



St. John's, NL - October 27, 2023

## **FORTIS INC. RELEASES THIRD QUARTER 2023 RESULTS**

*This news release constitutes a "Designated News Release" incorporated by reference in the prospectus supplement dated September 19, 2023 to Fortis' short form base shelf prospectus dated November 21, 2022.*

Fortis Inc. ("Fortis" or the "Corporation") (TSX/NYSE: FTS), a well-diversified leader in the North American regulated electric and gas utility industry, released its third quarter results<sup>1</sup>.

### **Highlights**

- Third quarter net earnings of \$394 million or \$0.81 per common share, up from \$326 million or \$0.68 per common share in 2022
- Adjusted net earnings per common share<sup>2</sup> of \$0.84, up from \$0.71 in the third quarter of 2022
- Released 2024-2028 capital plan of \$25 billion, representing 6.3% average annualized rate base growth
- Capital expenditures<sup>2</sup> of \$3.0 billion through September; \$4.3 billion annual capital plan on track
- Key regulatory decisions received in Western Canada and Arizona

"The fundamentals of our North American regulated energy delivery businesses remain resilient despite volatility in the macroenvironment in which we operate," said David Hutchens, President and Chief Executive Officer of Fortis Inc. "We have delivered strong results for the third quarter, driven by the continued execution of our annual capital plan and the completion of key regulatory proceedings in Arizona and British Columbia."

### **Net Earnings**

The Corporation reported net earnings attributable to common equity shareholders ("Net Earnings") of \$394 million for the third quarter, or \$0.81 per common share, compared to \$326 million, or \$0.68 per common share for the third quarter of 2022. The increase reflects the new cost of capital parameters approved for the FortisBC utilities in September 2023 retroactive to January 1, 2023. Also contributing to earnings was higher retail revenue in Arizona, due to warmer weather and new customer rates at Tucson Electric Power ("TEP") effective September 1, 2023, and rate base growth across our utilities. A higher U.S.-to-Canadian dollar foreign exchange rate and higher earnings at Aitken Creek, reflecting market conditions, also favourably impacted earnings. Earnings were tempered by lower long-term wholesale and transmission revenue, as well as higher operating and corporate finance costs. In addition, earnings per share for the quarter reflects an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's dividend reinvestment plan.

On a year-to-date basis, Net Earnings were \$1.1 billion, or \$2.32 per common share, an increase of \$165 million, or \$0.31 per common share compared to the same period in 2022. The increase reflects the same factors discussed for the quarter except that an increase in the market value of certain investments that support retirement benefits, and lower depreciation expense at UNS Energy associated with the retirement of the San Juan generating station in 2022, also favourably impacted results.

<sup>1</sup> Financial information is presented in Canadian dollars unless otherwise specified.

<sup>2</sup> Non-U.S. GAAP Financial Measures - Fortis uses financial measures that do not have a standardized meaning under generally accepted accounting principles in the United States of America ("U.S. GAAP") and may not be comparable to similar measures presented by other entities. Fortis presents these non-U.S. GAAP measures because management and external stakeholders use them in evaluating the Corporation's financial performance and prospects. Refer to the Non-U.S. GAAP Reconciliation provided herein. Adjusted Net Earnings for 2023 continues to include earnings for Aitken Creek (see "Adjusted Net Earnings" on page ii)

## Adjusted Net Earnings<sup>2</sup>

Adjusted net earnings attributable to common equity shareholders ("Adjusted Net Earnings") of \$411 million for the third quarter, or \$0.84 per common share, were \$70 million, or \$0.13 per common share higher than the same period in 2022. On a year-to-date basis, Adjusted Net Earnings were \$1.2 billion, or \$2.37 per common share, an increase of \$170 million, or \$0.31 per common share compared to the same period in 2022. The increase for the quarter and year-to-date periods reflect the same factors discussed for Net Earnings.

In May 2023, FortisBC Holdings Inc. entered into a definitive share purchase and sale agreement with a subsidiary of Enbridge Inc. to sell its Aitken Creek business for approximately \$400 million, subject to customary closing conditions and adjustments. In October 2023, the British Columbia Utilities Commission ("BCUC") approved the sale, satisfying all regulatory requirements. The sale is expected to close in the fourth quarter of 2023 with a March 31, 2023 effective date. Fortis continues to recognize earnings associated with Aitken Creek, post the effective date of the pending sale, in accordance with U.S. GAAP as the transaction has not yet closed. For the third quarter of 2023, and the six-month period since March 31, 2023, Aitken Creek contributed \$13 million and \$24 million, respectively, to Adjusted Net Earnings. Upon close of the transaction, management expects to exclude the gain to be recorded on the sale, as well as the earnings recognized since the March 31<sup>st</sup> effective date, in arriving at Adjusted Net Earnings and adjusted net earnings per share.

## Non-U.S. GAAP Reconciliation

Periods ended September 30

(\$ millions, except earnings per share)

	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
<b>Adjusted Net Earnings</b>						
Net Earnings	394	326	68	1,125	960	165
Adjusting items:						
Unrealized loss (gain) on mark-to-market of derivatives <sup>3</sup>	8	(4)	12	18	3	15
Lake Erie Connector project suspension costs <sup>4</sup>	—	10	(10)	—	10	(10)
Revaluation of deferred income tax assets <sup>5</sup>	9	9	—	9	9	—
Adjusted Net Earnings	411	341	70	1,152	982	170
Adjusted net earnings per share (\$)	0.84	0.71	0.13	2.37	2.06	0.31
<b>Capital Expenditures</b>						
Additions to property, plant and equipment	952	907	45	2,797	2,600	197
Additions to intangible assets	31	44	(13)	122	151	(29)
Adjusting item:						
Wataynikaneyap Transmission Power Project <sup>6</sup>	25	41	(16)	109	135	(26)
Capital Expenditures	1,008	992	16	3,028	2,886	142

## 2023 Capital Expenditures and New Five-Year Capital Plan

Our \$4.3 billion annual capital plan is on track with \$3.0 billion invested through September.

The Corporation's new 2024-2028 Capital Plan totals \$25 billion, \$2.7 billion higher than the previous five-year plan. The increase is driven by organic growth, largely reflecting regional transmission projects at ITC associated with tranche one of the Midcontinent Independent System Operator ("MISO") long-range transmission plan ("LRTP"), as well as investments in Arizona to support TEP's exit from coal. Investments supporting system adaptation and resiliency, customer growth and economic development are also driving capital growth across the Corporation's regulated utilities.

The Corporation's major capital projects continue to progress. In August 2023, FortisBC Energy commenced construction of the Eagle Mountain Woodfibre Gas Line project.

<sup>3</sup> Represents timing differences related to the accounting of natural gas derivatives at Aitken Creek, net of income tax recovery of \$3 million and \$7 million for the three and nine months ended September 30, 2023, respectively (net of income tax expense of \$2 million and income tax recovery of \$1 million for the three and nine months ended September 30, 2022, respectively)

<sup>4</sup> Represents costs incurred upon the suspension of the Lake Erie Connector project, net of income tax recovery of \$4 million for the three and nine months ended September 30, 2022

<sup>5</sup> Represents the revaluation of deferred income tax assets resulting from the reduction in the corporate income tax rate in the state of Iowa

<sup>6</sup> Represents Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project, included in the Other Electric segment

In October 2023, TEP announced the Roadrunner Reserve project, the largest battery energy storage system in TEP's portfolio. The 200 megawatt ("MW") system will store 800 MW hours of energy, enough to serve approximately 42,000 homes for four hours when deployed at full capacity. TEP will own and operate the system, which is included in the Corporation's five-year capital plan, has a total project cost of approximately \$400 million, and is scheduled for completion in 2025.

The five-year capital plan is expected to be funded primarily by cash from operations and regulated utility debt. Common equity proceeds are expected to be sourced from the Corporation's dividend reinvestment plan and at-the-market common equity program.

## Regulatory Updates

In August 2023, the Arizona Corporation Commission issued a decision on TEP's general rate application approving an increase in non-fuel revenue of US\$100 million, a 9.55% rate of return on common equity ("ROE") and a 54.32% common equity component of capital structure. New customer rates became effective on September 1, 2023.

In September 2023, the BCUC issued a decision on the Generic Cost of Capital ("GCOC") proceeding. The decision resulted in a 9.65% ROE and a 45% common equity component of capital structure for FortisBC Energy, and a 9.65% ROE and a 41% common equity component of capital structure for FortisBC Electric. The new cost of capital parameters are retroactive to January 1, 2023.

In October 2023, the Alberta Utilities Commission ("AUC") issued decisions on the Third Performance-Based Rate-Setting ("PBR") Term and 2024 GCOC proceedings. Both decisions are effective January 1, 2024. The PBR decision establishes the parameters for the third PBR term for the period 2024-2028. In the GCOC decision, the AUC adopted a formulaic approach in determining the ROE which will adjust the notional ROE of 9.0% with reference to forecast long-term Government of Canada bond and utility bond yields. The ROE for 2024 is expected to be determined in the fourth quarter of 2023, with updates annually thereafter.

## Sustainability

FortisBC has been awarded silver-level designation in Progressive Aboriginal Relations™ ("PAR") from the Canadian Council of Aboriginal Business. The PAR certification program is an internationally recognized, Indigenous-led program that confirms corporate performance in Indigenous relations at the bronze, silver or gold level. Earning a PAR designation marks a significant achievement in FortisBC's long-standing commitment to fostering strong, respectful and mutually beneficial relationships with Indigenous communities.

Fortis is executing on the transition to a cleaner energy future and is on track to achieve its corporate-wide targets to reduce greenhouse gas ("GHG") emissions by 50% by 2030 and 75% by 2035 from a 2019 base year. Fortis expects to achieve these targets primarily through TEP's plan to reduce carbon emissions by exiting coal generation. TEP is expected to file its next Integrated Resource Plan in November 2023 with a preferred portfolio that aligns with the Corporation's carbon reduction objectives, while maintaining customer affordability and reliability. The Corporation's additional 2050 net-zero direct GHG emissions target reinforces Fortis' commitment to further decarbonize over the long-term, while continuing our focus on reliability and affordability.

## Outlook

Fortis continues to enhance shareholder value through the execution of its capital plan, the balance and strength of its diversified portfolio of regulated utility businesses, and growth opportunities within and proximate to its service territories. While energy price volatility, global supply chain constraints, increasing interest rates and inflation represent potential concerns, the Corporation does not expect these factors to have a material impact on its operations or financial results in 2023.

The Corporation's \$25 billion five-year capital plan is expected to increase midyear rate base from \$36.8 billion in 2023 to \$49.4 billion by 2028, translating into a five-year compound annual growth rate of 6.3%<sup>7</sup>.

Beyond the five-year capital plan, additional opportunities to expand and extend growth include: further expansion of the electric transmission grid in the U.S. to facilitate the interconnection of cleaner energy, including infrastructure investments associated with the Inflation Reduction Act of 2022 and the MISO LRTP; climate adaptation and grid resiliency investments; renewable gas solutions and liquefied natural gas infrastructure in British Columbia; and the acceleration of cleaner energy infrastructure investments across our jurisdictions.

Fortis expects its long-term growth in rate base will drive earnings that support dividend growth guidance of 4-6% annually through 2028, and is premised on the assumptions and material factors listed under "Forward-Looking Information".

<sup>7</sup> Calculated using a constant United States dollar-to-Canadian dollar exchange rate

## **About Fortis**

Fortis is a well-diversified leader in the North American regulated electric and gas utility industry with 2022 revenue of \$11 billion and total assets of \$66 billion as at September 30, 2023. The Corporation's 9,200 employees serve utility customers in five Canadian provinces, ten U.S. states and three Caribbean countries.

## **Forward-Looking Information**

*Fortis includes forward-looking information in this news release within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would, and the negative of these terms, and other similar terminology or expressions, have been used to identify the forward-looking information, which includes, without limitation: forecast capital expenditures for 2023 and 2024-2028; forecast rate base and rate base growth through 2028; the expected timing and outcome of the sale of Aitken Creek; the nature, timing, benefits and expected costs of certain capital projects, including the Eagle Mountain Woodfibre Gas Line project and the Roadrunner Reserve project, and additional opportunities beyond the capital plan, including investments related to the Inflation Reduction Act of 2022, the MISO LRTP, climate adaptation and grid resiliency, renewable gas solutions and liquefied natural gas infrastructure in British Columbia, and the acceleration of cleaner energy infrastructure; the expected sources of funding for the capital plan, including the expected sources of common equity proceeds; the expected timing, outcome and impact of regulatory proceedings and decisions; the expectation that energy price volatility, global supply chain constraints, increasing interest rates and inflation will not have a material impact on operations or financial results in 2023; the 2030 GHG emissions reduction target; the 2035 GHG emissions reduction target; TEP's plan to reduce carbon emissions by exiting coal generation; the expected timing and nature of TEP's 2023 Integrated Resource Plan; the 2050 net-zero direct GHG emissions target; and the expectation that long-term growth in rate base will drive earnings that support dividend growth guidance of 4-6% annually through 2028.*

*Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information, including, without limitation: no material impact from energy price volatility, global supply chain constraints and inflation; reasonable outcomes for regulatory proceedings and the expectation of regulatory stability; the successful execution of the capital plan; no material capital project and financing cost overrun; sufficient human resources to deliver service and execute the capital plan; the realization of additional opportunities beyond the capital plan; no significant variability in interest rates; no material changes in the assumed U.S. dollar to Canadian dollar exchange rate; and the Board exercising its discretion to declare dividends, taking into account the business performance and financial condition of the Corporation. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. For additional information with respect to certain risk factors, reference should be made to the continuous disclosure materials filed from time to time by the Corporation with Canadian securities regulatory authorities and the Securities and Exchange Commission. All forward-looking information herein is given as of the date of this news release. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.*

## **Teleconference and Webcast to Discuss Third Quarter 2023 Results**

A teleconference and webcast will be held on October 27, 2023 at 8:30 a.m. (Eastern) during which David Hutchens, President and Chief Executive Officer and Jocelyn Perry, Executive Vice President and Chief Financial Officer will discuss the Corporation's third quarter financial results.

Shareholders, analysts, members of the media and other interested parties are invited to listen to the teleconference via the live webcast on the Corporation's website, <https://www.fortisinc.com/investor-relations/events-and-presentations>.

Those members of the financial community in North America wishing to ask questions during the call are invited to participate toll free by calling 1.888.886.7786 while those outside of North America can participate by calling 1.416.764.8658. Please dial in 10 minutes prior to the start of the call. No passcode is required.

An archived audio webcast of the teleconference will be available on the Corporation's website two hours after the conclusion of the call until November 27, 2023. Please call 1.877.674.7070 or 1.416.764.8692 and enter passcode 107521#.

## **Additional Information**

This news release should be read in conjunction with the Corporation's September 30, 2023 Interim Management Discussion and Analysis and Condensed Consolidated Financial Statements. This and additional information can be accessed at [www.fortisinc.com](http://www.fortisinc.com), [www.sedarplus.ca](http://www.sedarplus.ca), or [www.sec.gov](http://www.sec.gov).

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# Interim Management Discussion and Analysis

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Dated October 26, 2023

This Interim MD&A has been prepared in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations*. It should be read in conjunction with the Interim Financial Statements, the 2022 Annual Financial Statements and the 2022 Annual MD&A and is subject to the cautionary statement and disclaimer provided under "Forward-Looking Information" on page 20. Further information about Fortis, including its Annual Information Form filed on SEDAR+, can be accessed at [www.fortisinc.com](http://www.fortisinc.com), [www.sedarplus.ca](http://www.sedarplus.ca), or [www.sec.gov](http://www.sec.gov).

Financial information herein has been prepared in accordance with U.S. GAAP (except for indicated Non-U.S. GAAP Financial Measures) and, unless otherwise specified, is presented in Canadian dollars based, as applicable, on the following U.S. dollar-to-Canadian dollar exchange rates: (i) average of 1.34 and 1.31 for the quarters ended September 30, 2023 and 2022, respectively; (ii) average of 1.35 and 1.28 year-to-date September 30, 2023 and 2022, respectively; (iii) 1.36 and 1.38 as at September 30, 2023 and 2022, respectively; (iv) 1.36 as at December 31, 2022; (v) 1.33 for the 2023 forecast and (vi) 1.30 for all other forecast periods. Certain terms used in this Interim MD&A are defined in the "Glossary" on page 21.

## ABOUT FORTIS

Fortis (TSX/NYSE: FTS) is a well-diversified leader in the North American regulated electric and gas utility industry, with 2022 revenue of \$11 billion and total assets of \$66 billion as at September 30, 2023. The Corporation's 9,200 employees serve 3.4 million utility customers in five Canadian provinces, ten U.S. states and three Caribbean countries.

For additional information on the Corporation's operations, reportable segments and strategy, refer to the "About Fortis" section of the 2022 Annual MD&A and Note 1 to the Interim Financial Statements.

## KEY DEVELOPMENTS

### New Five-Year Capital Plan

The Corporation's new 2024-2028 Capital Plan totals \$25 billion and is \$2.7 billion higher than the previous five-year plan. The increase is driven by organic growth, largely reflecting regional transmission projects at ITC associated with tranche one of the MISO LRTP, as well as investments in Arizona to support TEP's exit from coal. Investments supporting system adaptation and resiliency, customer growth and economic development are also driving capital growth across the Corporation's regulated utilities.

See "Capital Plan" on page 16 for further information.

# Interim Management Discussion and Analysis

## Regulatory Updates

### TEP

In August 2023, the ACC issued a decision on TEP's general rate application approving, among other things, an increase in non-fuel revenue of US\$100 million, a 9.55% ROE and a 54.32% common equity component of capital structure. New customer rates became effective on September 1, 2023.

### FortisBC

In September 2023, the BCUC issued a decision on the GCOC proceeding. The decision resulted in a 9.65% ROE and a 45% common equity component of capital structure for FortisBC Energy, and a 9.65% ROE and 41% common equity component of capital structure for FortisBC Electric. The new cost of capital parameters are retroactive to January 1, 2023.

### FortisAlberta

In October 2023, the AUC issued decisions on the Third PBR Term and 2024 GCOC proceedings. Both decisions are effective January 1, 2024. The PBR decision establishes the parameters for the third PBR term for the period 2024-2028. In the GCOC decision, the AUC adopted a formulaic approach in determining the ROE which will adjust the notional ROE of 9.0% with reference to forecast long-term Government of Canada bond and utility bond yields. The ROE for 2024 is expected to be determined in the fourth quarter of 2023, with updates annually thereafter.

See "Regulatory Matters" on page 11 for further information on these regulatory developments.

## Pending Sale of Aitken Creek

FortisBC Holdings Inc. entered into a definitive share purchase and sale agreement with a subsidiary of Enbridge Inc. in May 2023 to sell its Aitken Creek business for approximately \$400 million, subject to customary closing conditions and adjustments. In October 2023, the BCUC approved the sale, satisfying all regulatory requirements. The sale is expected to close in the fourth quarter of 2023 with a March 31, 2023 effective date. Net proceeds from the transaction will further strengthen the balance sheet and support financing of the Corporation's regulated utility growth strategy.

Fortis continues to recognize earnings associated with Aitken Creek, post the effective date of the pending sale, in accordance with U.S. GAAP as the transaction has not yet closed. Upon close of the transaction, management expects to exclude the gain to be recorded on the sale, as well as the earnings recognized since the March 31<sup>st</sup> effective date, in arriving at Adjusted Common Equity Earnings and Adjusted Basic EPS (see "Non-U.S. GAAP Financial Measures" on page 9).

