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PRESENTATION

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

All right. Good morning, everyone, and welcome. Thank you all for coming today and attending our Energy Conference. My name is Chris Turnure, I cover Utilities and Power here at JPMorgan. And our company that is next up, Fortis Energy, is a fast-growing company, a company that's acquiring a lot of U.S. utilities, and has a bigger and bigger footprint here in the U.S. every year, and one that is benefiting from some extraordinary rate-based growth in their New York Utility as well as from their newly acquired ITC footprint as well. I'm very pleased to introduce CEO, Barry Perry.

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

Thanks, Chris. Glad to be here. I should just start off and say, we're doing no more M&A and just leave, I guess, and everyone will be happy. Listen, we have had a great track record of growing our business over the last decade or so. But I want you to understand that, if you take one thing away today from this session, we have a great portfolio of utilities that are growing very nicely at this point and some of the lowest risk businesses in North America, essentially large wires business and gas LDC business that's growing at about 5% a year. And I think shareholders are starting to appreciate that overall business profile that we have, we're probably the most diversified from a geographic, regulatory and economic perspective, any utility in North America. And with those wires, assets and gas LDC businesses, I think we're well positioned to have consistent earnings growth going forward.

So let's get started. Now we're seeing typical forward-looking information statement. So what we've become is a leader in the North American utility industry. It's taken us from St. John's, Newfoundland, which is for some of you who don't know the geography, is the most easterly point in North America. We're the closest to Europe that you can get and we're the place where play come from away is the province where it's all based on Gander, Newfoundland, that's our home territory. ITC was our recent acquisition. We're very proud to have ITC as part of the Fortis family of utilities. As you know, ITC is FERC regulated, very supportive regulator in North America. And with the formulaic rates, we're very happy to have almost 1/3 of our assets now that are regulated by FERC. As I mentioned, we are the -- probably the most diversified regulated utility business in North America. Also, even with these 10 utility businesses that we have, we are entering a period or in the period of regulatory stability. We have really no big rate cases in front of us. We just finished a large case in Arizona at Tucson Electric Power and that outcome is going to benefit our 2017 results as well as the contributions from the ITC transaction.

In terms of growth, organic growth, we're running about 5% a year in our rate base growth at this point. Our rate base is getting up there these days. We're about CAD 26 billion of rate base at this point, and we see that growing at about 5% over the next 3 years. And like most utilities, it's 4% over the 5-year period, because those outer years are declining. That rarely ever happens, frankly. And I do believe that we'll find ways to fill in those outer years and sustain that 5% CAGR on rate base growth. We are pursuing a number of additional energy opportunities, which we'll talk about in a few moments, that could add to that overall growth rate. We'll point out, we do you have a strong track record of increasing our dividends. We've done that now for 43 consecutive years. So it's a very important metric for the company and clearly, it provided superior long-term returns to our shareholders.

This is the footprint of our utilities. As I've mentioned, we started in St. John's, with Newfoundland Power. Newfoundland Power was 100% of Fortis when we grew out of that company in 1987. It now represents 3% of our company. So that gives you a sense of the growth of our company over the years. We sort of marched across Canada and bought investor owned utilities and got to Vancouver and realized that there wasn't a lot left for us to do in Canada, frankly, and so we started spending a lot of time in the U.S., about 15 years ago, building relationships, and now we've built a very successful business in America, owning 3 regulated utilities in New York, in Arizona and with ITC last year. Again, rate base wise, 30% of our rate base is FERC regulated with clearly, the higher ROEs and thicker equity that's present there. From a market perspective, we're actually approaching CAD 20 billion of market cap at this point in time. And I will point out that, just last year, we listed on NYSE. We had a great event with a lot of our employees listed in New York. We'd our line trucks down in front of the New York Exchange, it was a fabulous event, and we're pretty happy now to be both listed in Toronto and on NYSE as well.

