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FTS.TO - Q1 2017 Fortis Inc Earnings Call

EVENT DATE/TIME: MAY 02, 2017 / 12:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. This is the conference call operator. Welcome to the Fortis Inc. Q1 2017 Earnings Conference Call and Webcast. (Operator Instructions)

At this time, I would like to turn the conference over to Janet Craig. Please go ahead, Ms. Craig.

Janet Anne Craig - *Fortis Inc. - VP of IR*

Thanks, Carol. Good morning, everyone, and welcome to Fortis' 2017 First Quarter Results Conference Call. I am joined by Barry Perry, President and CEO; and Karl Smith, Executive VP and CFO; other members of the senior management team; as well as our CEOs from certain subsidiaries.

Before we begin today's call, I want to remind you that the discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slide show. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our 2017 first quarter MD&A. Also, unless otherwise specified, all financial information referenced is in Canadian dollars.

With that, I'll turn the call over to Barry.

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

Thank you, Janet, and good morning, everyone. It's a beautiful day here in Newfoundland, nice and sunny. So, really pleased to report that we had a good first quarter in line with our expectations. Our results were driven by higher earnings from UNS and accretion from ITC. In March, we raised $500 million through a private placement of 12.2 million common shares to a large institutional investor. We were pleased to obtain this vote of confidence in our long-term strategy and growth prospects. Proceeds were used to repay short-term debt. Our performance in the first quarter supports our 6% average annual dividend growth target, which is predicated on the delivery of our capital plan and corresponding rate base and earnings growth.

Planned capital expenditures for 2017 through 2021 remain at approximately $13 billion, consisting of a diverse mix of highly executable and low-risk projects. As a result, consolidated midyear rate base is projected to approach $26 billion this year and $30 billion by 2021 assuming constant currency of a U.S. dollar to Canadian dollar exchange rate of $1.30 through 2021. As a reminder, these investments translate into a 3-year midyear rate base CAGR of 5.2% to 2019 and a 5-year midyear rate base CAGR of 4% to 2021.

As you can see in the chart, there is a decline in the outer years of our plan. We have a record of exceeding this plan in the outer years. If we hold capital spending steady at our current levels, our 3-year midyear rate base CAGR would increase 30 basis points to 5.5% and our 5-year CAGR would increase 90 basis points to about 5%. It is important to emphasize that our $13 billion base capital plan does not include development projects that are currently being pursued. Only base CapEx that is derived from our regular utility planning process is included.

Our capital plan is mainly made up of hundreds of small capital projects, with only a handful of projects being larger than $100 million individually. We have some of our larger multiyear projects listed on the chart. This year's capital plan includes ITC's Multi-Value Projects, or MVPs, which consist of 4 regional electric transmission projects that have been identified by the Midcontinent Independent System Operator to address system capacity needs and reliability in various states. Currently, we expect to invest over $300 million on these projects in 2017, which represents approximately 10% of the 2017 consolidated capital forecast. 3 of the MVPs are scheduled to be completed by the end of 2018, with the fourth slated for completion by 2023.

At FortisBC Energy, the lower mainland system upgrade project continues. It addresses system capacity and pipeline condition issues for the gas supply system in the lower mainland area of British Columbia. In 2017, we expect to invest approximately $162 million in the project, which is expected to be completed next year.

As always, we remain focused on identifying additional investment opportunities in our various franchise regions. In January 2017, ITC was granted a Presidential Permit from the U.S. Department of Energy for the Lake Erie Connector transmission line. This is a required approval for international border-crossing projects. Also in January, ITC received a report from Canada's National Energy Board recommending the issuance of a Certificate of Public Convenience and Necessity, or CPCN, with prescribed conditions for the transmission line. The project continues to advance to regulatory, operational and economic milestones. Key milestones remaining for 2017 include receiving approval from U.S. Army Corps of Engineers and the Pennsylvania Department of Environmental Protection in a joint application; completing project cost refinements; and securing favorable transmission service agreements with prospective counterparties. Pending achievement of key milestones, the expected in-service date for the project is late 2020.

