Hudson is probably our fastest-growing utility right now. It's too bad they're not our largest one. But you know, they'll grow at 7% rate probably. A lot of that's being driven by pipeline integrity investment. But there's also the rev process in New York, where they're trying to create the utility of the future, and there's a lot of investment going into technology and platforms for customers to be able to manage their own energy and stuff like that.

So, depending which company you talk about, there are different trends at work. But you know, we're -- our expectation is that all our utilities will be focused on growing and around the consolidated rate.

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Rob Catellier - *CIBC - Energy Infrastructure Analyst*

So, when you look at that, U.S. exposure, I think they're up to 60% now of earnings, so two questions there. One, what is the right level or is there a ceiling to the -- to that number that you're comfortable with? And the follow up is, if you have those high valuations in the U.S., and slowing down your acquisitions, would you look further afield than the U.S.? Are there other jurisdictions you'd consider?

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

Yes, depends which timeframe you're talking about. First of all, we don't think about it as a particular cap. We've always been driven by opportunity. So, when we -- when we made the decision to pursue opportunities in the U.S. about a decade ago, it's because there was dearth of opportunity in Canada -- continues to be the case today from the most part. We've been a little bit successful in creating some other projects like the Watay project in Ontario, but for the most part, there aren't any large opportunities to acquire other businesses in Canada anymore. So, there will be other opportunity in the U.S., even though there's been a lot of consolidation.

So, at the right point in time, with the right valuations being assigned to these assets, we could see acquiring other business in the U.S. Don't see that right now, because the conditions aren't right. And because of that, it's likely that the percentage of our overall business that's represented by U.S. would grow.

We haven't really -- we've decided not to go outside of North America as of now. A, because we know North America really well, and because we think there's more opportunities, particularly south of the border. But far enough down the road, I think we'd probably consider some other jurisdictions, but not sure what they are. It could be Australia, but who knows, but currently, we're not thinking about that. That doesn't enter into our discussions around strategy or anything else. We continue to be focused on the -- on the North American geography for the foreseeable future, at least.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

So, you mentioned the high valuations in the U.S., but there's a discount for Canadian stocks, even the ones that have that high U.S. composition. What has to happen to close that valuation gap?

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

I've been looking for an answer for that question for the last year. You have no idea how many people I try to engage in that conversation. Tough to know. I mean this -- everybody has their own hypothesis with respect to this. Looking back at it now, things are always clear in hindsight, but I really can't explain why Canadian utilities traded at a premium in the first place to the U.S. utilities. When I really -- standing here today looking back, so there's not a good reason why Canadian utilities should trade at a premium.

As I mentioned, we've been talking to a lot of U.S. based investors. What we've discovered through that process is that they don't understand Canada very well. There's the currency thing, so there's a couple of complications that we had to overcome in order to have U.S. based investors invested in companies like us, for example. But after about three conversations -- when you start peeling away those superficial obstacles, and they start focusing on the core story, then -- and the -- and the evidence for us is that we have now 27% of our institutional shareholder base is U.S. based. But it's -- there's obstacles for those investors to invest in Canada.

So, in theory, there should always be a slight discount. I think the discount is too wide right now, especially for a company like us where we have 60% of our business in the U.S. But there are investors who want to invest in single-state utilities. We're obviously not that. And then you add on the -- and they'll say things like well, we don't understand the Canadian regulation. And when we explain it to them, they say: Okay, I understand that completely, but they just never took the time to go ahead and investigate -- and from their perspective, they don't have to. So, it's just beating the bushes, spending a lot of time and knocking off these investors one at a time.

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And the other thing is -- because we're domiciled in Canada, the Canadian utilities, we're not eligible for inclusion in the indexes. So, we're at a disadvantage to our peers in the United States --

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Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Right.

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

-- simply because of that -- that large pool of capital that a certain portion of it will automatically invest without thinking in U.S.-based utilities. We can't do the same thing with Canadian-based utilities, so.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Well what I wanted to do is give you a chance also to talk about some of your -- some of your major growth projects. I think I'll start with Watay. That project was highlighted in Ontario's long term energy plan --

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

Yes.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

-- and what are -- what are the implications of that? And maybe provide a quick status update on that.

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

Yes, we've made really, really good progress on Watay. I'm obviously -- I think sitting here today, that we'll likely start that project sometime this year. We've made that much progress over the last couple of months.