In terms of diversity, this is couple of pie charts here that show the breakdown. I'll just go to the left first of all and talk about transmission and distribution. 80% -- 86% of our assets are T&D assets, so whether that's on the pipeline side or on the electric side. We have a little bit of generation, not a lot. Our -- most of that is present in our regulated business in Arizona, which is a vertically integrated utility. And so when you're thinking about Fortis, you really think about big wires and gas LDC, our biggest gas business in British Columbia, we serve 1 million gas customers there, and I think that's one of the best gas franchises in all of America, all of North America actually, very low risk, good regulatory relations and good growth over the next number of years.

In terms of mix here you can see, 55% of our assets in -- sorry, our earnings in the U.S., 35% in Canada, we have a little bit in the Caribbean. We have some small utilities down there in Grand Cayman and in Turks and Caicos. And then we have some other energy infrastructure, and that's predominantly our hydroelectric business, in -- generation business in British Columbia. We have built a plant there couple years back called Waneta, and that's very low-risk asset. It's 2 40-year PPAs, one with our own utility and one with the government-owned utility and it has inflation protection as well, so it's as close to a regulated asset as you can get.

Dividend wise, I mentioned, the last period of time, we've had a 9% increase -- 9% CAGR in our dividend, and we've actually introduced guidance couple years ago. Now we're saying that, we'll increase our dividend on average by 6% through 2021, and clearly -- typically making our dividend decision in the fall after we get through our business planning process, so look forward to that this fall.

In terms of returns. On average, over the last 5 years, we delivered annualized returns of 10 -- little over 10%, again outperforming the 2 indices in Canada that we track, which is the TSX Composite and the Capped Utility indices.

In terms of strategy, really it's pretty simple. We're leveraging our operating model, and I'll talk a little bit about that in a minute. The footprint of our utilities, our operating expertise, reputation of financial strength to develop growth opportunities in our business. And you'll see along the bottom here the initiatives that we are pursuing, and the foremost one is, really executing on our capital program. We're spending about $3 billion a year in organic capital at this point in time and that's allowing that 5%-plus rate base growth, so that's our primary focus. We'll spend a little time on our model. So when you think about Fortis, we have about 60 folks in our head office back in St. John's. We have over 8,000 employees now in our group. So we operate our utilities on a substantially autonomous basis. What that means is, each jurisdiction has its own management team and its own Board of Directors that have a majority of independent directors that are typically drawn from the service territory that utility serves. So if you're thinking about Arizona, Tucson Electric Power or UNS Energy Corporation business that we bought down there, that business has 6 directors that were on the Board of UNS Corporation when we bought it. Public company directors had stayed with us and are from Arizona, and -- I and along with a couple other executives serve on that board. That model works so well in our industry in North America, because regulation is jurisdictional based. It is either provisionally based in Canada with provincials commissions or in the case of the U.S., it's state-based. And as long as that stays the case, our model, I think, is the right model for operating utilities in North America. And I'd say -- I would say that points to why we've been so successful on utility M&A over the last 10 years or so is that, when we deal with regulators, they don't get too worried about job loss in their service territory about local decision-making, because we're not changing any of that. And that's allowed us to get transactions done very quickly and been very successful, frankly in our interactions with regulators across North America.

This is our record here on growth, and clearly, we have benefited from some acquisitions in Canada. We bought Aquila and Terasen from American companies that were -- in case of Aquila that were trying to survive and they sold their Canadian electric businesses to us in Alberta and British Columbia. That was a fabulous acquisition for us. And then, we bought from Kinder Morgan, Terasen. This is our gas business in British Columbia, gas LDC. It is a -- serves 1 million customers there as I mentioned, very strong business. Clearly, Rich was more interested in the pipeline, oil pipelines. So they retained that, but sold us the gas LDC, and we've done very well with that business. And most recently, in terms of our move into the U.S., Central Hudson in New York, it's doing very well. Our Arizona business is doing excellent as well. We just got through our rate case. That should contribute very nicely for this year's earnings. And now recently with ITC, very strong company that with its FERC regulation and will contribute to Fortis for a long time into the future.