## PERFORMANCE AT A GLANCE

### Key Financial Metrics

Periods ended September 30

(\$ millions, except as indicated)

	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Revenue	<b>2,719</b>	2,553	166	<b>8,632</b>	7,875	757
Common Equity Earnings						
Actual	<b>394</b>	326	68	<b>1,125</b>	960	165
Adjusted <sup>(1)</sup>	<b>411</b>	341	70	<b>1,152</b>	982	170
Basic EPS (\$)						
Actual	<b>0.81</b>	0.68	0.13	<b>2.32</b>	2.01	0.31
Adjusted <sup>(1)</sup>	<b>0.84</b>	0.71	0.13	<b>2.37</b>	2.06	0.31
Dividends paid per common share (\$)	<b>0.565</b>	0.535	0.03	<b>1.695</b>	1.605	0.09
Weighted average number of common shares outstanding (# millions)	<b>487.4</b>	479.4	8.0	<b>485.3</b>	477.7	7.6
Operating Cash Flow	<b>940</b>	633	307	<b>2,799</b>	2,205	594
Capital Expenditures <sup>(1)</sup>	<b>1,008</b>	992	16	<b>3,028</b>	2,886	142

<sup>(1)</sup> See "Non-U.S. GAAP Financial Measures" on page 9

## Revenue

The increase in revenue for the quarter and year-to-date periods was due to the recognition of a regulatory deferral at FortisBC associated with the new cost of capital parameters approved by the BCUC in September 2023 retroactive to January 1, 2023 (see "Regulatory Matters" on page 11). Also contributing to the increase in revenue was: (i) Rate Base growth; (ii) higher flow-through costs in customer rates; and (iii) a higher U.S.-to-Canadian dollar foreign exchange rate.

## Interim Management Discussion and Analysis

### Earnings and EPS

Common Equity Earnings increased by \$68 million in comparison to the third quarter of 2022. The new cost of capital parameters approved for FortisBC by the BCUC in September 2023 resulted in \$38 million of earnings in the quarter, including \$26 million associated with the retroactive impact to January 1, 2023. The increase in earnings was also largely driven by higher retail revenue in Arizona, due to warmer weather and new customer rates at TEP effective September 1, 2023, as well as Rate Base growth across our utilities. A higher U.S.-to-Canadian dollar foreign exchange rate and higher earnings at Aitken Creek, reflecting market conditions, also favourably impacted earnings. Earnings were tempered by: (i) lower long-term wholesale and transmission revenue, as well as higher operating costs and income tax expense at UNS Energy; (ii) higher corporate finance costs; and (iii) higher operating expenses at Central Hudson and FortisAlberta, as expected, due to the timing of costs in the first half of the year.

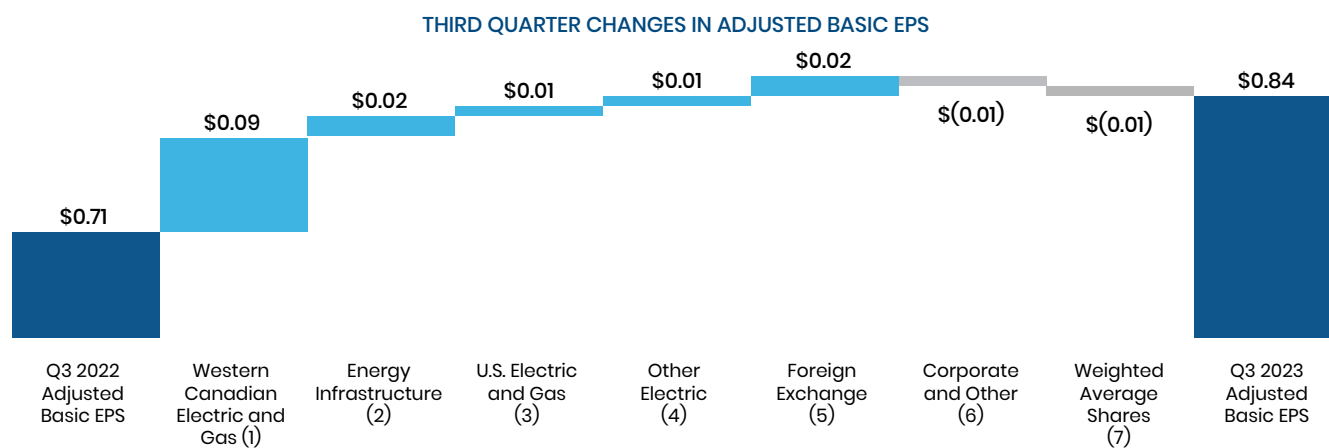
Common Equity Earnings for the year-to-date period increased by \$165 million in comparison to the same period in 2022. The increase was due to the same factors discussed for the quarter except that an increase in the market value of certain investments that support retirement benefits, and lower depreciation expense at UNS Energy associated with the retirement of the San Juan generating station in 2022, also contributed to growth in earnings.

In addition to the above-noted items impacting earnings, the change in EPS for the quarter and year-to-date periods reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

For the quarter and year-to-date periods: (i) Adjusted Common Equity Earnings increased by \$70 million and \$170 million, respectively; and (ii) Adjusted Basic EPS increased by \$0.13 and \$0.31, respectively. Refer to "Non-U.S. GAAP Financial Measures" on page 9 for a reconciliation of these measures.

Fortis continues to recognize earnings associated with Aitken Creek, post the effective date of the pending sale, in accordance with U.S. GAAP as the transaction has not yet closed. For the third quarter of 2023, and the six-month period since March 31, 2023, the effective date of the pending sale (see "Key Developments" on page 1), Aitken Creek contributed \$13 million and \$24 million, respectively, to Adjusted Common Equity Earnings. Upon close of the transaction, management expects to exclude the gain to be recorded on the sale, as well as the earnings recognized since the March 31<sup>st</sup> effective date, in arriving at Adjusted Common Equity Earnings and Adjusted Basic EPS.

The changes in Adjusted Basic EPS for the quarter and year-to-date periods are illustrated in the following charts.



<sup>(1)</sup> Includes FortisBC Energy, FortisAlberta and FortisBC Electric. Primarily reflects the impact of the new cost of capital parameters approved for FortisBC in September 2023, including \$0.05 associated with the retroactive impact to January 1, 2023, as well as Rate Base growth. The increase was partially offset by higher operating expenses at FortisAlberta due to the timing of costs in the first half of the year

<sup>(2)</sup> Includes higher earnings at Aitken Creek, reflecting market conditions, partially offset by lower hydroelectric production in Belize due to lower rainfall levels

<sup>(3)</sup> Includes UNS Energy and Central Hudson. Reflects higher earnings at UNS Energy due to: (i) higher retail electricity sales, due to warmer weather; (ii) new customer rates at TEP effective September 1, 2023; and (iii) lower depreciation expense associated with the retirement of the San Juan generating station in 2022, partially offset by lower long-term wholesale and transmission revenue, higher operating costs due to inflationary increases, and an increase in income tax expense. Also reflects lower earnings at Central Hudson due to the timing of operating expenses in the first half of the year, partially offset by Rate Base growth

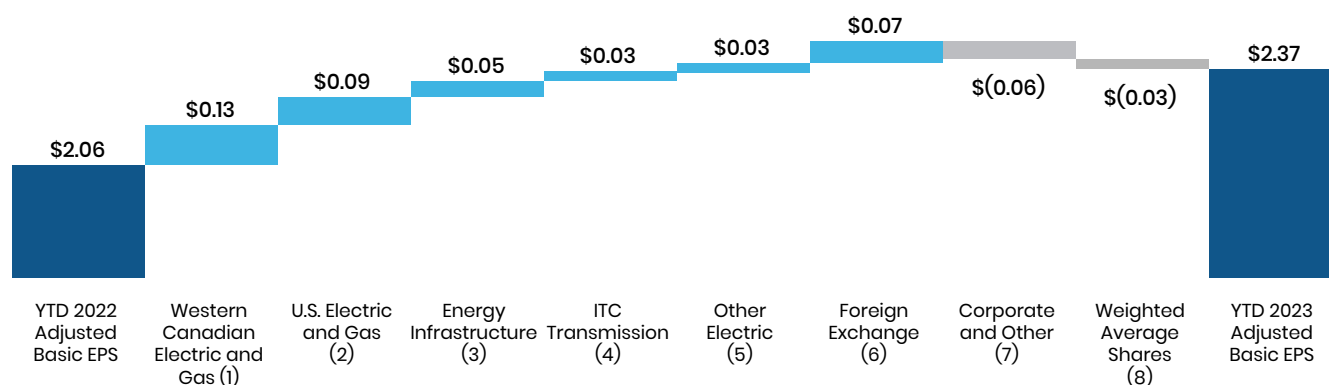
<sup>(4)</sup> Primarily reflects Rate Base growth and higher electricity sales, as well as equity income from Wataynikanep Power

<sup>(5)</sup> Average foreign exchange rate of 1.34 in 2023 compared to 1.31 in 2022

<sup>(6)</sup> Primarily reflects higher finance costs

<sup>(7)</sup> Weighted average shares of 487.4 million in 2023 compared to 479.4 million in 2022

## YEAR-TO-DATE CHANGES IN ADJUSTED BASIC EPS



<sup>(1)</sup> Includes FortisBC Energy, FortisAlberta and FortisBC Electric. Primarily reflects the impact of the new cost of capital parameters approved for FortisBC effective January 1, 2023, and Rate Base growth

<sup>(2)</sup> Includes UNS Energy and Central Hudson. Reflects higher earnings at UNS Energy due to: (i) higher retail electricity sales, including the impact of warmer weather; (ii) new customer rates at TEP effective September 1, 2023; (iii) lower depreciation expense associated with the retirement of the San Juan generating station in 2022; and (iv) an increase in the market value of investments that support retirement benefits, partially offset by higher operating costs due to inflationary increases and higher income tax expense. Earnings at Central Hudson were consistent with the comparable period in 2022

<sup>(3)</sup> Includes higher earnings at Aitken Creek, reflecting market conditions, partially offset by lower hydroelectric production in Belize due to lower rainfall levels

<sup>(4)</sup> Reflects Rate Base growth and an increase in the market value of investments that support retirement benefits, partially offset by non-recoverable finance and stock-based compensation costs

<sup>(5)</sup> Primarily reflects Rate Base growth and higher electricity sales, as well as equity income from Wataynikaneyap Power

<sup>(6)</sup> Average foreign exchange rate of 1.35 in 2023 compared to 1.28 in 2022

<sup>(7)</sup> Primarily reflects higher finance costs

<sup>(8)</sup> Weighted average shares of 485.3 million in 2023 compared to 477.7 million in 2022

## Dividends and TSR

Fortis paid a dividend of \$0.565 in the third quarter of 2023, up from \$0.535 in the third quarter of 2022.

In September 2023, the Corporation declared a fourth quarter common share dividend of \$0.59, up 4.4% from its third quarter common share dividend. This marks 50 consecutive years of increases in dividends paid.

Fortis is targeting annual dividend growth of approximately 4-6% through 2028. See "Outlook" on page 20.

Growth of dividends and the market price of the Corporation's common shares have together yielded the following TSRs.

TSR <sup>(1)</sup> (%)	1-Year	5-Year	10-Year	20-Year
Fortis	2.4	8.2	9.2	10.7

<sup>(1)</sup> Annualized TSR per Bloomberg as at September 30, 2023

## Operating Cash Flow

The \$307 million and \$594 million increase in Operating Cash Flow for the quarter and year-to-date periods, respectively, was due primarily to fluctuations in commodity costs, largely reflecting the timing of flow-through costs and the cost of natural gas inventory in British Columbia. The increase was also due to: (i) higher cash earnings, reflecting Rate Base growth; (ii) the higher U.S.-to-Canadian dollar exchange rate; and (iii) for the quarter, the timing of payments. The increase in Operating Cash Flow was partially offset by proceeds received in 2022 at ITC related to the settlement of interest rate swaps, and higher interest payments.

## Capital Expenditures

Capital Expenditures were approximately \$3.0 billion through September 2023, representing 70% of the Corporation's annual \$4.3 billion Capital Plan, and up \$0.1 billion compared to year-to-date 2022.

Capital Expenditures and Capital Plan reflect Non-U.S. GAAP Financial Measures. Refer to "Non-U.S. GAAP Financial Measures" on page 9 and in the "Glossary" on page 21.



## BUSINESS UNIT PERFORMANCE

### Common Equity Earnings

Periods ended September 30 (\$ millions)	Quarter				Year-to-Date			
	2023	2022	Variance		2023	2022	Variance	
			FX <sup>(1)</sup>	Other			FX <sup>(1)</sup>	Other
<b>Regulated Utilities</b>								
ITC	119	105	3	11	372	328	17	27
UNS Energy	178	163	4	11	338	283	11	44
Central Hudson	20	24	—	(4)	69	66	3	—
FortisBC Energy	22	(17)	—	39	169	119	—	50
FortisAlberta	45	46	—	(1)	126	117	—	9
FortisBC Electric	17	13	—	4	53	50	—	3
Other Electric <sup>(2)</sup>	39	35	—	4	111	94	2	15
	<b>440</b>	<b>369</b>	<b>7</b>	<b>64</b>	<b>1,238</b>	<b>1,057</b>	<b>33</b>	<b>148</b>
<b>Non-Regulated</b>								
Energy Infrastructure <sup>(3)</sup>	11	10	—	1	35	23	—	12
Corporate and Other <sup>(4)</sup>	(57)	(53)	1	(5)	(148)	(120)	—	(28)
<b>Common Equity Earnings</b>	<b>394</b>	<b>326</b>	<b>8</b>	<b>60</b>	<b>1,125</b>	<b>960</b>	<b>33</b>	<b>132</b>

<sup>(1)</sup> The reporting currency of ITC, UNS Energy, Central Hudson, Caribbean Utilities, FortisTCl and Fortis Belize is the U.S. dollar. The reporting currency of Belize Electricity is the Belizean dollar, which is pegged to the U.S. dollar at BZ\$2.00=US\$1.00. The Corporate and Other segment includes certain transactions denominated in U.S. dollars

<sup>(2)</sup> Consists of the utility operations in eastern Canada and the Caribbean: Newfoundland Power; Maritime Electric; FortisOntario; Wataynikaneyap Power; Caribbean Utilities; FortisTCl; and Belize Electricity

<sup>(3)</sup> Consists of long-term contracted generation assets in Belize and Aitken Creek in British Columbia

<sup>(4)</sup> Includes Fortis net corporate expenses and non-regulated holding company expenses

### ITC

Periods ended September 30 (\$ millions)	Quarter				Year-to-Date			
	2023	2022	Variance		2023	2022	Variance	
			FX	Other			FX	Other
Revenue <sup>(1)</sup>	520	478	12	30	1,558	1,406	70	82
Earnings <sup>(1)</sup>	119	105	3	11	372	328	17	27

<sup>(1)</sup> Revenue represents 100% of ITC. Earnings represent the Corporation's 80.1% controlling ownership interest in ITC and reflect consolidated purchase price accounting adjustments

### Revenue

The increase in revenue, net of foreign exchange, for the quarter and year-to-date periods was due primarily to Rate Base growth and higher flow-through costs in customer rates.

### Earnings

The increase in earnings, net of foreign exchange, for the quarter and year-to-date periods was due to Rate Base growth, costs incurred in the third quarter of 2022 related to the suspension of the Lake Erie Connector project, and an increase in the market value of certain investments that support retirement benefits. The increase was partially offset by higher non-recoverable finance and stock-based compensation costs.

In September 2023, the state of Iowa reduced its corporate income tax rate from 8.4% to 7.1%, effective January 1, 2024. As a result, ITC revalued the related deferred income tax assets, resulting in a \$9 million unfavourable impact to earnings for the three and nine months ended September 30, 2023. A similar corporate income tax rate reduction was implemented by the state of Iowa in September 2022.

### UNS Energy

Periods ended September 30 (\$ millions, except as indicated)	Quarter				Year-to-Date			
	2023	2022	Variance		2023	2022	Variance	
			FX	Other			FX	Other
Retail electricity sales (GWh)	3,668	3,426	—	242	8,484	8,394	—	90
Wholesale electricity sales (GWh) <sup>(1)</sup>	1,407	1,350	—	57	4,038	4,154	—	(116)
Gas sales (PJ)	1	2	—	(1)	12	11	—	1
Revenue	899	856	23	20	2,300	2,042	95	163
Earnings	178	163	4	11	338	283	11	44

<sup>(1)</sup> Primarily short-term wholesale sales

# Interim Management Discussion and Analysis

## Sales

The increase in retail electricity sales for the quarter and year-to-date periods was due primarily to higher air conditioning load associated with warmer weather in the third quarter of 2023 as compared to the same period in 2022, and customer additions. The year-to-date increase was partially offset by lower air conditioning load associated with milder weather in the second quarter of 2023 compared to the same period last year.

The increase in wholesale electricity sales for the quarter was due to higher short-term wholesale sales, partially offset by lower long-term wholesale sales. On a year-to-date basis, the decrease in wholesale electricity sales was driven by lower long-term wholesale sales. Revenue from short-term wholesale sales, which relate to contracts that are less than one-year in duration, is primarily credited to customers through the PPFAC mechanism and, therefore, does not materially impact earnings.

Gas sales were consistent with the comparable periods in 2022.

## Revenue

The increase in revenue, net of foreign exchange, for the quarter was due primarily to: (i) higher retail and wholesale electricity sales, discussed above; (ii) new customer rates effective September 1, 2023 at TEP; and (iii) the recovery of overall higher fuel and non-fuel costs through the normal operation of regulatory mechanisms.

The increase in revenue, net of foreign exchange, year to date was due to the same factors discussed for the quarter except that the increase was partially offset by lower wholesale electricity sales for the nine-month period compared to the same period in 2022.

## Earnings

The increase in earnings, net of foreign exchange, for the quarter was due primarily to higher retail electricity sales and new customer rates effective September 1, 2023 at TEP, discussed above. The increase was partially offset by: (i) lower long-term wholesale and transmission revenue; (ii) higher operating costs, primarily reflecting inflationary increases; and (iii) an increase in income tax expense due to higher taxable income and lower production tax credits related to the Oso Grande generating facility.

The increase in earnings, net of foreign exchange, year to date was due primarily to: (i) higher retail electricity sales, discussed above, and an increase in lost fixed cost recovery revenue; (ii) new customer rates effective September 1, 2023 at TEP; (iii) lower depreciation expense associated with the retirement of the San Juan generating station in 2022; and (iv) an increase in the market value of certain investments that support retirement benefits. The increase was partially offset by higher operating costs and income tax expense.

## Central Hudson

Periods ended September 30 <i>(\$ millions, except as indicated)</i>	Quarter				Year-to-Date			
	2023	2022	Variance		2023	2022	Variance	
FX			Other	FX			Other	
Electricity sales (GWh)	1,315	1,327	—	(12)	3,725	3,844	—	(119)
Gas sales (PJ)	5	4	—	1	18	18	—	—
Revenue	290	273	7	10	1,049	929	49	71
Earnings	20	24	—	(4)	69	66	3	—

## Sales

The decrease in electricity sales for the quarter and year-to-date periods was due primarily to milder weather.

Gas sales for the quarter and year-to-date periods were relatively consistent with the comparable periods in 2022.

Changes in electricity and gas sales at Central Hudson are subject to regulatory revenue decoupling mechanisms and, therefore, do not materially impact revenue and earnings.

## Revenue

The increase in revenue, net of foreign exchange, for the quarter and year-to-date periods was due primarily to the flow-through of higher energy supply costs driven by commodity prices; and (ii) an increase in gas and electricity delivery rates effective July 1, 2023.