I tell you, it hasn't been without its challenges, because we've had to deal with both the Federal Government and the Provincial Government who wanted to fund -- or provide funding to this project. And then the other side of the table, you have our First Nations groups and ourselves saying: Listen, we appreciate the funding, but too much is no good either, because First Nations, in particular, want a sustainable business here. They want something they could pass on to their children and grandchildren obviously.

So, we've had some very intense negotiations over the last month or so about what the ultimate funding arrangements will be, and I think we're pretty close there, so knock on wood, we should be announcing something on that in the next month or so.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Okay, so then moving on to Lake Erie, what's the status there? And how does the provincial election play into that?

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

Yes, [with the] -- things have really slowed down, when it comes to Lake Erie -- or the Erie Connector. And not for any -- not for any particular reason, other than in my view, the politics of it all, the Ontario election and the -- and the mess that is the electricity sector in Ontario becoming a political issue is sort of standing in the way.

So, sitting here today, my view is that there probably won't be any significant progress until after the election in Ontario. And then I mean the fundamentals of the project are still quite positive. We still have a lot of interest with the -- with the generators in Ontario. But I think there's just a little -- everybody's pretty nervous right now with the election coming up.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Yes, that's understandable. We've heard some pretty positive updates and maybe a more bullish tone on a number of companies at the conference on the subject of LNG. You have a couple of irons in the fire in B.C. in LNG; give us a couple of updates there? And really at the back of my mind, the question I want answered is what's it going to take to see a medium-sized to large-sized West Coast LNG project get off the ground?

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

I'm not that bullish on large-sized projects to be honest with you. But you're right, your opening comments I've seen that as well. Well the world pricing has come around, so that's the absolute necessary ingredient that needs to take place.

The other thing that's been a real positive surprise for us recently is the position of the new NDP government here in British Columbia. And they seem to be more constructive on LNG than we anticipated they would have been and what their original position was. So, that's a real positive as well.

We're in the final throes of finishing off our expansion at Tilbury right now. We ran into a couple of minor issues during commissioning, but we expect that that will be up and running by midyear, at the latest. We also have approval from the government to do a further expansion, similar size in terms of about $400 million. That's predicated on the uptake in the domestic market here in British Columbia. But again, we're seeing positive signs on that front as well.

Marine bunkering is one of those areas that's getting a lot of attention these days. And I think it's a good business case for marine bunkering here in British Columbia. We're also seeing more use, particularly in Vancouver Island, once the rates were harmonized and the rates came down on Vancouver Island, there's been quite an uptake in natural gas or new customers signing up for natural gas.

And we're having a lot of conversations with mainly Asian-based parties that are interested in off-taking natural gas from British Columbia. They like the Canadian environment. They like the proximity. As long as we can be competitive on cost, I think there will be opportunities in a very small niche way to help these potential buyers diversify their source of supply. And that's where the interest is coming from. So, every week we're having conversations with somebody about LNG in British Columbia.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

A couple of quick hitters on the -- on the finance side here. I ask this question tongue-in-cheek because the utilities are probably further advanced than most industries, but in the last year, we've definitely seen increase in investors demanding more ESG disclosure. So what's Fortis doing to --

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

I haven't -- I haven't noticed that at all.

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Rob Catellier - *CIBC - Energy Infrastructure Analyst*

-- so what are you doing to address that?

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

Well, yes, it's been -- it's been a little bit frustrating actually, to be honest with you. As an aside, we've been spending a fair amount of time in Europe over the last two years as well, cultivating new investors over there, and we've met with some good progress there as well.

ESG tends to be -- the questions around ESG tend to be more mature over there. So, what's been frustrating for us is that -- well, predominantly, we're a transmission and distribution company, and when we get questions around ESG, it's the same as the questions that are being asked of generating companies. So there's no discretion being applied right across the board.

But I attribute that to the early stages of ESG here in Canada. The other thing I've been doing lately is asking the various investors about, okay, so what would you like to see with respect to ESG? And no one has an answer for us yet either as well. So, I think it's early days and everybody's sort of feeling themselves out.

We're supportive of the need to disclose more around ESG. We've advanced our disclosure around environmental issues, which are somewhat muted compared to a lot of other companies in our sector. So for instance, in 2017, we issued two environmental reports, within nine months of each other, just to sort of catch up, so we can get the data current and everything else.

So, we see the trend. We recognize it. We want to take a very practical approach to it though and make it relevant to us, right. So that's where we are right now.

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Well, I'm afraid we're already out of time. Thanks for the chat.

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

It doesn't take long for 30 minutes to go does it? Thanks, very much --

Rob Catellier - *CIBC - Energy Infrastructure Analyst*

Thank you.

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

-- folks, appreciate it.

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