ITC is accretive to EPS immediately this year. We've nicely accreted. We've completed all the financing earlier this year. We issued $500 million of equity-related to the final piece of financing on that transaction. So from a financing perspective, it's all done with ITC. The integration is going very well. And think about our business model where we are not interfering with the local management. Reality, Joe Welch, the founder of ITC, did retire. He remains the Chair of their Board, and he's actually come on the Fortis Inc. Board as well as, as of our last AGM, and he is contributing at that level. His #2, Linda Blair, took over from Joe and is doing a good job for us. So overall, we're off to a very strong start with ITC and fully expect that we'll hit our financial metrics on that business this year.

Rate base growth. I know this is all the more -- sort of important things that you focus on. Our plan is to grow rate base to about $30 billion by 2021. We're currently around that $26 billion level. If you look on the right side here, next 3 years or so, we're going to grow in excess of the 5%. And this is a base plan, really highly executable plan with very few projects over $50 million. That's the nature of our assets at this point in time. And so if you look over the 5-year period, we're saying, it does drop off. You see the CapEx curve on the left side with a declining annualized capital program. When we've gone back and sort of back casted this in the last number of years, I will tell you that, this never happens, that curve doesn't go down. And we're doing a lot of work in this area right now with all of our utility businesses to focus on those outer years, I'm looking forward to the fall when we bring our business plan together as a corporation and looking forward to this curve getting more flat and hopefully, spending that sort of $3 billion or so a year for the full 15-year period. So that's an area we're spending a lot of time on right now and -- but if you look at our current sort of expectations, we are focusing on that 5%-plus growth rate over the next number of years. And this does not include any of the other project opportunities that we're working on.

As I mentioned, highly executable, these are some of the projects that are in those numbers, the Multi-Value Projects at ITC converting 34-kV to 69-kV. These are all projects that were in place and are underway at ITC when we bought the company. So these are -- these will -- getting done basically. Central Hudson's pipeline -- so gas pipeline main replacement program is well underway, and we have a strong agreement with our regulator here in New York to proceed with that project. Our Tilbury LNG facility in British Columbia, this was a $400 million expansion to that plant. It's a regulated investment. It's coming online here in the next few weeks. It's a big storage tank basically that we're using gas for local transportation needs, In BC, the regulator allows us to put fueling stations in rate base. We're going to be supplying natural gas for the ferries in British Columbia as well, very progressive regulator there, and so we're very excited about that project coming online. I will say, Tilbury has lot of more opportunity for further expansion as well. Then in the Lower Mainland, we are upgrading a lot of our pipelines there in our gas LDC as well. These are all approved projects regulated that are moving forward and increasing our rate base at our gas LDC there. And finally, in Alberta, we've had a project there where we're replacing our poles. We have 1 million poles in our distribution franchise in Alberta and lot of those poles are 40 and 50 years old. So we went in front of our regulator a number of years back and put together a program replacement that will take us about 10 years to get through that entire program. And so we're well down the path of that and that's what that project is.