## Earnings

The decrease in earnings for the quarter was due primarily to higher operating expenses, as expected, due to the timing of costs in the first half of the year, partially offset by Rate Base growth.

Earnings for the year-to-date period, net of foreign exchange, were consistent with the comparable period in 2022. The increase in earnings due to Rate Base growth was offset by higher operating expenses, as well as finance costs in excess of amounts collected in customer rates.

# Interim Management Discussion and Analysis

## FortisBC Energy

Periods ended September 30

(\$ millions, except as indicated)

	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Gas sales (PJ)	27	28	(1)	147	156	(9)
Revenue	294	269	25	1,411	1,359	52
Earnings	22	(17)	39	169	119	50

### Sales

Gas sales for the quarter were relatively consistent with the comparable period in 2022.

The decrease in gas sales year to date was due primarily to lower average consumption by residential, commercial and transportation customers, largely due to milder weather, partially offset by customer additions.

### Revenue

The increase in revenue for the quarter and year-to-date periods was due primarily to the new cost of capital parameters approved by the BCUC in September 2023 retroactive to January 1, 2023. This revenue has been recognized through a regulatory deferral to be collected in future customer rates (see "Regulatory Matters" on page 11). Rate Base growth also contributed to the increase in revenue, partially offset by a lower cost of natural gas recovered from customers.

### Earnings

The increase in earnings for the quarter and year-to-date periods was due to the new cost of capital parameters approved by the BCUC in September 2023, which resulted in \$35 million of earnings in the third quarter of 2023, including \$23 million associated with the retroactive impact to January 1, 2023. Rate Base growth also contributed to the increase in earnings.

FortisBC Energy earns approximately the same margin regardless of whether a customer contracts for the purchase and delivery of natural gas or only for delivery. Due to regulatory deferral mechanisms, changes in consumption levels and commodity costs do not materially impact earnings.

## FortisAlberta

Periods ended September 30

(\$ millions, except as indicated)

	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Electricity deliveries (GWh)	4,294	4,345	(51)	12,703	12,723	(20)
Revenue	190	175	15	550	511	39
Earnings	45	46	(1)	126	117	9

### Deliveries

The decrease in electricity deliveries for the quarter and year-to-date periods was due to lower average consumption by industrial and commercial customers. The decrease was partially offset by higher average consumption by residential customers and customer additions.

As approximately 85% of FortisAlberta's revenue is derived from fixed or largely fixed billing determinants, changes in quantities of energy delivered are not entirely correlated with changes in revenue. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries. Significant variations in weather conditions, however, can impact revenue and earnings.

### Revenue

The increase in revenue for the quarter and year-to-date periods was due primarily to Rate Base growth and the operation of the PBR efficiency carry-over mechanism, which was earned in the second term of PBR and recognized in 2023. This increase was partially offset by the lower recovery of costs attributable to REAs (see "Regulatory Matters" on page 11).

### Earnings

The decrease in earnings for the quarter was due to higher operating costs, as expected, due to the timing of costs in the first half of the year.

The increase in earnings year to date was due primarily to Rate Base growth and the operation of the PBR efficiency carry-over mechanism, partially offset by the lower recovery of costs attributable to REAs, discussed above.

# Interim Management Discussion and Analysis

## FortisBC Electric

Periods ended September 30

(\$ millions, except as indicated)	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Electricity sales (GWh)	822	845	(23)	2,577	2,575	2
Revenue	128	114	14	383	351	32
Earnings	17	13	4	53	50	3

### Sales

The decrease in electricity sales for the quarter was due primarily to lower average consumption by residential customers due to milder weather.

Electricity sales year to date were relatively consistent with the comparable period in 2022.

### Revenue

The increase in revenue for the quarter was due primarily to the normal operation of regulatory mechanisms, including the deferral associated with the new cost of capital parameters approved by the BCUC in September 2023 retroactive to January 1, 2023. This revenue has been recognized through a regulatory deferral to be collected in future customer rates (see "Regulatory Matters" on page 11). Higher energy supply costs recovered from customers and Rate Base growth also contributed to the increase in revenue, partially offset by lower electricity sales, discussed above.

The increase in revenue year to date was due to the normal operation of regulatory mechanisms, higher energy supply costs recovered from customers and Rate Base growth, partially offset by a decrease in third party contract work.

### Earnings

The increase in earnings for the quarter and year to date periods was due to the new cost of capital parameters approved by the BCUC in September 2023, which resulted in \$3 million of earnings in the third quarter of 2023 largely reflecting the retroactive impact to January 1, 2023. Rate Base growth also contributed to the increase in earnings for the nine-month period, partially offset by higher operating costs.

Due to regulatory deferral mechanisms, changes in consumption levels do not materially impact earnings.

## Other Electric

Periods ended September 30

(\$ millions, except as indicated)	Quarter				Year-to-Date			
	2023	2022	Variance		2023	2022	Variance	
			FX	Other			FX	Other
Electricity sales (GWh)	1,897	1,826	—	71	7,228	7,027	—	201
Revenue	377	361	3	13	1,304	1,204	15	85
Earnings	39	35	—	4	111	94	2	15

### Sales

The increase in electricity sales for the quarter and year-to-date periods was due primarily to higher average consumption by residential and commercial customers, as well as customer additions.

### Revenue

The increase in revenue, net of foreign exchange, for the quarter was due primarily to higher electricity sales, discussed above, partially offset by the flow-through of lower energy supply costs.

The increase in revenue, net of foreign exchange, year to date was due to higher electricity sales, the normal operation of regulatory mechanisms at Newfoundland Power, and the flow-through of higher energy supply costs.

### Earnings

The increase in earnings, net of foreign exchange, for the quarter and year-to-date periods was due to Rate Base growth and higher electricity sales, partially offset by higher operating and finance costs. Equity income from Wataynikaneyap Power also contributed to the increase in earnings in comparison to the same periods in 2022.

# Interim Management Discussion and Analysis

## Energy Infrastructure

Periods ended September 30

(\$ millions, except as indicated)

	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Electricity sales (GWh)	46	88	(42)	106	142	(36)
Revenue	21	27	(6)	77	73	4
Earnings	11	10	1	35	23	12

## Sales

The decrease in electricity sales for the quarter and year-to-date periods reflected a decrease in hydroelectric production in Belize associated with lower rainfall levels.

## Revenue and Earnings

The change in revenue and earnings for the quarter and year-to-date periods reflected the unfavourable impact of mark-to-market accounting of natural gas derivatives at Aitken Creek, which resulted in unrealized losses of \$8 million in the third quarter of 2023 compared to unrealized gains of \$4 million for the same period in 2022, and unrealized losses of \$18 million year to date compared to unrealized losses of \$3 million for the same period in 2022.

Excluding the impact of mark-to-market accounting, revenue and earnings for the quarter increased by \$11 million and \$13 million, respectively, and revenue and earnings year to date increased by \$25 million and \$27 million, respectively. The increases were driven by higher earnings at Aitken Creek, reflecting market conditions, partially offset by lower hydroelectric production in Belize.

Aitken Creek is subject to commodity price risk, as it purchases and holds natural gas in storage to earn a profit margin from its ultimate sale. Aitken Creek mitigates this risk by using derivatives to materially lock in the profit margin that will be realized upon the sale of natural gas. The fair value accounting of these derivatives creates timing differences and the resultant earnings volatility can be significant.

A definitive share purchase and sale agreement has been entered into to sell Aitken Creek. See "Key Developments" on page 1 for further information.

## Corporate and Other

Periods ended September 30

(\$ millions)

	Quarter				Year-to-Date			
	2023	2022	Variance		2023	2022	Variance	
			FX	Other			FX	Other
Net expenses	(57)	(53)	1	(5)	(148)	(120)	—	(28)

The increase in net expenses, net of foreign exchange, for the quarter and year-to-date periods was due primarily to higher finance costs, reflecting higher interest rates and borrowings outstanding under the Corporation's credit facilities, as well as the refinancing of long-term debt in the second quarter of 2022.

## NON-U.S. GAAP FINANCIAL MEASURES

Adjusted Common Equity Earnings, Adjusted Basic EPS and Capital Expenditures are Non-U.S. GAAP Financial Measures and may not be comparable with similar measures used by other entities. They are presented because management and external stakeholders use them in evaluating the Corporation's financial performance and prospects.

Net earnings attributable to common equity shareholders (i.e., Common Equity Earnings) and basic EPS are the most directly comparable U.S. GAAP measures to Adjusted Common Equity Earnings and Adjusted Basic EPS, respectively. These adjusted measures reflect the removal of items that management excludes in its key decision-making processes and evaluation of operating results.

Capital Expenditures include additions to property, plant and equipment and additions to intangible assets, as shown on the condensed consolidated statements of cash flows. It also includes Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project, consistent with Fortis' evaluation of operating results and its role as project manager during the construction of this Major Capital Project.

## Interim Management Discussion and Analysis

### Non-U.S. GAAP Reconciliation

Periods ended September 30 (\$ millions, except as indicated)	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
<b>Adjusted Common Equity Earnings and Adjusted Basic EPS</b>						
Common Equity Earnings	<b>394</b>	326	68	<b>1,125</b>	960	165
Adjusting items:						
Unrealized loss (gain) on mark-to-market of derivatives <sup>(1)</sup>	<b>8</b>	(4)	12	<b>18</b>	3	15
Lake Erie Connector project suspension costs <sup>(2)</sup>	<b>—</b>	10	(10)	<b>—</b>	10	(10)
Revaluation of deferred income tax assets <sup>(3)</sup>	<b>9</b>	9	—	<b>9</b>	9	—
Adjusted Common Equity Earnings	<b>411</b>	341	70	<b>1,152</b>	982	170
Adjusted Basic EPS (\$)	<b>0.84</b>	0.71	0.13	<b>2.37</b>	2.06	0.31
<b>Capital Expenditures</b>						
Additions to property, plant and equipment	<b>952</b>	907	45	<b>2,797</b>	2,600	197
Additions to intangible assets	<b>31</b>	44	(13)	<b>122</b>	151	(29)
Adjusting item:						
Wataynikaneyap Transmission Power Project <sup>(4)</sup>	<b>25</b>	41	(16)	<b>109</b>	135	(26)
Capital Expenditures	<b>1,008</b>	992	16	<b>3,028</b>	2,886	142

<sup>(1)</sup> Represents timing differences related to the accounting of natural gas derivatives at Aitken Creek, net of income tax recovery of \$3 million and \$7 million for the three and nine months ended September 30, 2023, respectively (net of income tax expense of \$2 million and income tax recovery of \$1 million for the three and nine months ended September 30, 2022, respectively), included in the Energy Infrastructure segment.

<sup>(2)</sup> Represents costs incurred upon the suspension of the Lake Erie Connector project, net of income tax recovery of \$4 million for the three and nine months ended September 30, 2022, included in the ITC segment.

<sup>(3)</sup> Represents the revaluation of deferred income tax assets resulting from the reduction in the corporate income tax rate in the state of Iowa, included in the ITC segment.

<sup>(4)</sup> Represents Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project, included in the Other Electric segment.

Fortis continues to recognize earnings associated with Aitken Creek, post the effective date of the pending sale, in accordance with U.S. GAAP as the transaction has not yet closed. For the third quarter of 2023, and the six-month period since March 31, 2023, the effective date of the pending sale (see "Key Developments" on page 1), Aitken Creek contributed \$13 million and \$24 million, respectively, to Adjusted Common Equity Earnings. Upon close of the transaction, management expects to exclude the gain to be recorded on the sale, as well as the earnings recognized since the March 31<sup>st</sup> effective date, in arriving at Adjusted Common Equity Earnings and Adjusted Basic EPS.

### FOCUS ON SUSTAINABILITY

Fortis' focus on sustainability is outlined in its 2022 Annual MD&A. Through 2023, the Corporation has continued to advance work on a range of sustainability initiatives. In August 2023, Fortis released its 2023 Sustainability Update Report, which summarizes recent progress and includes key performance indicators. Fortis utilities continue to add new renewable energy resources and decarbonize operations while advancing a cleaner energy transition for customers. The Corporation has reduced direct GHG emissions by 29% through 2022 compared to 2019 levels, marking significant progress towards our interim targets to reduce GHG emissions 50% by 2030 and 75% by 2035, as well as our 2050 net-zero direct GHG emissions target. In addition, over the last four years, the GHG intensity of delivered energy has consistently decreased, while net electricity generated by renewable sources and avoided emissions from the use of renewable natural gas has increased significantly.

The Sustainability Update Report also highlights Fortis' advancements in DEI. The Corporation has achieved its Board diversity targets, with 58% of the Board comprised of women and two of twelve members identifying as visible minorities. Our commitment to advancing DEI is reflected in our leadership at Fortis Inc., where 50% of our executive team are women. In addition, to further support Fortis' sustainability reporting, limited third-party assurance was obtained on select 2022 GHG emissions data and Board diversity metrics.

In the development of the Corporation's five-year Capital Plan, the utilities consider the investment required to deliver cleaner energy to customers, strengthen infrastructure, and improve network resiliency to deal with the impacts of climate change on utility infrastructure. Fortis' 2024-2028 Capital Plan includes Cleaner Energy Investments of \$6.8 billion, with investments focused on connecting renewables to the grid, renewable energy and energy storage, and cleaner natural gas solutions. See "Capital Plan" on page 16 for further information.

In October 2023, FortisBC was awarded silver-level designation in Progressive Aboriginal Relations™ from the Canadian Council of Aboriginal Business. The Progressive Aboriginal Relations certification program is an internationally recognized, Indigenous-led program that confirms corporate performance in Indigenous relations at the bronze, silver or gold level. Earning a Progressive Aboriginal Relations designation marks a significant achievement in FortisBC's long-standing commitment to fostering strong, respectful and mutually beneficial relationships with Indigenous communities.

As we transition to a cleaner energy future, customer affordability, safety and reliability remain top priorities and are the cornerstones of our sustainability strategy. Fortis utilities continue to focus on controlling costs, identifying efficiencies and implementing innovative practices to maintain affordability.

## REGULATORY MATTERS

### ITC

**ITC Midwest Capital Structure Complaint:** In 2022, FERC issued an order denying the complaint filed by ICAT requesting that ITC Midwest's common equity component of capital structure be reduced from 60% to 53%. In March 2023, FERC confirmed its decision following ICAT's request for rehearing.

**MISO Base ROE:** In 2022, the D.C. Circuit Court issued a decision vacating certain FERC orders that had established the methodology for setting the base ROE for transmission owners operating in the MISO region, including ITC. This matter dates back to complaints filed at FERC in 2013 and 2015 challenging the MISO base ROE then in effect. The court has remanded the matter to FERC for further process, the timing and outcome of which is unknown. Although any potential impact to Fortis is uncertain, every 10-basis point change in ROE at ITC impacts Fortis' annual EPS by approximately \$0.01.

**Transmission Incentives:** In 2021, FERC issued a supplemental NOPR on transmission incentives modifying the proposal in the initial NOPR released by FERC in 2020. The supplemental NOPR proposes to eliminate the 50-basis point RTO ROE incentive adder for RTO members that have been members for longer than three years. The timing and outcome of this proceeding is unknown.

**Transmission ROFR:** The State of Iowa has granted incumbent electric transmission owners, including ITC, a ROFR to construct, own and maintain certain electric transmission assets in the state. A challenge against the ROFR statute by certain plaintiffs was initially dismissed by the District Court on the grounds that the plaintiffs lacked standing. In March 2023, the Iowa Supreme Court determined that the plaintiffs have standing to challenge the Iowa ROFR statute, issued a temporary injunction staying enforcement of the ROFR statute, and remanded the matter to the District Court to decide the merits of the claim. ITC previously exercised its right to construct certain electric transmission projects approved and awarded by MISO, including projects associated with the first tranche of MISO's LRTP. Management does not believe that this proceeding will impact projects that have already been approved and under development; however, the timing of this proceeding and any impact on future projects, is unknown.

### UNS Energy

**TEP General Rate Application:** In August 2023, the ACC issued a decision on TEP's general rate application approving, among other things, an increase in non-fuel revenue of US\$100 million, a 9.55% ROE and a 54.32% common equity component of capital structure. The decision reflects an increase from TEP's previous ROE and common equity component of capital structure of 9.15% and 53%, respectively. New customer rates became effective on September 1, 2023.

**PPFAC Mechanism:** The PPFAC mechanism allows for the timely recovery or return of purchased power and fuel costs, as compared to that collected in customer rates, at TEP and UNSE. The PPFAC balance has increased in recent years, reflecting higher commodity costs. In May 2023, the ACC approved rate adjustments at TEP and UNSE to collect the PPFAC balances over 12- and 33-month periods, respectively.

### Central Hudson

**General Rate Application:** In July 2023, Central Hudson filed a rate application with the PSC requesting an increase in electric and natural gas delivery rates effective July 1, 2024. The application includes a request to set Central Hudson's ROE at 9.8% and a 50% common equity component of capital structure. The timing and outcome of this proceeding is unknown.

**CIS Implementation:** In January 2023, Central Hudson filed a response to the PSC's Order to Commence Proceeding and Show Cause, which had directed Central Hudson to explain why the PSC should not pursue civil or administrative penalties or initiate a proceeding to review the prudence of implementation costs associated with its new CIS. In July 2023, an interim agreement was reached with the PSC, in which Central Hudson agreed to independent third-party verification of recent system improvements related to its billing system, and to accelerate the implementation of its monthly meter reading plan. The timing and outcome of this proceeding remains unknown.

### FortisBC Energy and FortisBC Electric

**GCOC Proceeding:** The BCUC issued a decision on the GCOC proceeding in September 2023. For FortisBC Energy, the decision increased the ROE and common equity component of capital structure from 8.75% and 38.5% to 9.65% and 45%, respectively. For FortisBC Electric, the decision increased the ROE and common equity component of capital structure from 9.15% and 40% to 9.65% and 41%, respectively. The new cost of capital parameters are retroactive to January 1, 2023. The decision directed FortisBC to submit a compliance filing for final 2023 customer rates. This filing, which was approved by the BCUC in October 2023, requested approval of a regulatory deferral account to be collected from customers in future rates for the revenue deficiency resulting from the GCOC decision. A regulatory process is currently underway to determine the recovery period for the associated revenue deficiency deferral, the timing and outcome of which is unknown.

## Interim Management Discussion and Analysis

### FortisAlberta

**2024 GCOC Proceeding:** In October 2023, the AUC issued a decision on the 2024 GCOC proceeding. The decision, which is effective January 1, 2024, adopts a formulaic approach in determining the ROE which will adjust the notional ROE of 9.0% with reference to forecast long-term Government of Canada bond and utility bond yields. The ROE for 2024 is expected to be determined in the fourth quarter of 2023, with updates annually thereafter. The decision also concluded that there will be no change in the common equity component of capital structure of 37%.

**Third PBR Term:** In October 2023, the AUC issued a decision establishing the parameters for the third PBR term for the period of 2024-2028. FortisAlberta's base distribution rates for the third PBR term are based on the 2023 COS revenue requirement previously approved by the AUC. The third generation PBR plan incorporates several changes and refinements, which include the adoption of new inputs for the calculation of the inflation and productivity factors, the introduction of an earnings sharing mechanism that will allocate achieved earnings above the approved ROE between the utility and its customers using marginal sharing ranges, and the removal of the efficiency carry-over incentive mechanism. Capital funding mechanisms are preserved with modifications including: i) base capital funding established on the approved 2023 COS rate base and a level of annual capital additions premised on 2018-2022 historical averages that are escalated as prescribed by the AUC; and ii) criteria to meet eligibility for incremental capital funding on extraordinary expenditures is expanded to provide potential eligibility for net-zero plan related expenditures.