The Wataynikaneyap project also moved forward during the quarter. In March of this year, FortisOntario received approval from the OEB to acquire the ownership interest held by Renewable Energy Systems Canada in the partnership as well as close this transaction. As a result, our ownership interest in the partnership has increased to 49%, with the remaining 51% held by 22 First Nation communities. Further, the project also reached a significant milestone with the approval by the OEB of a deferral account to recognize development cost incurred between November 2010 and the commencement of construction. Construction will begin following the receipt of permitting approvals and cost-sharing agreement between the federal and provincial governments.

I'll now turn the call over to Karl for an update on our first quarter results.

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

Thanks, Barry. Good morning, everyone. As Barry highlighted, our 2017 first quarter results were in line with our expectations. Adjusted earnings for the quarter of $281 million were higher by $91 million compared to the same quarter in 2016. Adjusted earnings per share of $0.69 for the quarter was higher by $0.02 or 3%. Cash flow from operations was $541 million in the first quarter of 2017, an increase of approximately 12% compared to the same period in 2016. This was the result of higher earnings at our regulated utilities, particularly from ITC. This was partially offset by changes in working capital, driven by a refund payment during the quarter related to the first ROE complaint at ITC totaling USD 121 million.

As noted on the previous slide, adjusted earnings per share increased $0.02 compared to the first quarter of 2016. UNS had strong performance this quarter improving our earnings per share by $0.04. About half the increase in adjusted earnings relative to last year resulted from increased revenue from the recent rate order. Additionally, timing of operating expenses and more favorably priced wholesale contracts contributed to higher earnings during the quarter.

Aitken Creek contributed $0.01. Closed date for the acquisition of Aitken Creek was April 1, 2016, and as a result, it was not a factor in the first quarter last year. ITC contributed $0.01 to earnings per share in the quarter after considering finance charges and an increase in the weighted average number of common shares outstanding associated with financing the acquisition. Fortis' results, excluding ITC, is seasonal with our first and fourth quarters being our strongest. At ITC, earnings generally grow each quarter as rate base grows. The combination of these 2 factors means that quarterly accretion from the transaction is not linear. The relative earnings per share contribution from ITC is forecasted to be the lowest in the first quarter and is in line with our expectations.

Foreign exchange was a negative $0.01 impact in Q1 relative to last year, the average U.S. dollar to Canadian dollar FX rate dropped from $1.37 in the first quarter last year to $1.32 this year. As we have noted in the past, we are not as affected by U.S. dollar to Canadian dollar foreign exchange fluctuations as you may think. We have some natural hedges in place as it relates to our U.S. dollar denominated debt. Having said that, for every $0.05 change in the Canadian to U.S. dollar exchange rate, there is a corresponding $0.07 impact to annual earnings per share.

Our businesses performed largely as planned. UNS was stronger than expected. We also saw some weakness at FortisAlberta where soft economic conditions in Alberta, the reduction in equity thickness and regulatory lag impacted earnings per share. However, for the full year, we expect earnings at FortisAlberta to be largely in line with 2016. Further, we expect UNS to continue to benefit from its recently approved rates.

The strength of our low-risk diversified portfolio of utilities provides financial flexibility and supports our investment-grade credit ratings. From a liquidity perspective, our consolidated credit facilities total approximately $5.4 billion. At the end of March 2017, there was $3.8 billion of unused capacity, including approximately $900 million of unused capacity under the Fortis committed revolving corporate credit facility. Going forward, we are well positioned to fund our organic growth and have the flexibility to pursue the other opportunities discussed by Barry.

On the regulatory front, we are in a period of relative regulatory stability. During the quarter, the Arizona Corporation Commission issued a rate order in connection with Tucson Electric's general rate application, approving rates, which took effect February 27. The rate order included an increase in nonfuel base revenue of USD 81.5 million and allowed return on equity of 9.75% and a common equity component of the capital structure of approximately 50%. This constructive order positions UNS for a strong year.

Pursuant to the September 2016 order from FERC regarding the first return on equity complaint, ITC paid refunds during the first quarter totaling USD 121 million, including interest, for the initial refund period. As you may recall, the base ROE was set at 10.32% for the initial refund period with a maximum ROE of 11.35%. These rates are to be used prospectively until a new approved rate is established for the second complaint. A decision from FERC on the second complaint is expected later this year or early next year. As of March 31, 2017, the estimated range of refunds for the second refund period was between USD 103 million and USD 140 million. ITC has recognized a regulatory liability of USD 140 million for this complaint.