These are some of the opportunities that are beyond that base plan of 5% rate base growth that we're talking about. And one of our philosophies is that, each of our businesses should focus on finding opportunities within their service territories to grow their businesses. And this map is just a snapshot of some of the initiatives that each of our utilities are pursuing. I'll just talk about a few of them. The Woodfibre LNG project in British Columbia. This is a small-scale LNG export terminal that's being pursued by another party. We've been asked to supply gas to that site. It's an old paper mill site that is near Vancouver, so brownfield site. We used to supply gas to the pulp mill actually, but our pipeline needed to be upgraded. So we obviously said, "Yes, we would do that." We've been working with the builder and getting ready, permitting and environmental approvals, that's all in hand at this point in time. Estimated cost about $600 million, and I think in the second half of this year, we'll know for sure whether this is going to go or not. So we're looking forward to that. And if that occurs, we'll be building this into our 5-year forecast program at that point in time. Many of you who have followed ITC over the years would have heard about the Erie Connector. This is a transmission line between Ontario and Pennsylvania connecting the Ontario grid to the PJM grid for the first time ever, a 1,000-megawatt line. PJM is probably the largest grid -- one of the largest grids in the world, 144,000 megawatts of capacity. Ontario has got 26,000 megawatts of capacity. Ontario has long capacity, long energy. Opening up that market for the first time is a very financially lucrative idea actually, and we've progressed this project so much. Recently, we've got the Presidential Permit on the U.S. side, and this -- just this past week, we've got federal government approval in Canada to proceed. The clear -- what remains is, is really the commercial arrangements with an off-taker who would use the line. We're having a number of discussions with Canadian Crown Corporations that could do that. So again, well, I think we'll make a lot of progress on this over the next few months and stay tuned for further updates this fall. And finally, another transmission project that we're working on in Ontario. This is a great project. It's the Wataynikaneyap project, First Nation term that means line that brings light. And what it is, is connecting 22 First Nation communities in Northwestern Ontario to the electric grid for the first time. They run currently on small diesel engines with all the issues around getting diesel into these communities, environmental and all of that, this would connect them up to the grid for the first time. We're working with the First Nations. They actually own 51% of this project and we own 49%. And again, it got strong support from the province of Ontario and from the federal government in Canada. It will require them to put money up for the project. Project can't stand on its own by itself. So it does need some contributions from those governments, and we're seeing strong support for it right now, so stay tuned for more developments on that project.

Waneta Dam. You might have heard recently, we purchased -- we announced the purchase of the Waneta Dam, which is a 490-megawatt hydroelectric facility in south --Southern BC from Teck Cominco. This actual facility supplies Teck's smelter in Trail BC. We've been operating the plant for the last 20 or so years. So very familiar with the project. We announced the deal. We paid Teck $1.2 billion to purchase this asset. It is an accretive deal to us. We own -- you'll see in this picture, we own the facility downstream. It's called the Waneta Expansion. That's 335-megawatt hydro facility just downstream. So you have about 800 megawatts of hydro in that little space right there. It's a fabulous green asset, and we're pretty excited that we got to the end with Teck on that deal. I will say to you that BC Hydro does have a right to match our price. That's the government-owned utility in BC. They have 60 days to do that and that takes us into early August. So we'll wait and see what happens there. If they do agree to match, we get paid a break fee of about $25 million for our efforts there. Obviously, we're hoping that we'll get the asset. That's what we want. But in the case they decide to match the price, then we do get a bit of a consolation prize.

In terms of ROE, just a minute here for people that probably don't understand some of the nuance differences between Canada and the U.S. So in Canada, our average allowed ROE is currently about 8.73% on about 39% equity thickness. And in the U.S., we're more in that, if you include the FERC regulation, ITC's impact, we're at 10.5% on 55% equity thickness. So on a combined basis, Fortis 9.74% on 48% equity thickness. Typically, I will say, in Canada, we earn a little better than our allowed returns. We have forward test years, a lot of very positive regulatory mechanism. So when you compare Canada to the U.S., you do have to be a little careful, look at the actual earned returns that utilities make. And reality is, there -- other than if excluding FERC regulation, state and Canadian provincial returns, ultimately are not a lot different when you go to the actual returns.

So to sum up, we're on track this year with our plan. We are benefiting from the ITC acquisition as well as new rates in our Arizona business. We have a great record on our dividend and increasing it now for 43 consecutive years and adding to that, our guidance for the next 5 years, we've very positive story on our dividend with the 6% average annual increase that we're expecting there. We are again, I think, the most diversified regulated utility in North America, and our primary focus is on wires and gas businesses. Our CapEx plan is highly executable. No big projects, multiyear pipelines or anything like that. Strong regulatory relationships and regulatory stability at this point as well. We do have a strong M&A track record, and we also have upside growth potential at this point in time. And over the years, we've delivered superior shareholder returns. Chris?

QUESTIONS AND ANSWERS

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

Okay. I'll kick it off, Barry. Thanks for that. One thing, I think, U.S. investors in utilities might not appreciate is your British Columbia opportunity. We think about rate base, we think about how the rates are going to be set. So when we hear something regarding an LNG storage or export opportunity, it might present a risk, but I don't think that's the case for you. Maybe you can put that into perspective for us, what's the opportunity? And how will you earn on that opportunity?