**REA Cost Recovery:** In 2021, the AUC determined that costs attributable to REAs, approximating \$10 million annually, can no longer be recovered from FortisAlberta's rate payers, effective January 1, 2023. In April 2023, the Alberta Court of Appeal dismissed FortisAlberta's appeal which had asserted that the AUC erred in preventing the company from recovering these costs from its own rate payers to the extent that such costs cannot be recovered directly from REAs. FortisAlberta continues to assess other means, including legislative amendments, to recover these costs.

## FINANCIAL POSITION

### Significant Changes between September 30, 2023 and December 31, 2022

Balance Sheet Account (\$ millions)	Increase (Decrease)		Explanation
	FX	Other	
Cash and cash equivalents	—	556	Primarily due to the issuance of US\$800 million in unsecured senior notes at ITC in June 2023. ITC expects to utilize the unused net proceeds from this issuance to fund capital requirements within the next 12 months. Balances on hand have been largely invested in interest-bearing accounts.
Accounts receivable and other current assets	2	(693)	Due to the seasonality of sales in Canada and a decrease in the fair value of energy contracts at UNS Energy and FortisBC Energy.
Assets held for sale	—	569	Reflects the pending sale of Aitken Creek. See "Key Developments" on page 1 and Note 7 of the Interim Financial Statements.
Property, plant and equipment, net	45	1,512	Due to capital expenditures, partially offset by depreciation and the reclassification of property, plant and equipment at Aitken Creek to assets held for sale.
Short-term borrowings	—	(175)	Reflects the repayment of commercial paper at ITC.
Accounts payable and other current liabilities	3	(416)	Due to lower amounts owing for energy supply costs associated with market pricing and the seasonality of operations, primarily at UNS Energy and FortisBC Energy.
Liabilities associated with assets held for sale	—	132	Reflects the pending sale of Aitken Creek. See "Key Developments" on page 1 and Note 7 of the Interim Financial Statements.
Deferred income taxes	4	136	Due to higher temporary differences associated with ongoing capital investment, partially offset by the reclassification of deferred income taxes at Aitken Creek to liabilities associated with assets held for sale.
Long-term debt (including current portion)	32	1,500	Reflects debt issuances, partially offset by debt repayments, and higher borrowings under committed credit facilities, in support of the Corporation's Capital Plan.
Shareholders' equity	38	624	Due primarily to: (i) Common Equity Earnings for the nine months ended September 30, 2023, less dividends declared on common shares; and, (ii) the issuance of common shares, largely under the DRIP.



## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow Requirements

At the subsidiary level, it is expected that operating expenses and interest costs will be paid from Operating Cash Flow, with varying levels of residual cash flow available for capital expenditures and/or dividend payments to Fortis. Remaining capital expenditures are expected to be financed primarily from borrowings under credit facilities, long-term debt offerings and equity injections from Fortis. Borrowings under credit facilities may be required periodically to support seasonal working capital requirements.

Cash required of Fortis to support subsidiary growth is generally derived from borrowings under the Corporation's committed credit facility, the operation of the DRIP, as well as issuances of long-term debt, preference equity, and common shares including those issued through the ATM Program discussed below. The subsidiaries pay dividends to Fortis and receive equity injections from Fortis when required. Both Fortis and its subsidiaries initially borrow through their committed credit facilities and periodically replace these borrowings with long-term financing. Financing needs also arise to refinance maturing debt.

Credit facilities are syndicated primarily with large banks in Canada and the U.S., with no one bank holding more than approximately 20% of the Corporation's total revolving credit facilities. Approximately \$5.7 billion of the total credit facilities are committed with maturities ranging from 2024 through 2028. Available credit facilities are summarized in the following table.

### Credit Facilities

As at (\$ millions)	Regulated Utilities	Corporate and Other	September 30, 2023	December 31, 2022
Total credit facilities <sup>(1)</sup>	3,985	2,051	<b>6,036</b>	5,850
Credit facilities utilized:				
Short-term borrowings	(78)	—	<b>(78)</b>	(253)
Long-term debt (including current portion)	(901)	(911)	<b>(1,812)</b>	(1,657)
Letters of credit outstanding	(52)	(41)	<b>(93)</b>	(128)
<b>Credit facilities unutilized</b>	<b>2,954</b>	<b>1,099</b>	<b>4,053</b>	3,812

<sup>(1)</sup> See Note 14 in the 2022 Annual Financial Statements for a description of the credit facilities as at December 31, 2022.

In April 2023, ITC increased its total credit facilities available from US\$900 million to US\$1 billion and extended the maturity to April 2028.

In May 2023, the Corporation amended its \$1.3 billion revolving term committed credit facility agreement to extend the maturity to July 2028. Also in May 2023, the Corporation extended the maturity on its unsecured US\$500 million non-revolving term credit facility to May 2024. This facility is repayable at any time without penalty, and provides the Corporation with additional, cost effective short-term financing.

In October 2023, FortisUS Inc., a holding company subsidiary of Fortis, entered into a US\$150 million uncommitted revolving credit facility. The facility matures in October 2025 and will provide funding flexibility for short-term general liquidity needs.

The Corporation's ability to service debt and pay dividends is dependent on the financial results of, and the related cash payments from, its subsidiaries. Certain regulated subsidiaries are subject to restrictions that limit their ability to distribute cash to Fortis, including restrictions by certain regulators limiting annual dividends and restrictions by certain lenders limiting debt to total capitalization. There are also practical limitations on using the net assets of the regulated subsidiaries to pay dividends, based on management's intent to maintain the subsidiaries' regulator-approved capital structures. Fortis does not expect that maintaining such capital structures will impact its ability to pay dividends in the foreseeable future.

As at September 30, 2023, consolidated fixed-term debt maturities/repayments are expected to average \$1,486 million annually over the next five years and approximately 74% of the Corporation's consolidated long-term debt, excluding credit facility borrowings, had maturities beyond five years.

In November 2022, Fortis filed a short-form base shelf prospectus with a 25-month life under which it may issue common or preference shares, subscription receipts, or debt securities in an aggregate principal amount of up to \$2.0 billion. In September 2023, Fortis established an ATM Program pursuant to the short-form base shelf prospectus, that allows the Corporation to issue up to \$500 million of common shares from treasury to the public from time to time, at the Corporation's discretion. As at September 30, 2023, \$500 million remained available under the ATM Program and \$1.5 billion remained available under the short-form base shelf prospectus.

Fortis is well positioned with strong liquidity. This combination of available credit facilities and manageable annual debt maturities/repayments provides flexibility in the timing of access to capital markets. Given current credit ratings and capital structures, the Corporation and its subsidiaries currently expect to continue to have reasonable access to long-term capital.

Fortis and its subsidiaries were in compliance with debt covenants as at September 30, 2023 and are expected to remain compliant in 2023.

## Cash Flow Summary

### Summary of Cash Flows

Periods ended September 30 (\$ millions)	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Cash and cash equivalents, beginning of period	690	338	352	209	131	78
Cash from (used in):						
Operating activities	940	633	307	2,799	2,205	594
Investing activities	(1,040)	(1,073)	33	(2,994)	(2,907)	(87)
Financing activities	150	471	(321)	747	932	(185)
Effect of exchange rate changes on cash and cash equivalents	15	26	(11)	13	34	(21)
Change in cash associated with assets held for sale	10	—	10	(9)	—	(9)
<b>Cash and cash equivalents, end of period</b>	<b>765</b>	<b>395</b>	<b>370</b>	<b>765</b>	<b>395</b>	<b>370</b>

### Operating Activities

See "Performance at a Glance - Operating Cash Flow" on page 4.

### Investing Activities

Cash used in investing activities for the third quarter of 2023 was \$33 million lower than for the same period in 2022 due to lower planned equity contributions associated with the Wataynikaneyap Power project. The decrease was partially offset by the higher U.S.-to-Canadian dollar exchange rate and higher capital expenditures.

The Corporation's Capital Plan for 2023 is estimated to be \$4.3 billion, an increase of approximately 7% from \$4.0 billion in 2022. See "Capital Plan" on page 16. The increase in cash used in investing activities of \$87 million for the year-to-date period reflects higher planned capital expenditures for 2023, as well as the higher U.S.-to-Canadian dollar exchange rate. The increase was partially offset by lower planned equity contributions, as discussed above.

### Financing Activities

Cash flows related to financing activities will fluctuate largely as a result of changes in the subsidiaries' capital expenditures and the amount of Operating Cash Flow available to fund those capital expenditures, which together impact the amount of funding required from debt and common equity issuances.. See "Cash Flow Requirements" on page 13.

### Debt Financing

#### Significant Long-Term Debt Issuances

Year-to-date September 30, 2023 (\$ millions, except as noted)	Month Issued	Interest Rate (%)	Maturity	Amount	Use of Proceeds
ITC					
Unsecured senior notes	June	5.40 <sup>(1)</sup>	2033	US 500	(2) (3) (4)
Unsecured senior notes	June	4.95 <sup>(5)</sup>	2027	US 300	(2) (3) (4)
UNS Energy					
Unsecured senior notes	February	5.50	2053	US 375	(2) (3)
Unsecured senior notes	August	5.65	2038	US 50	(2) (3)
FortisAlberta					
Unsecured senior debentures	May	4.86	2053	200	(3) (4)
Central Hudson					
Unsecured senior notes	March	5.68	2033	US 40	(3) (4)
Unsecured senior notes	March	5.78	2035	US 15	(3) (4)
Unsecured senior notes	March	5.88	2038	US 35	(3) (4)
Newfoundland Power					
First mortgage sinking fund bonds	August	5.12	2053	90	(3) (4)
Maritime Electric					
First mortgage bonds	September	5.20	2053	60	(3) (4)

<sup>(1)</sup> ITC entered into interest rate locks which reduced the effective interest rate to 5.32%. See Note 14 to the Interim Financial Statements

<sup>(2)</sup> Repay maturing long-term debt

<sup>(3)</sup> General corporate purposes

<sup>(4)</sup> Repay short-term and/or credit facility borrowings

<sup>(5)</sup> Represents a second tranche of ITC's existing 4.95% senior notes, originally issued in 2022

## Interim Management Discussion and Analysis

In September 2023, ITC priced US\$175 million of senior secured notes. The related issuances will consist of US\$90 million of 5-year, 5.65% notes and US\$85 million of 10-year, 5.98% notes with expected funding dates in November 2023 and January 2024, respectively. Proceeds are expected to be used to repay credit facility borrowings, fund capital expenditures, and for general corporate purposes.

### Common Equity Financing

#### Common Equity Issuances and Dividends Paid

Periods ended September 30 (\$ millions, except as indicated)	Quarter			Year-to-Date		
	2023	2022	Variance	2023	2022	Variance
Common shares issued:						
Cash <sup>(1)</sup>	6	6	—	34	46	(12)
Non-cash <sup>(2)</sup>	99	87	12	304	275	29
Total common shares issued	105	93	12	338	321	17
Number of common shares issued (# millions)	2.1	1.6	0.5	6.3	5.5	0.8
Common share dividends paid:						
Cash	(175)	(168)	(7)	(517)	(492)	(25)
Non-cash <sup>(3)</sup>	(99)	(88)	(11)	(304)	(274)	(30)
Total common share dividends paid	(274)	(256)	(18)	(821)	(766)	(55)
Dividends paid per common share (\$)	0.565	0.535	0.03	1.695	1.605	0.09

<sup>(1)</sup> Includes common shares issued under stock option and employee share purchase plans

<sup>(2)</sup> Common shares issued under the DRIP and stock option plan

<sup>(3)</sup> Common share dividends reinvested under the DRIP

On February 9, 2023 and August 1, 2023, Fortis declared a dividend of \$0.565 per common share paid on June 1, 2023 and September 1, 2023, respectively. On September 18, 2023, Fortis declared a dividend of \$0.59 per common share payable on December 1, 2023. The payment of dividends is at the discretion of the Board and depends on the Corporation's financial condition and other factors.

On September 1, 2023, the annual fixed dividend per share for the First Preference Shares, Series G was reset from \$1.0983 to \$1.5308 for the five-year period up to but excluding September 1, 2028.

### Contractual Obligations

There were no material changes to the contractual obligations disclosed in the 2022 Annual MD&A, except issuances of long-term debt and credit facility utilization (see "Cash Flow Summary" on page 14), and a new agreement at TEP.

In September 2023, TEP entered into a US\$294 million Engineering, Procurement, and Construction Agreement associated with the development of the Roadrunner Reserve project (see "Capital Plan" on page 16). Related payments of US\$258 million are expected to be made by September 2024, with the remaining balance expected to be paid by September 2025.

### Off-Balance Sheet Arrangements

There were no material changes to off-balance sheet arrangements from those disclosed in the 2022 Annual MD&A.

### Capital Structure and Credit Ratings

Fortis requires ongoing access to capital and, therefore, targets a consolidated long-term capital structure that will enable it to maintain investment-grade credit ratings. The regulated utilities maintain their own capital structures in line with those reflected in customer rates.

#### Consolidated Capital Structure

As at	September 30, 2023		December 31, 2022	
	(\$ millions)	(%)	(\$ millions)	(%)
Debt <sup>(1)</sup>	29,599	55.7	28,792	55.8
Preference shares	1,623	3.1	1,623	3.1
Common shareholders' equity and non-controlling interests <sup>(2)</sup>	21,923	41.2	21,219	41.1
	53,145	100.0	51,634	100.0

<sup>(1)</sup> Includes long-term debt and finance leases, including current portion, and short-term borrowings, net of cash

<sup>(2)</sup> Includes shareholders' equity, excluding preference shares, and non-controlling interests. Non-controlling interests represented 3.5% as at September 30, 2023 (December 31, 2022 - 3.5%)

# Interim Management Discussion and Analysis

## Outstanding Share Data

As at October 26, 2023, the Corporation had issued and outstanding 488.5 million common shares and the following First Preference Shares: 5.0 million Series F; 9.2 million Series G; 7.7 million Series H; 2.3 million Series I; 8.0 million Series J; 10.0 million Series K; and 24.0 million Series M.

Only the common shares of the Corporation have voting rights. The Corporation's first preference shares do not have voting rights unless and until Fortis fails to pay eight quarterly dividends, whether or not consecutive or declared.

If all outstanding stock options were converted as at October 26, 2023, an additional 2.1 million common shares would be issued and outstanding.

## Credit Ratings

The Corporation's credit ratings shown below reflect its low risk profile, diversity of operations, the stand-alone nature and financial separation of each regulated subsidiary, and the level of holding company debt.

As at September 30, 2023	Rating	Type	Outlook
S&P	A-	Issuer	Stable
	BBB+	Unsecured debt	
DBRS Morningstar	A (low)	Issuer	Stable
	A (low)	Unsecured debt	
Moody's	Baa3	Issuer	Stable
	Baa3	Unsecured debt	

In May 2023, DBRS Morningstar confirmed the Corporation's A (low) issuer and senior unsecured debt credit ratings and stable outlook.

In July 2023, S&P confirmed the Corporation's 'A-' issuer and 'BBB+' senior unsecured debt credit ratings and stable outlook.

## Capital Plan

Year-to-date Capital Expenditures of \$3.0 billion are consistent with expectations and the Corporation's annual \$4.3 billion Capital Plan is on track.

While global supply chain constraints and inflation represent potential concerns, the Corporation does not expect a material impact on its 2023 or 2024-2028 Capital Plan, although certain planned expenditures may shift within the five years. The Corporation continues to proactively work to mitigate supply chain constraints by identifying high priority materials and consolidating buying power to improve outcomes, increasing inventory levels, and closely working with suppliers to ensure material availability.

## Capital Expenditures <sup>(1)</sup>

Year-to-date September 30, 2023

(\$ millions, except as indicated)	Regulated Utilities							Total Regulated Utilities	Non-Regulated <sup>(2)</sup>	Total
	ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric			
<b>Total</b>	837	555	248	389	451	92	444	<b>3,016</b>	<b>12</b>	<b>3,028</b>

<sup>(1)</sup> See "Non-U.S. GAAP Financial Measures" on page 9

<sup>(2)</sup> Energy Infrastructure segment

## New Five-Year Capital Plan

The Corporation's five-year 2024-2028 Capital Plan is targeted at \$25 billion.

(\$ billions)	2024	2025	2026	2027	2028	Total <sup>(1) (2)</sup>
Five-Year Capital Plan	4.5	4.8	5.0	5.7	5.0	<b>25.0</b>

<sup>(1)</sup> Capital Plan is a forward-looking non-GAAP financial measure calculated in the same manner as Capital Expenditures. See "Non-U.S. GAAP Financial Measures" on page 9

<sup>(2)</sup> Reflects an assumed U.S.:CAD foreign exchange rate of 1.30. On average, Fortis estimates that a five-cent increase or decrease in the U.S. dollar relative to the Canadian dollar would increase or decrease Capital Expenditures by approximately \$600 million over the five-year planning period

## Interim Management Discussion and Analysis

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The 2024-2028 Capital Plan is \$2.7 billion higher than the prior five-year plan of \$22.3 billion. The increase is driven by organic growth, largely reflecting regional transmission projects at ITC associated with tranche one of the MISO LRTP, as well as investments in Arizona to support TEP's exit from coal. Investments supporting system adaptation and resiliency, customer growth and economic development are also driving capital growth across the Corporation's regulated utilities.

Total Cleaner Energy Investments of \$6.8 billion are expected over the five-year planning period, with capital expenditures focused on connecting renewables to the grid, renewable and storage investments in Arizona and the Caribbean, and cleaner natural gas solutions in British Columbia. Fortis remains focused on maintaining customer affordability by controlling costs, investing in cleaner energy resulting in fuel savings for customers, utilizing available tax credits, and implementing innovative practices, among other initiatives.

The five-year Capital Plan is low risk and highly executable, with nearly 100% of planned expenditures to occur at the regulated utilities and only 18% of investments relating to Major Capital Projects. Geographically, 58% of planned expenditures are expected in the U.S., including 29% at ITC, with 38% in Canada and the remaining 4% in the Caribbean.

The five-year Capital Plan is expected to be funded primarily by cash from operations and regulated utility debt. Common equity proceeds are expected to be sourced from the Corporation's DRIP and ATM Program.

Planned Capital Expenditures are based on detailed forecasts of energy demand as well as labour and material costs, including inflation, supply chain availability, general economic conditions, foreign exchange rates and other factors. These could change and cause actual expenditures to differ from forecast.

### Major Capital Project Updates

#### *UNS Energy*

In October 2023, TEP announced the Roadrunner Reserve project, the largest battery energy storage system in TEP's portfolio. The 200 MW system will store 800 MW hours of energy, enough to serve approximately 42,000 homes for four hours when deployed at full capacity. TEP will own and operate the system, which is included in the Corporation's 2024-2028 Capital Plan, has a total project cost of approximately \$400 million, and is scheduled for completion in 2025.

#### *FortisBC Energy*

In May 2023, the CPCN application for the AMI project was approved by the BCUC. The project includes replacement of residential and small commercial meters with advanced meters to support the safety, resiliency, and efficient operation of the gas distribution system. The installation of the advanced meters is expected to commence in 2024.

FortisBC Energy submitted a supplemental filing with the BCUC in May 2023 for the Okanagan Capacity Upgrade project, to provide updates to key evidence in the proceeding based on recently available information. With respect to the Tilbury LNG Storage Expansion project, the regulatory process was adjourned in March 2023 in order for FortisBC Energy to prepare further information in support of the CPCN application. As a result, BCUC approval for both projects could be later than originally expected.

FortisBC Energy received approval from the BCUC in May 2023, as directed by Order of the Lieutenant Governor in Council, for amended transportation rate schedules for the Eagle Mountain Woodfibre Gas Line project. In August 2023, FortisBC Energy commenced construction of the project.

### Additional Investment Opportunities

#### *Propel New York Energy Project*

Central Hudson owns a minority equity interest in Transco, a joint venture with affiliates of other investor-owned utilities in New York State, which was created to develop, own, and operate electric transmission projects in the state. In June 2023, the New York Independent System Operator selected a proposal by Transco, in partnership with the New York Power Authority, to construct transmission infrastructure to deliver at least 3,000 MW from Long Island offshore wind facilities to the rest of the state by 2030. Transco's portion of the project, titled the "Propel New York Energy Project," is estimated to cost approximately US\$2.2 billion, of which Central Hudson's share is approximately 10%. Transco and the New York Power Authority are working to finalize the development agreement, which is expected to be completed in the fourth quarter of 2023.

## BUSINESS RISKS

The Corporation's business risks remain substantially unchanged from those disclosed in its 2022 Annual MD&A. See "Regulatory Matters" on page 11 and "Outlook" on page 20 for applicable updates.

## ACCOUNTING MATTERS

### Accounting Policies

The Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the 2022 Annual Financial Statements.

### Critical Accounting Estimates

The preparation of the Interim Financial Statements required management to make estimates and judgments, including those related to regulatory decisions, that affect the reported amounts of, and disclosures related to, assets, liabilities, revenues, expenses, gains, losses and contingencies. Actual results could differ materially from estimates.

There were no material changes to the nature of the Corporation's critical accounting estimates or contingencies from those disclosed in the 2022 Annual MD&A.

## FINANCIAL INSTRUMENTS

### Long-Term Debt and Other

As at September 30, 2023, the carrying value of long-term debt, including the current portion, was \$30.1 billion (December 31, 2022 - \$28.6 billion) compared to an estimated fair value of \$26.3 billion (December 31, 2022 - \$25.8 billion).

The consolidated carrying value of the remaining financial instruments, other than derivatives, approximates fair value, reflecting their short-term maturity, normal trade credit terms and/or nature.

### Derivatives

Derivatives are recorded at fair value with certain exceptions, including those derivatives that qualify for the normal purchase and normal sale exception.

There were no material changes with respect to the nature and purpose, methodologies for fair value determination, and portfolio of the Corporation's derivatives from those disclosed in the 2022 Annual MD&A, except for interest rate locks utilized at ITC and Fortis, as disclosed in Note 14 to the Interim Financial Statements.

## SUMMARY OF QUARTERLY RESULTS

Quarter ended	Revenue	Common Equity	Basic EPS	Diluted EPS
	(\$ millions)	Earnings (\$ millions)	(\$)	(\$)
<b>September 30, 2023</b>	<b>2,719</b>	<b>394</b>	<b>0.81</b>	<b>0.81</b>
June 30, 2023	2,594	294	0.61	0.61
March 31, 2023	3,319	437	0.90	0.90
December 31, 2022	3,168	370	0.77	0.77
September 30, 2022	2,553	326	0.68	0.68
June 30, 2022	2,487	284	0.59	0.59
March 31, 2022	2,835	350	0.74	0.74
December 31, 2021	2,583	328	0.69	0.69

Generally, within each calendar year, quarterly results fluctuate in accordance with seasonality. Given the diversified nature of the Corporation's subsidiaries, seasonality varies. Most of the annual earnings of the gas utilities are realized in the first and fourth quarters due to space-heating requirements. Earnings for the electric distribution utilities in the U.S. are generally highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

Generally, from one calendar year to the next, quarterly results reflect: (i) continued organic growth driven by the Corporation's Capital Plan; (ii) any significant temperature fluctuations from seasonal norms; (iii) the impact of market conditions, particularly with respect to long-term wholesale sales and transmission revenue at UNS Energy, as well as margins realized on gas sold at Aitken Creek; (iv) the timing and significance of any regulatory decisions; (v) changes in the U.S.-to-Canadian dollar exchange rate; (vi) for revenue, the flow-through in customer rates of commodity costs; and (vii) for EPS, increases in the weighted average number of common shares outstanding.

### **September 2023/September 2022**

See "Performance at a Glance" on page 2.

### **June 2023/June 2022**

Common Equity Earnings increased by \$10 million and basic EPS increased by \$0.02 in comparison to the second quarter of 2022 primarily due to Rate Base growth, largely at ITC and the western Canadian utilities. Also contributing to growth was the timing of operating expenses at Central Hudson and FortisAlberta, an increase in the market value of certain investments that support retirement benefits, and a higher U.S.-to-Canadian dollar foreign exchange rate. Growth was tempered by lower earnings in Arizona, driven by a decrease in retail electricity sales due to milder weather, the timing of wholesale sales, and higher operating costs, partially offset by lower depreciation expense associated with the retirement of the San Juan generating station in June 2022. Lower earnings from Aitken Creek due to the mark-to-market accounting of natural gas derivatives, as well as higher corporate finance costs, also impacted results as compared to the second quarter of 2022. The change in basic EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

### **March 2023/March 2022**

Common Equity Earnings increased by \$87 million and basic EPS increased by \$0.16 in comparison to the first quarter of 2022 due to Rate Base growth, mainly at ITC and the western Canadian utilities, as well as higher earnings at UNS Energy. Market conditions resulted in wholesale electricity sales with favourable margins and higher transmission revenue at UNS Energy in the first quarter of 2023 compared to later quarters in 2022. Higher retail electricity sales, including the impact of favourable weather, and lower depreciation expense associated with the retirement of the San Juan generating station in June 2022, also contributed to results in Arizona. Results for the quarter also reflected higher earnings at Aitken Creek, an increase in the market value of investments that support retirement benefits at UNS Energy and ITC, and a higher U.S.-to-Canadian dollar foreign exchange rate, partially offset by higher corporate finance costs. The change in basic EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

### **December 2022/December 2021**

Common Equity Earnings increased by \$42 million and basic EPS increased by \$0.08 in comparison to the fourth quarter of 2021 due to: (i) Rate Base growth; (ii) higher retail electricity sales and transmission revenue at UNS Energy; (iii) higher earnings from the energy infrastructure segment driven by hydroelectric production in Belize, as well as the favourable impact of market conditions at Aitken Creek; and (iv) the timing of expenses at FortisAlberta. The translation of U.S. dollar-denominated subsidiary earnings at the higher U.S.-to-Canadian dollar foreign exchange rate and lower stock-based compensation costs also contributed to results with these impacts exceeding the related losses associated with hedging activities. The increase in earnings was partially offset by higher corporate costs, reflecting higher finance costs and a lower income tax recovery, as well as lower earnings at Central Hudson, reflecting the finalization of the company's rate application in late 2021 with retroactive application to July 1, 2021. The change in basic EPS also reflected an increase in the weighted average number of common shares outstanding, largely associated with the Corporation's DRIP.

## **RELATED-PARTY AND INTER-COMPANY TRANSACTIONS**

Related-party transactions are in the normal course of operations and are measured at the amount of consideration agreed to by the related parties. There were no material related-party transactions for the three and nine months ended September 30, 2023 and 2022.

The lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy of \$7 million and \$22 million for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 - \$7 million and \$27 million, respectively) are inter-company transactions between non-regulated and regulated entities, which were not eliminated on consolidation.

As at September 30, 2023, accounts receivable included \$7 million due from Belize Electricity (December 31, 2022 - \$7 million).

Fortis periodically provides short-term financing to subsidiaries to support capital expenditures and seasonal working capital requirements, the impacts of which are eliminated on consolidation. As at September 30, 2023 and December 31, 2022, there were no inter-segment loans outstanding. Interest charged on inter-segment loans was not material for the three and nine months ended September 30, 2023 and 2022.

## OUTLOOK

Fortis continues to enhance shareholder value through the execution of its Capital Plan, the balance and strength of its diversified portfolio of regulated utility businesses, and growth opportunities within and proximate to its service territories. While energy price volatility, global supply chain constraints, increasing interest rates and inflation represent potential concerns, the Corporation does not expect these factors to have a material impact on its operations or financial results in 2023.

Fortis is executing on the transition to a cleaner energy future and is on track to achieve its corporate-wide targets to reduce GHG emissions by 50% by 2030 and 75% by 2035 from a 2019 base year. Fortis expects to achieve these targets primarily through TEP's plan to reduce carbon emissions by exiting coal generation. TEP is expected to file its next Integrated Resource Plan in November 2023 with a preferred portfolio that aligns with the Corporation's carbon reduction objectives, while maintaining customer affordability and reliability. The Corporation's additional 2050 net-zero direct GHG emissions target reinforces Fortis' commitment to further decarbonize over the long-term, while continuing our focus on reliability and affordability.

The Corporation's \$25 billion five-year Capital Plan is expected to increase midyear Rate Base from \$36.8 billion in 2023 to \$49.4 billion by 2028, translating into a five-year CAGR of 6.3%.

Beyond the five-year Capital Plan, additional opportunities to expand and extend growth include: further expansion of the electric transmission grid in the U.S. to facilitate the interconnection of cleaner energy, including infrastructure investments associated with the IRA and the MISO LRTP; climate adaptation and grid resiliency investments; renewable gas solutions and LNG infrastructure in British Columbia; and the acceleration of cleaner energy infrastructure investments across our jurisdictions.

Fortis expects its long-term growth in Rate Base will drive earnings that support dividend growth guidance of 4-6% annually through 2028, and is premised on the assumptions and material factors listed under "Forward-Looking Information".

## FORWARD-LOOKING INFORMATION

*Fortis includes forward-looking information in the MD&A within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would, and the negative of these terms, and other similar terminology or expressions, have been used to identify the forward-looking information, which includes, without limitation: forecast capital expenditures for 2023 and 2024-2028, including cleaner energy investments; the expected timing, outcome and impact of regulatory proceedings and decisions; the expected timing and outcome of the sale of Aitken Creek; targeted annual dividend growth through 2028; the 2030 GHG emissions reduction target; the 2035 GHG emissions reduction target; the 2050 net-zero direct GHG emissions target; the expected funding sources for operating expenses, interest costs and capital expenditures, including the expected sources of common equity proceeds; the expectation that maintaining the capital structures of the regulated operating subsidiaries will not have an impact on the Corporation's ability to pay dividends in the foreseeable future; the expected consolidated fixed-term debt maturities and repayments over the next five years; the expectation that the Corporation and its subsidiaries will continue to have access to long-term capital and will remain compliant with debt covenants in 2023; the expectation that energy price volatility, global supply chain constraints, increasing interest rates and inflation will not have a material impact on the Capital Plan, operations or financial results in 2023; the nature, timing, benefits and expected costs of certain capital projects, including UNS Energy's Roadrunner Reserve project, FortisBC Energy's AMI project, Okanagan Capacity Upgrade project, Tilbury LNG Storage Expansion project, and Eagle Mountain Woodfibre Gas Pipeline project, and additional opportunities beyond the Capital Plan, including Central Hudson's investment in the Propel New York Energy project through Transco, investments associated with the IRA, the MISO LRTP, climate adaptation and grid resiliency, renewable gas solutions and LNG infrastructure in British Columbia, and the acceleration of cleaner energy infrastructure; TEP's plan to reduce carbon emissions by exiting coal generation; the expected timing and nature of TEP's 2023 Integrated Resource Plan; forecast Rate Base and Rate Base growth through 2028; and the expectation that long-term growth in Rate Base will drive earnings that support dividend growth guidance of 4-6% annually through 2028.*

*Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information including, without limitation: no material impact from energy price volatility, global supply chain constraints and inflation; reasonable regulatory decisions and the expectation of regulatory stability; the successful execution of the Capital Plan; no material capital project or financing cost overrun; sufficient human resources to deliver service and execute the Capital Plan; the realization of additional opportunities beyond the Capital Plan; no significant variability in interest rates; the Board exercising its discretion to declare dividends, taking into account the financial performance and condition of the Corporation; no significant operational disruptions or environmental liability or upset; the continued ability to maintain the performance of the electricity and gas systems; no severe and prolonged economic downturn; sufficient liquidity and capital resources; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices and electricity prices; the continued availability of natural gas, fuel, coal and electricity supply; continuation of power supply and capacity purchase contracts; no significant changes in government energy plans, environmental laws and regulations that could have a material negative impact; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no significant changes in tax laws and the continued tax deferred treatment of earnings from the Corporation's foreign operations; continued maintenance of information technology infrastructure and no material breach of cybersecurity; continued favourable relations with Indigenous Peoples; and favourable labour relations.*

*Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from those discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the heading "Business Risks" in the 2022 Annual MD&A and in other continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and the Securities and Exchange Commission. Key risk factors for 2023 include, but are not limited to: uncertainty regarding changes in utility regulation, including the outcome of regulatory proceedings at the Corporation's utilities; the physical risks associated with the provision of electric and gas service, which are exacerbated by the impacts of climate change; risks related to environmental laws and regulations; risks associated with capital projects and the impact on the Corporation's continued growth; risks associated with cybersecurity and information and operations technology; the impact of weather variability and seasonality on heating and cooling loads, gas distribution volumes and hydroelectric generation; risks associated with commodity price volatility and supply of purchased power; and risks related to general economic conditions, including inflation, interest rate and foreign exchange risks.*

*All forward-looking information herein is given as of October 26, 2023. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.*



## GLOSSARY

**2022 Annual Financial Statements:** the Corporation's audited consolidated financial statements and notes thereto for the year ended December 31, 2022

**2022 Annual MD&A:** the Corporation's management discussion and analysis for the year ended December 31, 2022

**ACC:** Arizona Corporation Commission

**Adjusted Basic EPS:** Adjusted Common Equity Earnings divided by the basic weighted average number of common shares outstanding

**Adjusted Common Equity Earnings:** net earnings attributable to common equity shareholders adjusted as shown under "Non-U.S. GAAP Financial Measures" on page 9

**Aitken Creek:** Aitken Creek Gas Storage ULC, a direct 93.8% owned subsidiary of FortisBC Holdings Inc.

**AMI:** Advanced Metering Infrastructure

**ATM Program:** at-the-market equity program

**AUC:** Alberta Utilities Commission

**Belize Electricity:** Belize Electricity Limited, in which Fortis indirectly holds a 33% equity interest

**BCUC:** British Columbia Utilities Commission

**Board:** Board of Directors of the Corporation

**CAGR(s):** compound annual growth rate of a particular item.  $CAGR = (EV/BV)^{(1/n)} - 1$ , where: (i) EV is the ending value of the item; (ii) BV is the beginning value of the item; and (iii) n is the number of periods. Calculated on a constant U.S. dollar-to-Canadian dollar exchange rate

**Capital Expenditures:** cash outlay for additions to property, plant and equipment and intangible assets as shown in the Interim Financial Statements, as well as Fortis' 39% share of capital spending for the Wataynikaneyap Transmission Power Project. See "Non-U.S. GAAP Financial Measures" on page 9

**Capital Plan:** forecast Capital Expenditures. Represents a non-U.S. GAAP financial measure calculated in the same manner as Capital Expenditures

**Caribbean Utilities:** Caribbean Utilities Company, Ltd., an indirect approximately 60%-owned (as at December 31, 2022) subsidiary of Fortis, together with its subsidiary

**Central Hudson:** CH Energy Group Inc., an indirect wholly owned subsidiary of Fortis, together with its subsidiaries, including Central Hudson Gas & Electric Corporation

**CIS:** customer information system

**Cleaner Energy Investments:** capital expenditures that support reductions in air emissions, water usage and/or increases customer energy efficiency

**Common Equity Earnings:** net earnings attributable to common equity shareholders

**Corporation:** Fortis Inc.

**COS:** cost of service

**CPCN:** Certificate of Public Convenience and Necessity

**DBRS Morningstar:** DBRS Limited

**D.C. Circuit Court:** U.S. Court of Appeals for the District of Columbia Circuit

**DEI:** diversity, equity and inclusion

**DRIP:** dividend reinvestment plan

**EPS:** earnings per common share

**FERC:** Federal Energy Regulatory Commission

**Fortis:** Fortis Inc.

**FortisAlberta:** FortisAlberta Inc., an indirect wholly owned subsidiary of Fortis

**FortisBC Electric:** FortisBC Inc., an indirect wholly owned subsidiary of Fortis, together with its subsidiaries

**FortisBC Energy:** FortisBC Energy Inc., an indirect wholly owned subsidiary of Fortis, together with its subsidiaries

**FortisOntario:** FortisOntario Inc., a direct wholly owned subsidiary of Fortis, together with its subsidiaries

**FortisTCI:** FortisTCI Limited, an indirect wholly owned subsidiary of Fortis, together with its subsidiary

**Fortis Belize:** Fortis Belize Limited, an indirect wholly owned subsidiary of Fortis

**FX:** foreign exchange associated with the translation of U.S. dollar-denominated amounts. Foreign exchange is calculated by applying the change in the U.S. dollar-to-Canadian dollar FX rates to the prior period U.S. dollar balance

**GCOC:** generic cost of capital

**GHG:** greenhouse gas

**GWh:** gigawatt hour(s)

**ICAT:** Iowa Coalition for Affordable Transmission

**Interim Financial Statements:** the Corporation's unaudited condensed consolidated interim financial statements and notes thereto for the three and nine months ended September 30, 2023

**Interim MD&A:** the Corporation's management discussion and analysis for the three and nine months ended September 30, 2023

**IRA:** Inflation Reduction Act of 2022

**ITC:** ITC Investment Holdings Inc., an indirect 80.1%-owned subsidiary of Fortis, together with its subsidiaries, including International Transmission Company, Michigan Electric Transmission Company, LLC, ITC Midwest, and ITC Great Plains, LLC

**ITC Midwest:** ITC Midwest LLC

**LNG:** liquefied natural gas

**LRTP:** long-range transmission plan

## Interim Management Discussion and Analysis

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**Major Capital Projects:** projects, other than ongoing maintenance projects, individually costing \$200 million or more in the forecast/planning period

**Maritime Electric:** Maritime Electric Company, Limited, an indirect wholly owned subsidiary of Fortis

**MW:** megawatt(s)

**MISO:** Midcontinent Independent System Operator, Inc.

**Moody's:** Moody's Investor Services, Inc.

**Newfoundland Power:** Newfoundland Power Inc., a direct wholly owned subsidiary of Fortis

**Non-U.S. GAAP Financial Measures:** financial measures that do not have a standardized meaning prescribed by U.S. GAAP

**NOPR:** notice of proposed rulemaking

**NYSE:** New York Stock Exchange

**Operating Cash Flow:** cash from operating activities

**PBR:** performance-based rate setting

**PJ:** petajoule(s)

**PPFAC:** Purchased Power and Fuel Adjustment Clause

**PSC:** New York State Public Service Commission

**Rate Base:** the stated value of property on which a regulated utility is permitted to earn a specified return in accordance with its regulatory construct

**REA:** Rural Electrification Association

**ROE:** rate of return on common equity

**ROFR:** right of first refusal

**RTO:** regional transmission organization

**S&P:** Standard & Poor's Financial Services LLC

**SEDAR+:** Canadian System for Electronic Document Analysis and Retrieval

**TEP:** Tucson Electric Power Company, a direct wholly owned subsidiary of UNS Energy

**Transco:** New York Transco LLC

**TSR:** total shareholder return, which is a measure of the return to common equity shareholders in the form of share price appreciation and dividends (assuming reinvestment) over a specified time period in relation to the share price at the beginning of the period

**TSX:** Toronto Stock Exchange

**UNSE:** UNS Electric, Inc.

**UNS Energy:** UNS Energy Corporation, an indirect wholly owned subsidiary of Fortis, together with its subsidiaries, including TEP, UNSE and UNS Gas, Inc.