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

Okay. Well, the 2 projects that we are currently pursuing, the one -- one, we're finishing up, which is this LNG tank, that was $400 million, that's a regulated investment. It's like any other rate base investment that we have. The Woodfibre pipeline expansion as well is a regulated investment. So it would go into the rate base of our gas LDC business there. We are just supplying a customer who's looking for that gas. So those are great projects. The one area that we're really spending a lot of time on is, expanding further our Tilbury project. If you recall when NextEra was trying to buy Hawaiian Electric, we were very close on an arrangement where we would supply LNG to Hawaii and they would move away from coal and oil in Hawaii. That deal did fall apart, because of what happened with NextEra and HECO. But it did highlight the opportunity for us to expand our Tilbury site. So we are working with a number of players to look at those -- that project. It could be a couple of billion dollar investment for us where we would enter into arrangements with probably the utilities in Japan, they would co-invest with us on this site and in return sign an off-taking arrangement. We obviously are not looking to take commodity risk or anything like that. We're really looking for tolling arrangements that very much mimic our regulated business. So it's early days on that one at this point, but we are optimistic that over time that's a project that can -- that we can move forward. I will say to you that there is so much natural gas in British Columbia. There are so many advantages, it's closer to Asia than the Gulf Coast, liquefaction is cheaper there than the Gulf Coast, so we can be very competitive landing gas in Asia out of that market and some of these projects will move forward over time. Thanks, Chris. Good morning, Andy.

Unidentified Analyst

I could ask you about ITC price, though, right?

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

Sorry?

Unidentified Analyst

The price that you paid for ITC, I want to ask you about that.

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

The price we paid...

Unidentified Analyst

You don't remember. I tortured you like 1 year, 1.5 years. Just can you about your balance sheet and kind of where it stands right now? And then I have a follow-up.

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

So sure. So balance sheet wise, we are, I guess, from a credit rating perspective, we're A (low) with S&P. Our issue really is with Moody's at Baa3. I'm very uncomfortable with Baa3. It's not where I want to be as a company. So we want to get at least a notch back from Moody's improvement in our rating. We went through a process when we bought ITC of getting a Moody's rating. We didn't have one prior to that, because we weren't a big issuer of debt in the U.S. market, but with ITC obviously, we are. And so we were caught up a little bit in that time I think when a lot of things were happening with Moody's view of the sector at the point, and we're having some very positive discussions right now, and I'm hopeful that, over a period of time, we'll gain back at least a notch from Moody's.

Unidentified Analyst

And you gain that back through just discussions or?

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

First discussions, issuing the equity earlier this year helped a lot. We did that earlier than what the market was expecting and it's bit of a sign that sent to say listen, we were uncomfortable with Baa3. We're a utility business, we want to send a very strong message to our -- all of our stakeholders that we're a solid company and Fortis is not a Baa3 company. So we're going to get better than that over time. Obviously, we have some disagreements with Moody's view of the rating, and we continue to have dialogue with that. But ultimately, we're going to take advantage of a various things that will happen over the next couple of years to improve our rating.

Unidentified Analyst

So is that really through retained earnings or it's just...

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

Some of it is, some of it is through our dividend reinvestment plan. We're getting tremendous take up in our DRIP, and we've now extended that to our U.S. shareholders can also partake in that. We -- so all of those areas, we'll take advantage of and improve over time.

Unidentified Analyst

And so with that rating, how does it affect your M&A strategy? (inaudible).