**U.S.:** United States of America

**U.S. GAAP:** accounting principles generally accepted in the U.S.

**Wataynikaneyap Power:** Wataynikaneyap Power Limited Partnership, in which Fortis indirectly holds a 39% equity interest

# Interim Financial Statements

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## FORTIS INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022  
(Unaudited)

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (Unaudited)

### FORTIS INC.

<i>As at (in millions of Canadian dollars)</i>	<b>September 30, 2023</b>	December 31, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 765	\$ 209
Accounts receivable and other current assets (Note 5)	1,648	2,339
Prepaid expenses	207	146
Inventories	588	661
Regulatory assets (Note 6)	745	914
Assets held for sale (Note 7)	569	—
<b>Total current assets</b>	<b>4,522</b>	4,269
Other assets	1,237	1,213
Regulatory assets (Note 6)	3,336	3,095
Property, plant and equipment, net	43,220	41,663
Intangible assets, net	1,515	1,548
Goodwill	12,455	12,464
<b>Total assets</b>	<b>\$ 66,285</b>	\$ 64,252
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings (Note 8)	\$ 78	\$ 253
Accounts payable and other current liabilities	2,875	3,288
Regulatory liabilities (Note 6)	509	595
Current installments of long-term debt (Note 8)	2,774	2,481
Liabilities associated with assets held for sale (Note 7)	132	—
<b>Total current liabilities</b>	<b>6,368</b>	6,617
Regulatory liabilities (Note 6)	3,496	3,320
Deferred income taxes	4,200	4,060
Long-term debt (Note 8)	27,170	25,931
Finance leases	342	336
Other liabilities	1,163	1,146
<b>Total liabilities</b>	<b>42,739</b>	41,410
Commitments and contingencies (Note 15)		
<b>Equity</b>		
Common shares <sup>(1)</sup>	14,994	14,656
Preference shares	1,623	1,623
Additional paid-in capital	9	10
Accumulated other comprehensive income	1,046	1,008
Retained earnings	4,020	3,733
Shareholders' equity	21,692	21,030
Non-controlling interests	1,854	1,812
<b>Total equity</b>	<b>23,546</b>	22,842
<b>Total liabilities and equity</b>	<b>\$ 66,285</b>	\$ 64,252

<sup>(1)</sup> No par value. Unlimited authorized shares. 488.5 million and 482.2 million issued and outstanding as at September 30, 2023 and December 31, 2022, respectively.

See accompanying Notes to Condensed Consolidated Interim Financial Statements

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (Unaudited)

### FORTIS INC.

	Quarter		Year-to-Date	
	2023	2022	2023	2022
<i>For the periods ended September 30 (in millions of Canadian dollars, except per share amounts)</i>				
<b>Revenue</b>	\$ 2,719	\$ 2,553	\$ 8,632	\$ 7,875
<b>Expenses</b>				
Energy supply costs	773	804	2,872	2,684
Operating expenses	682	630	2,136	1,958
Depreciation and amortization	443	422	1,319	1,246
<b>Total expenses</b>	<b>1,898</b>	<b>1,856</b>	<b>6,327</b>	<b>5,888</b>
<b>Operating income</b>	<b>821</b>	<b>697</b>	<b>2,305</b>	<b>1,987</b>
Other income, net (Note 11)	47	19	180	96
Finance charges	331	280	969	804
<b>Earnings before income tax expense</b>	<b>537</b>	<b>436</b>	<b>1,516</b>	<b>1,279</b>
Income tax expense	92	65	241	185
<b>Net earnings</b>	<b>\$ 445</b>	<b>\$ 371</b>	<b>\$ 1,275</b>	<b>\$ 1,094</b>
<b>Net earnings attributable to:</b>				
Non-controlling interests	\$ 34	\$ 29	\$ 100	\$ 86
Preference equity shareholders (Note 9)	17	16	50	48
Common equity shareholders	394	326	1,125	960
	<b>\$ 445</b>	<b>\$ 371</b>	<b>\$ 1,275</b>	<b>\$ 1,094</b>
<b>Earnings per common share</b> (Note 12)				
Basic	\$ 0.81	\$ 0.68	\$ 2.32	\$ 2.01
Diluted	\$ 0.81	\$ 0.68	\$ 2.32	\$ 2.01

See accompanying Notes to Condensed Consolidated Interim Financial Statements

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Quarter		Year-to-Date	
	2023	2022	2023	2022
<i>For the periods ended September 30 (in millions of Canadian dollars)</i>				
<b>Net earnings</b>	\$ 445	\$ 371	\$ 1,275	\$ 1,094
<b>Other comprehensive income</b>				
Unrealized foreign currency translation gains <sup>(1)</sup>	421	1,165	38	1,452
Other <sup>(2)</sup>	1	25	4	49
	<b>422</b>	<b>1,190</b>	<b>42</b>	<b>1,501</b>
<b>Comprehensive income</b>	<b>\$ 867</b>	<b>\$ 1,561</b>	<b>\$ 1,317</b>	<b>\$ 2,595</b>
<b>Comprehensive income attributable to:</b>				
Non-controlling interests	\$ 79	\$ 154	\$ 104	\$ 247
Preference equity shareholders	17	16	50	48
Common equity shareholders	771	1,391	1,163	2,300
	<b>\$ 867</b>	<b>\$ 1,561</b>	<b>\$ 1,317</b>	<b>\$ 2,595</b>

<sup>(1)</sup> Net of hedging activities and income tax recovery of \$7 million and \$1 million for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 - income tax recovery of \$37 million and \$40 million, respectively)

<sup>(2)</sup> Net of income tax expense of \$2 million and \$4 million for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 - income tax expense of \$11 million and \$21 million, respectively)

See accompanying Notes to Condensed Consolidated Interim Financial Statements

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (Unaudited)

### FORTIS INC.

	Quarter		Year-to-Date	
	2023	2022	2023	2022
<i>For the periods ended September 30 (in millions of Canadian dollars)</i>				
<b>Operating activities</b>				
Net earnings	\$ 445	\$ 371	\$ 1,275	\$ 1,094
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation - property, plant and equipment	386	369	1,145	1,091
Amortization - intangible assets	37	37	113	108
Amortization - other	20	16	61	47
Deferred income tax expense	64	64	119	119
Equity component, allowance for funds used during construction (Note 11)	(25)	(19)	(71)	(54)
Other	48	66	97	120
Change in long-term regulatory assets and liabilities	(2)	80	(84)	94
Change in working capital (Note 13)	(33)	(351)	144	(414)
<b>Cash from operating activities</b>	<b>940</b>	<b>633</b>	<b>2,799</b>	<b>2,205</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(952)	(907)	(2,797)	(2,600)
Additions to intangible assets	(31)	(44)	(122)	(151)
Contributions in aid of construction	17	24	88	85
Contributions to equity-accounted investees	(24)	(100)	(24)	(100)
Other	(50)	(46)	(139)	(141)
<b>Cash used in investing activities</b>	<b>(1,040)</b>	<b>(1,073)</b>	<b>(2,994)</b>	<b>(2,907)</b>
<b>Financing activities</b>				
Proceeds from long-term debt, net of issuance costs	229	936	2,110	2,581
Repayments of long-term debt and finance leases	(97)	(670)	(794)	(1,506)
Borrowings under committed credit facilities	1,290	1,674	5,165	4,660
Repayments under committed credit facilities	(1,071)	(1,066)	(5,009)	(4,218)
Net change in short-term borrowings	(5)	(204)	(170)	(46)
Issue of common shares, net of costs and dividends reinvested	6	6	34	46
Dividends				
Common shares, net of dividends reinvested	(175)	(168)	(517)	(492)
Preference shares	(17)	(16)	(50)	(48)
Subsidiary dividends paid to non-controlling interests	(24)	(21)	(64)	(52)
Other	14	—	42	7
<b>Cash from financing activities</b>	<b>150</b>	<b>471</b>	<b>747</b>	<b>932</b>
Effect of exchange rate changes on cash and cash equivalents	15	26	13	34
<b>Change in cash and cash equivalents</b>	<b>65</b>	<b>57</b>	<b>565</b>	<b>264</b>
Change in cash associated with assets held for sale	10	—	(9)	—
Cash and cash equivalents, beginning of period	690	338	209	131
<b>Cash and cash equivalents, end of period</b>	<b>\$ 765</b>	<b>\$ 395</b>	<b>\$ 765</b>	<b>\$ 395</b>

Supplementary Cash Flow Information (Note 13)

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY  
(Unaudited)**
**FORTIS INC.**

<i>For the three months ended September 30 (in millions of Canadian dollars, except share numbers)</i>	<b>Common Shares (# millions)</b>	<b>Common Shares</b>	<b>Preference Shares</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Non- Controlling Interests</b>	<b>Total Equity</b>
As at June 30, 2023	<b>486.4</b>	<b>\$ 14,889</b>	<b>\$ 1,623</b>	<b>\$ 8</b>	<b>\$ 669</b>	<b>\$ 4,190</b>	<b>\$ 1,798</b>	<b>\$ 23,177</b>
Net earnings	—	—	—	—	—	411	34	445
Other comprehensive income	—	—	—	—	377	—	45	422
Common shares issued	2.1	105	—	—	—	—	—	105
Subsidiary dividends paid to non- controlling interests	—	—	—	—	—	—	(24)	(24)
Dividends declared on common shares (\$1.155 per share)	—	—	—	—	—	(564)	—	(564)
Dividends on preference shares	—	—	—	—	—	(17)	—	(17)
Other	—	—	—	1	—	—	1	2
<b>As at September 30, 2023</b>	<b>488.5</b>	<b>\$ 14,994</b>	<b>\$ 1,623</b>	<b>\$ 9</b>	<b>\$ 1,046</b>	<b>\$ 4,020</b>	<b>\$ 1,854</b>	<b>\$ 23,546</b>
As at June 30, 2022	478.7	\$ 14,465	\$ 1,623	\$ 8	\$ 235	\$ 3,837	\$ 1,692	\$ 21,860
Net earnings	—	—	—	—	—	342	29	371
Other comprehensive income	—	—	—	—	1,065	—	125	1,190
Common shares issued	1.6	93	—	—	—	—	—	93
Subsidiary dividends paid to non- controlling interests	—	—	—	—	—	—	(21)	(21)
Dividends declared on common shares (\$1.10 per share)	—	—	—	—	—	(528)	—	(528)
Dividends on preference shares	—	—	—	—	—	(16)	—	(16)
Other	—	—	—	—	—	—	2	2
As at September 30, 2022	480.3	\$ 14,558	\$ 1,623	\$ 8	\$ 1,300	\$ 3,635	\$ 1,827	\$ 22,951

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY  
(Unaudited)**
**FORTIS INC.**

<i>For the nine months ended September 30 (in millions of Canadian dollars, except share numbers)</i>	<b>Common Shares (# millions)</b>	<b>Common Shares</b>	<b>Preference Shares</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Retained Earnings</b>	<b>Non- Controlling Interests</b>	<b>Total Equity</b>
As at December 31, 2022	<b>482.2</b>	<b>\$ 14,656</b>	<b>\$ 1,623</b>	<b>\$ 10</b>	<b>\$ 1,008</b>	<b>\$ 3,733</b>	<b>\$ 1,812</b>	<b>\$ 22,842</b>
Net earnings	—	—	—	—	—	1,175	100	1,275
Other comprehensive income	—	—	—	—	38	—	4	42
Common shares issued	6.3	338	—	(1)	—	—	—	337
Subsidiary dividends paid to non- controlling interests	—	—	—	—	—	—	(64)	(64)
Dividends declared on common shares (\$1.72 per share)	—	—	—	—	—	(838)	—	(838)
Dividends on preference shares	—	—	—	—	—	(50)	—	(50)
Other	—	—	—	—	—	—	2	2
<b>As at September 30, 2023</b>	<b>488.5</b>	<b>\$ 14,994</b>	<b>\$ 1,623</b>	<b>\$ 9</b>	<b>\$ 1,046</b>	<b>\$ 4,020</b>	<b>\$ 1,854</b>	<b>\$ 23,546</b>
As at December 31, 2021	474.8	\$ 14,237	\$ 1,623	\$ 10	\$ (40)	\$ 3,458	\$ 1,628	\$ 20,916
Net earnings	—	—	—	—	—	1,008	86	1,094
Other comprehensive income	—	—	—	—	1,340	—	161	1,501
Common shares issued	5.5	321	—	(2)	—	—	—	319
Subsidiary dividends paid to non- controlling interests	—	—	—	—	—	—	(52)	(52)
Dividends declared on common shares (\$1.635 per share)	—	—	—	—	—	(783)	—	(783)
Dividends on preference shares	—	—	—	—	—	(48)	—	(48)
Other	—	—	—	—	—	—	4	4
As at September 30, 2022	480.3	\$ 14,558	\$ 1,623	\$ 8	\$ 1,300	\$ 3,635	\$ 1,827	\$ 22,951

See accompanying Notes to Condensed Consolidated Interim Financial Statements



# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 1. DESCRIPTION OF BUSINESS

### Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is a well-diversified North American regulated electric and gas utility holding company.

Earnings for interim periods may not be indicative of annual results due to: (i) the impact of seasonal weather conditions on customer demand and market pricing; (ii) the impact of market conditions, particularly with respect to long-term wholesale sales and transmission revenue at UNS Energy, as well as margins realized on gas sold at Aitken Creek; (iii) changes in foreign exchange rates; and (iv) the timing and significance of regulatory decisions. Earnings of the gas utilities tend to be highest in the first and fourth quarters due to space-heating requirements. Earnings of the electric distribution utilities in the U.S. tend to be highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

Entities within the reporting segments that follow operate with substantial autonomy.

### Regulated Utilities

**ITC:** ITC Investment Holdings Inc., ITC Holdings Corp. and the electric transmission operations of its regulated operating subsidiaries, which include International Transmission Company, Michigan Electric Transmission Company, LLC, ITC Midwest LLC ("ITC Midwest") and ITC Great Plains, LLC. Fortis owns 80.1% of ITC and an affiliate of GIC Private Limited owns a 19.9% minority interest.

**UNS Energy:** UNS Energy Corporation, which primarily includes Tucson Electric Power Company ("TEP"), UNS Electric, Inc. ("UNSE") and UNS Gas, Inc.

**Central Hudson:** CH Energy Group, Inc., which primarily includes Central Hudson Gas & Electric Corporation.

**FortisBC Energy:** FortisBC Energy Inc.

**FortisAlberta:** FortisAlberta Inc.

**FortisBC Electric:** FortisBC Inc.

**Other Electric:** Eastern Canadian and Caribbean utilities, as follows: Newfoundland Power Inc.; Maritime Electric Company, Limited; FortisOntario Inc.; a 39% equity investment in Wataynikaneyap Power Limited Partnership; an approximate 60% controlling interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"); FortisTCl Limited and Turks and Caicos Utilities Limited (collectively "FortisTCl"); and a 33% equity investment in Belize Electricity Limited ("Belize Electricity").

### Non-Regulated

**Energy Infrastructure:** Long-term contracted generation assets in Belize and the Aitken Creek natural gas storage facility ("Aitken Creek") in British Columbia (Note 7).

**Corporate and Other:** Captures expenses and revenues not specifically related to any reportable segment and those business operations that are below the required threshold for segmented reporting, including net corporate expenses of Fortis and non-regulated holding company expenses.

## 2. REGULATORY MATTERS

Regulation of the Corporation's utilities is generally consistent with that disclosed in Note 2 of the Corporation's annual audited consolidated financial statements ("2022 Annual Financial Statements"). A summary of significant outstanding regulatory matters follows.

### ITC

**ITC Midwest Capital Structure Complaint:** In 2022, FERC issued an order denying the complaint filed by the Iowa Coalition for Affordable Transmission ("ICAT") requesting that ITC Midwest's common equity component of capital structure be reduced from 60% to 53%. In March 2023, FERC confirmed its decision following ICAT's request for rehearing.

**MISO Base ROE:** In 2022, the U.S. Court of Appeals for the District of Columbia Circuit issued a decision vacating certain FERC orders that had established the methodology for setting the base return on equity ("ROE") for transmission owners operating in the Midcontinent Independent System Operator, Inc. ("MISO") region, including ITC. This matter dates back to complaints filed at FERC in 2013 and 2015 challenging the MISO base ROE then in effect. The court has remanded the matter to FERC for further process, the timing and outcome of which is unknown.

**Transmission Incentives:** In 2021, FERC issued a supplemental notice of proposed rulemaking ("NOPR") on transmission incentives modifying the proposal in the initial NOPR released by FERC in 2020. The supplemental NOPR proposes to eliminate the 50-basis point regional transmission organization ("RTO") ROE incentive adder for RTO members that have been members for longer than three years. The timing and outcome of this proceeding is unknown.

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 2. REGULATORY MATTERS (cont'd)

**Transmission Right of First Refusal ("ROFR"):** The State of Iowa has granted incumbent electric transmission owners, including ITC, a ROFR to construct, own and maintain certain electric transmission assets in the state. A challenge against the ROFR statute by certain plaintiffs was initially dismissed by the District Court on the grounds that the plaintiffs lacked standing. In March 2023, the Iowa Supreme Court determined that the plaintiffs have standing to challenge the Iowa ROFR statute, issued a temporary injunction staying enforcement of the ROFR statute, and remanded the matter to the District Court to decide the merits of the claim. Management does not believe that this proceeding will impact projects that have already been approved and under development; however, the timing of this proceeding and any impact on future projects, is unknown.

### UNS Energy

**TEP General Rate Application:** In August 2023, the Arizona Corporation Commission ("ACC") issued a decision on TEP's general rate application approving, among other things, an increase in non-fuel revenue of US\$100 million, a 9.55% ROE and a 54.32% common equity component of capital structure. The decision reflects an increase from TEP's previous ROE and common equity component of capital structure of 9.15% and 53%, respectively. New customer rates became effective on September 1, 2023.

**PPFAC Mechanism:** The Purchased Power and Fuel Adjustment Clause ("PPFAC") mechanism allows for the timely recovery or return of purchased power and fuel costs, as compared to that collected in customer rates, at TEP and UNSE. The PPFAC balance has increased in recent years, reflecting higher commodity costs. In May 2023, the ACC approved rate adjustments at TEP and UNSE to collect the PPFAC balances over 12- and 33-month periods, respectively.

### Central Hudson

**General Rate Application:** In July 2023, Central Hudson filed a rate application with the New York Public Service Commission ("PSC") requesting an increase in electric and natural gas delivery rates effective July 1, 2024. The application includes a request to set Central Hudson's ROE at 9.8% and a 50% common equity component of capital structure. The timing and outcome of this proceeding is unknown.

**Customer Information System ("CIS") Implementation:** In January 2023, Central Hudson filed a response to the PSC's Order to Commence Proceeding and Show Cause, which had directed Central Hudson to explain why the PSC should not pursue civil or administrative penalties or initiate a proceeding to review the prudence of implementation costs associated with its new CIS. In July 2023, an interim agreement was reached with the PSC, in which Central Hudson agreed to independent third-party verification of recent system improvements related to its billing system, and to accelerate the implementation of its monthly meter reading plan. The timing and outcome of this proceeding remains unknown.

### FortisBC Energy and FortisBC Electric

**Generic Cost of Capital ("GCOC") Proceeding:** The British Columbia Utilities Commission ("BCUC") issued a decision on the GCOC proceeding in September 2023. For FortisBC Energy, the decision increased the ROE and common equity component of capital structure from 8.75% and 38.5% to 9.65% and 45%, respectively. For FortisBC Electric, the decision increased the ROE and common equity component of capital structure from 9.15% and 40% to 9.65% and 41%, respectively. The new cost of capital parameters are retroactive to January 1, 2023. The decision directed FortisBC to submit a compliance filing for final 2023 customer rates. This filing, which was approved by the BCUC in October 2023, requested approval of a regulatory deferral account to be collected from customers in future rates for the revenue deficiency resulting from the GCOC decision. A regulatory process is currently underway to determine the recovery period for the associated revenue deficiency deferral, the timing and outcome of which is unknown.

### FortisAlberta

**2024 GCOC Proceeding:** In October 2023, the Alberta Utilities Commission ("AUC") issued a decision on the 2024 GCOC proceeding. The decision, which is effective January 1, 2024, adopts a formulaic approach in determining the ROE which will adjust the notional ROE of 9.0% with reference to forecast long-term Government of Canada bond and utility bond yields. The ROE for 2024 is expected to be determined in the fourth quarter of 2023, with updates annually thereafter. The decision also concluded that there will be no change in the common equity component of capital structure of 37%.

**Third PBR Term:** In October 2023, the AUC issued a decision establishing the parameters for the third performance-based rate setting ("PBR") term for the period of 2024-2028. FortisAlberta's base distribution rates for the third PBR term are based on the 2023 cost of service ("COS") revenue requirement previously approved by the AUC. The third generation PBR plan incorporates several changes and refinements, which include the adoption of new inputs for the calculation of the inflation and productivity factors, the introduction of an earnings sharing mechanism that will allocate achieved earnings above the approved ROE between the utility and its customers using marginal sharing ranges, and the removal of the efficiency carry-over incentive mechanism. Capital funding mechanisms are preserved with modifications including: i) base capital funding established on the approved 2023 COS rate base and a level of annual capital additions premised on 2018-2022 historical averages that are escalated as prescribed by the AUC; and ii) criteria to meet eligibility for incremental capital funding on extraordinary expenditures is expanded to provide potential eligibility for net-zero plan related expenditures.

**Rural Electrification Association ("REA") Cost Recovery:** In 2021, the AUC determined that costs attributable to REAs, approximating \$10 million annually, can no longer be recovered from FortisAlberta's rate payers, effective January 1, 2023. In April 2023, the Alberta Court of Appeal dismissed FortisAlberta's appeal which had asserted that the AUC erred in preventing the company from recovering these costs from its own rate payers to the extent that such costs cannot be recovered directly from REAs. FortisAlberta continues to assess other means, including legislative amendments, to recover these costs.

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

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For the three and nine months ended September 30, 2023 and 2022

## 3. ACCOUNTING POLICIES

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared and presented in accordance with accounting principles generally accepted in the United States of America for rate-regulated entities and are in Canadian dollars unless otherwise indicated.

The Interim Financial Statements include the accounts of the Corporation and its subsidiaries and reflect the equity method of accounting for entities in which Fortis has significant influence, but not control, and proportionate consolidation for assets that are jointly owned with non-affiliated entities.

Intercompany transactions have been eliminated, except for transactions between non-regulated and regulated entities in accordance with U.S. GAAP for rate-regulated entities.

These Interim Financial Statements do not include all of the disclosures required in the annual financial statements and should be read in conjunction with the Corporation's 2022 Annual Financial Statements. In management's opinion, these Interim Financial Statements include all adjustments that are of a normal recurring nature, necessary for fair presentation.

The preparation of the Interim Financial Statements required management to make estimates and judgments, including those related to regulatory decisions, that affect the reported amounts of, and disclosures related to, assets, liabilities, revenues, expenses, gains, losses and contingencies. Actual results could differ materially from estimates.

The accounting policies applied herein are consistent with those outlined in the Corporation's 2022 Annual Financial Statements.

### Future Accounting Pronouncements

The Corporation considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. Any ASUs not included in these Interim Financial Statements were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the Interim Financial Statements.

## 4. SEGMENTED INFORMATION

Fortis segments its business based on regulatory jurisdiction and service territory, as well as the information used by its President and Chief Executive Officer in deciding how to allocate resources. Segment performance is evaluated principally on net earnings attributable to common equity shareholders.

### Related-Party and Inter-Company Transactions

Related-party transactions are in the normal course of operations and are measured at the amount of consideration agreed to by the related parties. There were no material related-party transactions for the three and nine months ended September 30, 2023 and 2022.

The lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy of \$7 million and \$22 million for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 - \$7 million and \$27 million, respectively) are inter-company transactions between non-regulated and regulated entities, which were not eliminated on consolidation.

As at September 30, 2023, accounts receivable included \$7 million due from Belize Electricity (December 31, 2022 - \$7 million).

Fortis periodically provides short-term financing to subsidiaries to support capital expenditures and seasonal working capital requirements, the impacts of which are eliminated on consolidation. As at September 30, 2023 and December 31, 2022, there were no inter-segment loans outstanding. Interest charged on inter-segment loans was not material for the three and nine months ended September 30, 2023 and 2022.

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 4. SEGMENTED INFORMATION (cont'd)

(\$ millions)	Regulated							Non-Regulated			Inter-segment eliminations	Total
	ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	Sub Total	Energy Infra-structure	Corporate and Other		
<b>Quarter ended September 30, 2023</b>												
Revenue	520	899	290	294	190	128	377	<b>2,698</b>	<b>21</b>	—	—	<b>2,719</b>
Energy supply costs	—	381	88	64	—	38	202	<b>773</b>	—	—	—	<b>773</b>
Operating expenses	120	185	146	94	44	29	54	<b>672</b>	<b>7</b>	<b>3</b>	—	<b>682</b>
Depreciation and amortization	104	90	28	77	67	24	51	<b>441</b>	<b>1</b>	<b>1</b>	—	<b>443</b>
Operating income	296	243	28	59	79	37	70	<b>812</b>	<b>13</b>	<b>(4)</b>	—	<b>821</b>
Other income, net	21	7	13	9	1	2	5	<b>58</b>	—	<b>(11)</b>	—	<b>47</b>
Finance charges	112	36	16	38	32	20	23	<b>277</b>	—	<b>54</b>	—	<b>331</b>
Income tax expense	60	36	5	7	3	2	6	<b>119</b>	<b>2</b>	<b>(29)</b>	—	<b>92</b>
Net earnings	145	178	20	23	45	17	46	<b>474</b>	<b>11</b>	<b>(40)</b>	—	<b>445</b>
Non-controlling interests	26	—	—	1	—	—	7	<b>34</b>	—	—	—	<b>34</b>
Preference share dividends	—	—	—	—	—	—	—	—	—	<b>17</b>	—	<b>17</b>
Net earnings attributable to common equity shareholders	119	178	20	22	45	17	39	<b>440</b>	<b>11</b>	<b>(57)</b>	—	<b>394</b>
Additions to property, plant and equipment and intangible assets	237	187	92	155	150	30	127	<b>978</b>	<b>5</b>	—	—	<b>983</b>
<b>As at September 30, 2023</b>												
Goodwill	8,332	1,876	613	913	228	235	258	<b>12,455</b>	—	—	—	<b>12,455</b>
Total assets	24,657	13,071	5,323	8,712	5,806	2,660	5,131	<b>65,360</b>	<b>709</b>	<b>261</b>	<b>(45)</b>	<b>66,285</b>
<b>Quarter ended September 30, 2022</b>												
Revenue	478	856	273	269	175	114	361	2,526	27	—	—	2,553
Energy supply costs	—	380	84	104	—	35	200	803	1	—	—	804
Operating expenses	120	168	133	88	38	30	52	629	9	(8)	—	630
Depreciation and amortization	97	95	26	74	61	17	48	418	4	—	—	422
Operating income	261	213	30	3	76	32	61	676	13	8	—	697
Other income, net	11	6	13	7	1	2	2	42	—	(23)	—	19
Finance charges	90	32	13	37	28	19	18	237	—	43	—	280
Income tax expense	55	24	6	(11)	3	2	4	83	3	(21)	—	65
Net earnings	127	163	24	(16)	46	13	41	398	10	(37)	—	371
Non-controlling interests	22	—	—	1	—	—	6	29	—	—	—	29
Preference share dividends	—	—	—	—	—	—	—	—	—	16	—	16
Net earnings attributable to common equity shareholders	105	163	24	(17)	46	13	35	369	10	(53)	—	326
Additions to property, plant and equipment and intangible assets	313	139	83	150	126	32	98	941	10	—	—	951
<b>As at September 30, 2022</b>												
Goodwill	8,487	1,911	624	913	228	235	262	12,660	27	—	—	12,687
Total assets	23,704	12,892	5,156	8,474	5,464	2,636	4,773	63,099	861	179	(55)	64,084

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 4. SEGMENTED INFORMATION (cont'd)

(\$ millions)	Regulated							Non-Regulated			Inter-segment eliminations	Total
	UNSC ITC	Central Energy	FortisBC Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	Sub Total	Energy Infra-structure	Corporate and Other		
<b>Year-to-date September 30, 2023</b>												
Revenue	1,558	2,300	1,049	1,411	550	383	1,304	<b>8,555</b>	<b>77</b>	—	—	<b>8,632</b>
Energy supply costs	—	980	416	582	—	107	787	<b>2,872</b>	—	—	—	<b>2,872</b>
Operating expenses	380	579	452	283	130	90	170	<b>2,084</b>	<b>27</b>	<b>25</b>	—	<b>2,136</b>
Depreciation and amortization	308	265	84	232	198	72	152	<b>1,311</b>	<b>6</b>	<b>2</b>	—	<b>1,319</b>
Operating income	870	476	97	314	222	114	195	<b>2,288</b>	<b>44</b>	<b>(27)</b>	—	<b>2,305</b>
Other income, net	57	33	40	25	4	4	17	<b>180</b>	—	—	—	<b>180</b>
Finance charges	316	109	49	122	92	59	65	<b>812</b>	—	<b>157</b>	—	<b>969</b>
Income tax expense	156	62	19	47	8	6	20	<b>318</b>	<b>9</b>	<b>(86)</b>	—	<b>241</b>
Net earnings	455	338	69	170	126	53	127	<b>1,338</b>	<b>35</b>	<b>(98)</b>	—	<b>1,275</b>
Non-controlling interests	83	—	—	1	—	—	16	<b>100</b>	—	—	—	<b>100</b>
Preference share dividends	—	—	—	—	—	—	—	—	—	<b>50</b>	—	<b>50</b>
Net earnings attributable to common equity shareholders	372	338	69	169	126	53	111	<b>1,238</b>	<b>35</b>	<b>(148)</b>	—	<b>1,125</b>
Additions to property, plant and equipment and intangible assets	837	555	248	389	451	92	335	<b>2,907</b>	<b>12</b>	—	—	<b>2,919</b>
<b>As at September 30, 2023</b>												
Goodwill	8,332	1,876	613	913	228	235	258	<b>12,455</b>	—	—	—	<b>12,455</b>
Total assets	24,657	13,071	5,323	8,712	5,806	2,660	5,131	<b>65,360</b>	<b>709</b>	<b>261</b>	<b>(45)</b>	<b>66,285</b>
<b>Year-to-date September 30, 2022</b>												
Revenue	1,406	2,042	929	1,359	511	351	1,204	7,802	73	—	—	7,875
Energy supply costs	—	862	347	639	—	96	736	2,680	4	—	—	2,684
Operating expenses	363	497	425	259	122	96	157	1,919	29	10	—	1,958
Depreciation and amortization	283	276	77	224	182	51	139	1,232	12	2	—	1,246
Operating income	760	407	80	237	207	108	172	1,971	28	(12)	—	1,987
Other income, net	30	12	43	16	2	5	5	113	—	(17)	—	96
Finance charges	253	93	39	108	82	56	55	686	—	118	—	804
Income tax expense	137	43	18	25	10	7	15	255	5	(75)	—	185
Net earnings	400	283	66	120	117	50	107	1,143	23	(72)	—	1,094
Non-controlling interests	72	—	—	1	—	—	13	86	—	—	—	86
Preference share dividends	—	—	—	—	—	—	—	—	—	48	—	48
Net earnings attributable to common equity shareholders	328	283	66	119	117	50	94	1,057	23	(120)	—	960
Additions to property, plant and equipment and intangible assets	920	460	212	414	356	92	276	2,730	21	—	—	2,751
<b>As at September 30, 2022</b>												
Goodwill	8,487	1,911	624	913	228	235	262	12,660	27	—	—	12,687
Total assets	23,704	12,892	5,156	8,474	5,464	2,636	4,773	63,099	861	179	(55)	64,084

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 5. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses balance, which is recorded in accounts receivable and other current assets, changed as follows.

(\$ millions)	Quarter		Year-to-Date	
	2023	2022	2023	2022
<b>Periods ended September 30</b>				
Balance, beginning of period	(60)	(53)	(58)	(53)
Credit loss expense	(10)	(6)	(24)	(16)
Credit loss deferral	(5)	(4)	(9)	(4)
Write-offs, net of recoveries	10	10	26	21
Foreign exchange	—	(2)	—	(3)
Balance, end of period	(65)	(55)	(65)	(55)

See Note 14 for disclosure on the Corporation's credit risk.

## 6. REGULATORY ASSETS AND LIABILITIES

Detailed information about the Corporation's regulatory assets and liabilities is provided in Note 8 to the 2022 Annual Financial Statements. A summary follows.

(\$ millions)	As at	
	September 30, 2023	December 31, 2022
<b>Regulatory assets</b>		
Deferred income taxes	1,971	1,874
Deferred energy management costs	477	445
Rate stabilization and related accounts	460	557
Employee future benefits	188	207
Deferred lease costs	144	132
Deferred restoration costs	122	91
Derivatives	88	84
Manufactured gas plant site remediation deferral	86	97
Generation early retirement costs	73	78
Other regulatory assets	472	444
<b>Total regulatory assets</b>	<b>4,081</b>	<b>4,009</b>
<b>Less: Current portion</b>	<b>(745)</b>	<b>(914)</b>
<b>Long-term regulatory assets</b>	<b>3,336</b>	<b>3,095</b>
<b>Regulatory liabilities</b>		
Future cost of removal	1,536	1,306
Deferred income taxes	1,317	1,364
Rate stabilization and related accounts	312	297
Employee future benefits	253	306
Renewable energy surcharge	132	126
Energy efficiency liability	94	89
Alberta Electric System Operator charges deferral	78	21
Derivatives	63	224
Electric and gas moderator account	62	34
Other regulatory liabilities	158	148
<b>Total regulatory liabilities</b>	<b>4,005</b>	<b>3,915</b>
<b>Less: Current portion</b>	<b>(509)</b>	<b>(595)</b>
<b>Long-term regulatory liabilities</b>	<b>3,496</b>	<b>3,320</b>

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 7. ASSETS HELD FOR SALE

In May 2023, FortisBC Holdings Inc. ("FHI") entered into a definitive share purchase and sale agreement with a subsidiary of Enbridge Inc. to sell its Aitken Creek business for approximately \$400 million, subject to customary closing conditions and adjustments. In October 2023, the BCUC approved the sale, satisfying all regulatory requirements. The sale is expected to close in the fourth quarter of 2023 with a March 31, 2023 effective date.

As at September 30, 2023, the related assets and liabilities, as included in the Energy Infrastructure segment, were classified as held for sale and are detailed below.

<i>As at (\$ millions)</i>	<b>September 30, 2023</b>
Cash and cash equivalents	<b>9</b>
Accounts receivable and other current assets	<b>18</b>
Inventories	<b>81</b>
Property, plant and equipment, net	<b>434</b>
Goodwill	<b>27</b>
<b>Total assets held for sale</b>	<b>569</b>
Accounts payable and other current liabilities	<b>25</b>
Deferred income taxes	<b>107</b>
<b>Total liabilities associated with assets held for sale</b>	<b>132</b>

For the third quarter of 2023, and the six-month period since March 31, 2023, the effective date of the pending sale, Aitken Creek recognized net earnings of \$5 million and \$8 million, respectively.

For the three and nine months ended September 30, 2023, Aitken Creek recognized net earnings of \$5 million and \$23 million, respectively (three and nine months ended September 30, 2022 - net losses of \$3 million and net earnings of \$4 million, respectively).

## 8. LONG-TERM DEBT

<i>(\$ millions)</i>	<b>As at</b>	December 31,
	<b>September 30,</b>	2022
	<b>2023</b>	
Long-term debt	<b>28,307</b>	26,921
Credit facility borrowings	<b>1,812</b>	1,657
Total long-term debt	<b>30,119</b>	28,578
Less: Deferred financing costs and debt discounts	<b>(175)</b>	(166)
Less: Current installments of long-term debt	<b>(2,774)</b>	(2,481)
	<b>27,170</b>	25,931

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 8. LONG-TERM DEBT (cont'd)

Significant Long-Term Debt Issuances Year-to-date September 30, 2023 <i>(\$ millions, except as noted)</i>	Month Issued	Interest Rate (%)	Maturity	Amount	Use of Proceeds
ITC					
Unsecured senior notes	June	5.40 <sup>(1)</sup>	2033	US 500	(2) (3) (4)
Unsecured senior notes	June	4.95 <sup>(5)</sup>	2027	US 300	(2) (3) (4)
UNS Energy					
Unsecured senior notes	February	5.50	2053	US 375	(2) (3)
Unsecured senior notes	August	5.65	2038	US 50	(2) (3)
FortisAlberta					
Unsecured senior debentures	May	4.86	2053	200	(3) (4)
Central Hudson					
Unsecured senior notes	March	5.68	2033	US 40	(3) (4)
Unsecured senior notes	March	5.78	2035	US 15	(3) (4)
Unsecured senior notes	March	5.88	2038	US 35	(3) (4)
Newfoundland Power					
First mortgage sinking fund bonds	August	5.12	2053	90	(3) (4)
Maritime Electric					
First mortgage bonds	September	5.20	2053	60	(3) (4)

<sup>(1)</sup> ITC entered into interest rate locks which reduced the effective interest rate to 5.32%. See Note 14 to the Interim Financial Statements

<sup>(2)</sup> Repay maturing long-term debt

<sup>(3)</sup> General corporate purposes

<sup>(4)</sup> Repay short-term and/or credit facility borrowings

<sup>(5)</sup> Represents a second tranche of ITC's existing 4.95% senior notes, originally issued in 2022

In September 2023, ITC priced US\$175 million of senior secured notes. The related issuances will consist of US\$90 million of 5-year, 5.65% notes and US\$85 million of 10-year, 5.98% notes with expected funding dates in November 2023 and January 2024, respectively. Proceeds are expected to be used to repay credit facility borrowings, fund capital expenditures, and for general corporate purposes.

In November 2022, Fortis filed a short-form base shelf prospectus with a 25-month life under which it may issue common or preference shares, subscription receipts, or debt securities in an aggregate principal amount of up to \$2.0 billion. In September 2023, Fortis established an at-the-market equity program ("ATM Program") pursuant to the short-form base shelf prospectus, that allows the Corporation to issue up to \$500 million of common shares from treasury to the public from time to time, at the Corporation's discretion, effective until December 22, 2024. As at September 30, 2023, \$500 million remained available under the ATM Program and \$1.5 billion remained available under the short-form base shelf prospectus.