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

Well, I'd say, our M&A strategy is on pause, Andy. I started this conversation that, I've been saying this, people are not listening to me obviously. But I've been saying this for a little while here. We bought ITC, it's a $15 billion acquisition. We're digesting it. It's early. We only have 1 quarter of results from that transaction yet. I said right away, once closing happened, it will take at least a year before we even look at any other sort of large-scale M&A activity. I can tell you, I'm very reluctant to reengage on M&A at this point in time. We're taking a pause on ITC, we have uncertainty around the Trump tax plan, and we have valuations in the sector that are high from my perspective. Frankly, my focus is more convincing shareholders that Fortis is undervalued given the quality of our assets, organic growth profile of our business, we're spending a lot of time talking about that to get people comfortable that we shouldn't be trading at a couple of turn discount to the average utility in the U.S. We're a better company than that, and we're going to be spending our efforts there rather than on M&A.

Unidentified Analyst

Well, it's interesting, because you look at what you paid for your various acquisitions here in the U.S., they look like bargains now relative to...

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

We look like geniuses. We're not geniuses I can tell you, but we've got ridiculed and I think Andy, you might have been part of it when we were --

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Unidentified Analyst

Never me.

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

When we announced some of these deals. So -- but we're happy with what we've done. This company -- we've pushed into The United States, we got 3 great franchises. I can't of think of our company without these businesses at this point. Our U.S. business is bigger than our Canadian business at this point in time. I'm -- I -- I'm 2 years into my tenure as CEO, I've done a very large transaction. I want to run a great business at this point in time, and I can tell you, Fortis is a great business and pretty happy with the growth story we have. And we're going to focus on making sure we serve our customers well, invest in our infrastructure and get our valuation where it should be in the market. We are undervalued stock at this point in time. So...

Unidentified Analyst

One last question. So longer-term, I guess the goal is really to grow organically at some point and not through an acquisition.

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

We are growing organically...

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

No, no, no, but I understand, but have enough organic growth where acquisitions, let's say, over a 3 to 5 year...

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

It's never been that way for us, Andy. It's never been. We got to buy companies because we're not growing. We have great businesses. These are the best businesses in the areas that we operate in. And we have great management team across our group. The people that we've picked up with our U.S. acquisitions have been fantastic. Look, we haven't put 1 Canadian down into our U.S. business. That business is bigger than our Canadian businesses at this point. It gives you the sense of the faith we have in our people here in America. So we have a business now that's growing organically in that 5% range. We have projects that could add to that overall growth rate. That's where my focus is at this point.

Unidentified Analyst

Could you talk about -- one of the strategies you listed was increasing investment in renewables, obviously, Waneta Dam does that. South of the border we tend to think more of solar and wind when it comes to renewables. Could you kind of outline your renewable strategy? And is that...

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

Well, I could say, I'm done with Waneta purchase. That's such a fabulous asset, but I'm not. We're not done with it. But adding -- having that plant in our fold, it's a great asset and with the -- that combined with the Waneta Expansion, when you think about it, we're mostly a wires and gas LDC business. So we've been focusing on if our utilities can find some opportunities to increase renewables within their jurisdictions, then we're supportive of that. So the first place you go is Arizona. So clearly, I'm very supportive of David Hutchens and his team acquiring a building where we can solar in Arizona, and we're a big proponent of solar power. You would have recall that, [T&P] just did a pretty attractive deal with NextEra where probably the lowest priced solar in -- so far frankly in that $0.03 with the batteries, I think it's like $0.04, $0.045 power kind of thing. So we can do more renewables in Arizona, it's my sense over the next number of years, and we'll focus there. Smaller business, but even in the Caribbean, I really believe, we have to make progress. We have -- we run diesel fire generation in Grand Cayman and Turks and Caicos. I think we can add solar over time in those smaller jurisdictions as well. I don't see us doing a whole lot of solar up in Canada, but I -- so I think those areas. Wind -- we do have a lot of wind on Prince Edward Island. It's government owned, we use it, but we're not -- we haven't building a whole lot of wind farm. So I think, solar and hydro where -- and maybe pump storage, which is somewhat like renewables that's an area that we could move into as well.

Unidentified Analyst

Really restricting yourself to rate base investment in renewables?

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

Absolutely, absolutely.

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

Okay. Unfortunately, I think, we're out of time for of questions, but thank you very much, Barry.

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

Thanks, everyone.