Credit facilities <i>(\$ millions)</i>	As at			
	Regulated Utilities	Corporate and Other	September 30, 2023	December 31, 2022
Total credit facilities	3,985	2,051	6,036	5,850
Credit facilities utilized:				
Short-term borrowings <sup>(1)</sup>	(78)	—	(78)	(253)
Long-term debt (including current portion) <sup>(2)</sup>	(901)	(911)	(1,812)	(1,657)
Letters of credit outstanding	(52)	(41)	(93)	(128)
Credit facilities unutilized	2,954	1,099	4,053	3,812

<sup>(1)</sup> The weighted average interest rate was 6.9% (December 31, 2022 - 4.9%).

<sup>(2)</sup> The weighted average interest rate was 6.2% (December 31, 2022 - 5.1%). The current portion was \$1,328 million (December 31, 2022 - \$1,376 million).

Credit facilities are syndicated primarily with large banks in Canada and the U.S., with no one bank holding more than approximately 20% of the Corporation's total revolving credit facilities. Approximately \$5.7 billion of the total credit facilities are committed with maturities ranging from 2024 through 2028.

See Note 14 in the 2022 Annual Financial Statements for a description of the credit facilities as at December 31, 2022.

In April 2023, ITC increased its total credit facilities available from US\$900 million to US\$1 billion and extended the maturity to April 2028.



# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 8. LONG-TERM DEBT (cont'd)

In May 2023, the Corporation amended its \$1.3 billion revolving term committed credit facility agreement to extend the maturity to July 2028. Also in May 2023, the Corporation extended the maturity on its unsecured US\$500 million non-revolving term credit facility to May 2024. This facility is repayable at any time without penalty.

In October 2023, FortisUS Inc., a holding company subsidiary of Fortis, entered into a US\$150 million uncommitted revolving credit facility. The facility matures in October 2025 and will provide funding flexibility for short-term general liquidity needs.

## 9. PREFERENCE SHARES

On September 1, 2023, the annual fixed dividend per share for the First Preference Shares, Series G was reset from \$1.0983 to \$1.5308 for the five-year period up to but excluding September 1, 2028.

## 10. EMPLOYEE FUTURE BENEFITS

Fortis and each subsidiary maintain one or a combination of defined benefit pension plans and defined contribution pension plans, as well as other post-employment benefit ("OPEB") plans, including health and dental coverage and life insurance benefits, for qualifying members. The net benefit cost is detailed below.

(\$ millions)	Defined Benefit Pension Plans		OPEB Plans	
	2023	2022	2023	2022
<b>Quarter ended September 30</b>				
Service costs	16	27	6	9
Interest costs	39	28	8	5
Expected return on plan assets	(50)	(50)	(6)	(6)
Amortization of actuarial gains	(2)	—	(5)	(2)
Regulatory adjustments	2	(2)	1	1
<b>Net benefit cost</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>7</b>
<b>Year-to-date September 30</b>				
Service costs	47	79	17	26
Interest costs	119	84	23	16
Expected return on plan assets	(150)	(147)	(17)	(17)
Amortization of actuarial (gains) losses	(7)	2	(14)	(7)
Amortization of past service credits/plan amendments	(1)	(1)	(1)	(1)
Regulatory adjustments	8	(7)	4	3
<b>Net benefit cost</b>	<b>16</b>	<b>10</b>	<b>12</b>	<b>20</b>

Defined contribution pension plan expense for the three and nine months ended September 30, 2023 was \$13 million and \$42 million, respectively (three and nine months ended September 30, 2022 - \$11 million and \$37 million, respectively).

## 11. OTHER INCOME, NET

(\$ millions)	Quarter		Year-to-Date	
	2023	2022	2023	2022
<b>Periods ended September 30</b>				
Equity component, allowance for funds used during construction	25	19	71	54
Interest income <sup>(1)</sup>	20	3	54	6
Non-service component of net periodic benefit cost	15	19	47	68
(Loss) gain on retirement investments, net	(3)	(4)	1	(21)
Loss on derivatives, net	(15)	(27)	(3)	(25)
Other	5	9	10	14
	<b>47</b>	<b>19</b>	<b>180</b>	<b>96</b>

<sup>(1)</sup> Includes interest on short-term deposits, as well as interest on regulatory deferrals, including the PPFAC at TEP and UNSE

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 12. EARNINGS PER COMMON SHARE

Diluted earnings per share ("EPS") was calculated using the treasury stock method for stock options.

	2023			2022		
	Net Earnings to Common Shareholders (\$ millions)	Weighted Average Shares (# millions)	EPS (\$)	Net Earnings to Common Shareholders (\$ millions)	Weighted Average Shares (# millions)	EPS (\$)
<b>Quarter ended September 30</b>						
Basic EPS	394	487.4	0.81	326	479.4	0.68
Potential dilutive effect of stock options	—	0.3		—	0.5	
Diluted EPS	394	487.7	0.81	326	479.9	0.68
<b>Year-to-date September 30</b>						
Basic EPS	1,125	485.3	2.32	960	477.7	2.01
Potential dilutive effect of stock options	—	0.3		—	0.5	
Diluted EPS	1,125	485.6	2.32	960	478.2	2.01

## 13. SUPPLEMENTARY CASH FLOW INFORMATION

(\$ millions)	Quarter		Year-to-Date	
	2023	2022	2023	2022
<b>Periods ended September 30</b>				
<b>Change in working capital</b>				
Accounts receivable and other current assets	(68)	(73)	421	(119)
Prepaid expenses	(42)	(91)	(61)	(69)
Inventories	(69)	(129)	(7)	(174)
Regulatory assets - current portion	(25)	(139)	135	(182)
Accounts payable and other current liabilities	151	74	(386)	91
Regulatory liabilities - current portion	20	7	42	39
	(33)	(351)	144	(414)
<b>Non-cash investing and financing activities</b>				
Accrued capital expenditures	376	401	376	401
Common share dividends reinvested	99	88	304	274
Contributions in aid of construction	14	11	14	11

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Derivatives

The Corporation generally limits the use of derivatives to those that qualify as accounting, economic or cash flow hedges, or those that are approved for regulatory recovery.

Derivatives are recorded at fair value with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception. Fair values reflect estimates based on current market information about the derivatives as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flow.

Cash flow associated with the settlement of all derivatives is included in operating activities on the condensed consolidated interim statements of cash flows.

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

### *Energy Contracts Subject to Regulatory Deferral*

UNS Energy holds electricity power purchase contracts, customer supply contracts and gas swap contracts to reduce its exposure to energy price risk. Fair values are measured primarily under the market approach using independent third-party information, where possible. When published prices are not available, adjustments are applied based on historical price curve relationships, transmission costs and line losses.

Central Hudson holds swap contracts for electricity and natural gas to minimize price volatility by fixing the effective purchase price. Fair values are measured using forward pricing provided by independent third-party information.

FortisBC Energy holds gas supply contracts to fix the effective purchase price of natural gas. Fair values reflect the present value of future cash flows based on published market prices and forward natural gas price curves.

Unrealized gains or losses associated with changes in the fair value of these energy contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulators. As at September 30, 2023, unrealized losses of \$88 million (December 31, 2022 - \$84 million) were recognized as regulatory assets and unrealized gains of \$63 million (December 31, 2022 - \$224 million) were recognized as regulatory liabilities.

### *Energy Contracts Not Subject to Regulatory Deferral*

UNS Energy holds wholesale trading contracts to fix power prices and realize potential margin, of which 10% of any realized gains is shared with customers through rate stabilization accounts. Fair values are measured using a market approach incorporating, where possible, independent third-party information.

Aitken Creek holds gas swap contracts to manage its exposure to changes in natural gas prices, capture natural gas price spreads, and manage the financial risk posed by physical transactions. Fair values are measured using forward pricing from published market sources.

Unrealized gains or losses associated with changes in the fair value of these energy contracts are recognized in revenue. During the three and nine months ended September 30, 2023, unrealized losses of \$10 million and \$17 million, respectively, were recognized in revenue (three and nine months ended September 30, 2022 - unrealized gains of \$2 million and \$4 million, respectively).

### *Total Return Swaps*

The Corporation holds total return swaps to manage the cash flow risk associated with forecast future cash settlements of certain stock-based compensation obligations. The swaps have a combined notional amount of \$119 million and terms of one to three years expiring at varying dates through January 2026. Fair value is measured using an income valuation approach based on forward pricing curves. Unrealized gains and losses associated with changes in fair value are recognized in other income, net. During the three and nine months ended September 30, 2023, unrealized losses of \$12 million and \$7 million, respectively, were recognized in other income, net (three and nine months ended September 30, 2022 - unrealized losses of \$17 million and \$25 million, respectively).

### *Foreign Exchange Contracts*

The Corporation holds U.S. dollar denominated foreign exchange contracts to help mitigate exposure to foreign exchange rate volatility. The contracts expire at varying dates through May 2025 and have a combined notional amount of \$450 million. Fair value was measured using independent third-party information. Unrealized gains and losses associated with changes in fair value are recognized in other income, net. During the three and nine months ended September 30, 2023, unrealized losses of \$3 million and unrealized gains of \$4 million, respectively, were recognized in other income, net (three and nine months ended September 30, 2022 - unrealized losses of \$11 million and \$13 million, respectively).

### *Interest Rate Locks*

In March 2023, the Corporation entered into an interest rate lock with a total notional value of \$100 million to manage the interest rate risk associated with the refinancing of long-term debt maturing in the fall of 2023. The lock has a 10-year term and will be terminated no later than November 1, 2023. Fair value is measured using a discounted cash flow method based on Canadian dollar offered rates. Unrealized gains and losses associated with changes in fair value are recognized in other comprehensive income, and will be reclassified to earnings as a component of interest expense over the life of the debt. Unrealized gains of \$6 million and \$10 million were recognized in other comprehensive income for the three and nine months ended September 30, 2023, respectively.

During the second quarter of 2023, ITC entered into and settled interest rate locks with a combined notional value of US\$500 million. The contracts were used to manage interest rate risk associated with the issuance of US\$500 million unsecured senior notes in June 2023. Realized gains of US\$4 million were recognized in other comprehensive income, which will be reclassified to earnings as a component of interest expense over 10 years.

### *Cross-Currency Interest Rate Swaps*

In 2022, the Corporation entered into cross-currency interest rate swaps with a 7-year term to effectively convert its \$500 million, 4.43% senior unsecured notes to US\$391 million, 4.34% debt. The Corporation designated this notional U.S. debt as an effective hedge of its foreign net investments and unrealized gains and losses associated with exchange rate fluctuations on the notional U.S. debt are recognized in other comprehensive income, consistent with the translation adjustment related to the foreign net investments. Other changes in the fair value of the swaps are also recognized in other comprehensive income but are excluded from the assessment of hedge effectiveness. Fair value is measured using a discounted cash flow method based on secured overnight financing rates. Unrealized losses of \$16 million and \$6 million were recorded in other comprehensive income for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 - unrealized losses of \$14 million and \$26 million, respectively).

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

### Other Investments

UNS Energy holds investments in money market accounts, and ITC and Central Hudson hold investments in trust associated with supplemental retirement benefit plans for select employees, which include mutual funds and money market accounts. These investments are recorded at fair value based on quoted market prices in active markets. Gains and losses are recognized in other income, net. During the three and nine months ended September 30, 2023, gains of \$1 million and \$4 million, respectively, were recognized in other income, net (three and nine months ended September 30, 2022 - losses of \$2 million and \$11 million, respectively).

### Recurring Fair Value Measures

The following table presents assets and liabilities that are accounted for at fair value on a recurring basis.

<i>(\$ millions)</i>	Level 1 <sup>(1)</sup>	Level 2 <sup>(1)</sup>	Level 3 <sup>(1)</sup>	Total
<b>As at September 30, 2023</b>				
<b>Assets</b>				
Energy contracts subject to regulatory deferral <sup>(2)(3)</sup>	—	88	—	88
Energy contracts not subject to regulatory deferral <sup>(2)</sup>	—	23	—	23
Interest rate lock <sup>(2)</sup>	—	10	—	10
Other investments <sup>(4)</sup>	218	—	—	218
	<b>218</b>	<b>121</b>	<b>—</b>	<b>339</b>
<b>Liabilities</b>				
Energy contracts subject to regulatory deferral <sup>(3)(5)</sup>	—	(113)	—	(113)
Energy contracts not subject to regulatory deferral <sup>(5)</sup>	—	(4)	—	(4)
Foreign exchange contracts, total return and cross-currency interest rate swaps <sup>(5)</sup>	—	(35)	—	(35)
	<b>—</b>	<b>(152)</b>	<b>—</b>	<b>(152)</b>
<b>As at December 31, 2022</b>				
<b>Assets</b>				
Energy contracts subject to regulatory deferral <sup>(2)(3)</sup>	—	304	—	304
Energy contracts not subject to regulatory deferral <sup>(2)</sup>	—	49	—	49
Other investments <sup>(4)</sup>	150	—	—	150
	<b>150</b>	<b>353</b>	<b>—</b>	<b>503</b>
<b>Liabilities</b>				
Energy contracts subject to regulatory deferral <sup>(3)(5)</sup>	—	(164)	—	(164)
Energy contracts not subject to regulatory deferral <sup>(5)</sup>	—	(8)	—	(8)
Foreign exchange contracts, total return and cross-currency interest rate swaps <sup>(5)</sup>	—	(26)	—	(26)
	<b>—</b>	<b>(198)</b>	<b>—</b>	<b>(198)</b>

<sup>(1)</sup> Under the hierarchy, fair value is determined using: (i) level 1 - unadjusted quoted prices in active markets; (ii) level 2 - other pricing inputs directly or indirectly observable in the marketplace; and (iii) level 3 - unobservable inputs, used when observable inputs are not available. Classifications reflect the lowest level of input that is significant to the fair value measurement.

<sup>(2)</sup> Included in accounts receivable and other current assets or other assets

<sup>(3)</sup> Unrealized gains and losses arising from changes in fair value of these contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates as permitted by the regulators, with the exception of long-term wholesale trading contracts and certain gas swap contracts.

<sup>(4)</sup> Included in cash and cash equivalents and other assets

<sup>(5)</sup> Included in accounts payable and other current liabilities or other liabilities

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2023 and 2022

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

### Energy Contracts

The Corporation has elected gross presentation for its derivative contracts under master netting agreements and collateral positions, which apply only to its energy contracts. The following table presents the potential offset of counterparty netting.

(\$ millions)	Gross Amount Recognized in Balance Sheet	Counterparty Netting of Energy Contracts	Cash Collateral Received/Posted	Net Amount
<b>As at September 30, 2023</b>				
Derivative assets	111	(29)	28	110
Derivative liabilities	(117)	29	—	(88)
<b>As at December 31, 2022</b>				
Derivative assets	353	(54)	(63)	236
Derivative liabilities	(172)	54	—	(118)

### Volume of Derivative Activity

As at September 30, 2023, the Corporation had various energy contracts that will settle on various dates through 2029. The volumes related to electricity and natural gas derivatives are outlined below.

	September 30, 2023	December 31, 2022
<b>Energy contracts subject to regulatory deferral <sup>(1)</sup></b>		
Electricity swap contracts (GWh)	659	586
Electricity power purchase contracts (GWh)	620	224
Gas swap contracts (PJ)	198	185
Gas supply contract premiums (PJ)	166	148
<b>Energy contracts not subject to regulatory deferral <sup>(1)</sup></b>		
Wholesale trading contracts (GWh)	2,635	1,886
Gas swap contracts (PJ)	38	34

<sup>(1)</sup> GWh means gigawatt hours and PJ means petajoules.

### Credit Risk

For cash equivalents, accounts receivable and other current assets, and long-term other receivables, credit risk is generally limited to the carrying value on the consolidated balance sheets. The Corporation's subsidiaries generally have a large and diversified customer base, which minimizes the concentration of credit risk. Policies in place to minimize credit risk include requiring customer deposits, prepayments and/or credit checks for certain customers, performing disconnections and/or using third-party collection agencies for overdue accounts.

ITC has a concentration of credit risk as approximately 70% of its revenue is derived from three customers. The customers have investment-grade credit ratings and credit risk is further managed by MISO by requiring a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit-scoring model and other factors.

FortisAlberta has a concentration of credit risk as distribution service billings are to a relatively small group of retailers. Credit risk is managed by obtaining from the retailers either a cash deposit, letter of credit, an investment-grade credit rating, or a financial guarantee from an entity with an investment-grade credit rating.

Central Hudson has seen an increase in accounts receivable due to the suspension of collection efforts in response to the COVID-19 pandemic, as well as higher commodity prices. Central Hudson continues to proactively contact customers regarding past-due balances to advise them of financial assistance available through federal and state programs, and collection efforts continue to expand. Under its regulatory framework, Central Hudson can defer uncollectible write-offs that exceed 10 basis points above the amounts collected in customer rates for future recovery.

UNS Energy, Central Hudson, FortisBC Energy, Aitken Creek and the Corporation may be exposed to credit risk in the event of non-performance by counterparties to derivatives. Credit risk is managed by net settling payments, when possible, and dealing only with counterparties that have investment-grade credit ratings. At UNS Energy, Central Hudson and FortisBC Energy, certain contractual arrangements require counterparties to post collateral.

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

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For the three and nine months ended September 30, 2023 and 2022

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The value of derivatives in net liability positions under contracts with credit risk-related contingent features that, if triggered, could require the posting of a like amount of collateral was \$52 million as at September 30, 2023 (December 31, 2022 - \$178 million).

### Hedge of Foreign Net Investments

The reporting currency of ITC, UNS Energy, Central Hudson, Caribbean Utilities, FortisTCL, Fortis Belize Limited and Belize Electricity is, or is pegged to, the U.S. dollar. The earnings and cash flow from, and net investments in, these entities are exposed to fluctuations in the U.S. dollar-to-Canadian dollar exchange rate. The Corporation has reduced this exposure through hedging.

As at September 30, 2023, US\$2.9 billion (December 31, 2022 - US\$2.9 billion) of corporately issued U.S. dollar-denominated long-term debt has been designated as an effective hedge of net investments, leaving approximately US\$11.1 billion (December 31, 2022 - US\$10.6 billion) unhedged. Exchange rate fluctuations associated with the net investment in foreign subsidiaries and the debt serving as the hedge are recognized in accumulated other comprehensive income.

### Financial Instruments Not Carried at Fair Value

Excluding long-term debt, the consolidated carrying value of the Corporation's remaining financial instruments approximates fair value, reflecting their short-term maturity, normal trade credit terms and/or nature.

As at September 30, 2023, the carrying value of long-term debt, including current portion, was \$30.1 billion (December 31, 2022 - \$28.6 billion) compared to an estimated fair value of \$26.3 billion (December 31, 2022 - \$25.8 billion).

## 15. COMMITMENTS AND CONTINGENCIES

### Commitments

There were no material changes in commitments from that disclosed in the Corporation's 2022 Annual Financial Statements, except for a new agreement at TEP.

In September 2023, TEP entered into a US\$294 million Engineering, Procurement, and Construction Agreement associated with the development of the Roadrunner Reserve Project. Related payments of US\$258 million are expected to be made by September 2024, with the remaining balance expected to be paid by September 2025.

### Contingencies

In April 2013, FHI and Fortis were named as defendants in an action in the British Columbia Supreme Court by the Coldwater Indian Band ("Band") regarding interests in a pipeline right-of-way on reserve lands. The pipeline was transferred by FHI (then Terasen Inc.) to Kinder Morgan Inc. in 2007. The Band seeks cancellation of the right-of-way and damages for wrongful interference with the Band's use and enjoyment of reserve lands. In 2016, the Federal Court dismissed the Band's application for judicial review of the ministerial consent. In 2017, the Federal Court of Appeal set aside the minister's consent and returned the matter to the minister for redetermination. No amount has been accrued in the Interim Financial Statements as the outcome cannot yet be reasonably determined.