Turning to FortisAlberta. The second PBR term for the period 2018 through 2022 was confirmed in December last year. FortisAlberta filed a re-basing application in April 2017 to establish the going-in revenue requirement for the second PBR term and the subsequent distribution rates for 2018. A decision on this application is expected in the second half of 2017.

As we continue to navigate various regulated proceedings, we remain focused on maintaining constructive regulatory relationships and delivering reasonable outcomes across all our utilities.

I'll now turn the call back to Barry.

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

Thank you, Karl. The first quarter results illustrate the strength of our business. Our highly diversified company provides predictable and consistent earnings results. We remain on track. We continue to expect to see strong earnings growth based on the results at UNS and the addition of ITC. The integration of ITC is progressing as planned, and we expect the acquisition of ITC to be nicely accretive this year.

Operationally, we continue to focus on integrating ITC and on advancing development projects that could provide upside to our rate base growth. It's incredible to think that just over 6 months ago, we closed the ITC acquisition. Our business model allows us to quickly and effectively fold businesses into the Fortis family. And finally, we will continue to focus on what distinguishes us from our peers: maintaining our highly diversified business, our unique business model and finding opportunities within our franchise regions.

At this time, I will hand the call back over to Janet.

Janet Anne Craig - *Fortis Inc. - VP of IR*

Thanks, Barry. This concludes the presentation. And at this time we'd like to open the call to address questions. Over to you, Carol.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rob Hope from Scotiabank.

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

Good morning and thank you for taking my questions. Maybe to start off with just hoping you could add some additional color on your expectations for FERC. We're seeing that they could potentially move down to one commissioner by midyear. Does this push off when you expect to hear the FERC decision on the second ROE complaint as well as the potential outcome there?

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

Thank you, Rob. Possibly. You notice in our script, we talked about the decision maybe coming later this year, early next year. Clearly, we don't know what's going to happen but just a practical view of the situation suggests that it may take a little more time. But again, that's just our vantage from the outside looking in. Linda Blair, Linda, I know you're very close to this issue. Any other thoughts you might want to add?

Linda H. Blair - *FortisAlberta Inc. - Director*

No, Barry. I think you have articulated it well. Certainly, just given the fact that we don't have the remaining commissioners formally nominated or the confirmation process has not begun. We are looking that, that process would take probably the better part of at least 3 to 4 months, even if the process had formally started. And so I think to Barry's point, I think just given the fact that you're going to have 3 if not 4 new commissioners, at some point, hopefully this year, it certainly suggests that a decision on the MISO complaint, far less any other matters, will be pushed off to at least later this year.

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

All right, that's very helpful. And then just along the same vein, just want to get your thoughts on the DC Circuit Court decision regarding the New England ROEs. Is this a potential avenue that you can challenge a new MISO ROE if it comes at a level that you would deem to be unjust?

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

Possibly. Again, Linda, maybe you can offer some granular flavor there. But tracking all the sort of happenings on these ROE proceedings requires tremendous effort. So Linda, maybe you can actually wade in there.

Linda H. Blair - *FortisAlberta Inc. - Director*

Yes, certainly. Yes, clearly, with the Court of Appeals decision on the New England complaint, I mean, it fundamentally addressed 2 shortfalls in FERC's decision: the first being that FERC did not -- essentially did not find that the then existing current ROE that the New England TOs had was unjust and unreasonable. So that's sort of the first fundamental issue that FERC has to revisit. And then the second issue is that FERC certainly needs to provide justification or rationale for why they set the ROE in the upper portion of the zone of reasonableness. So when you sort of parlay that to the MISO complaint, when FERC made their initial decision in the first complaint for MISO, it did make a finding that the then current ROE was unjust and unreasonable. So from our perspective, that issue is probably not going to be revisited in the MISO complaint. However, the question around why FERC set the midpoint in the upper end of the zone certainly is in question in the MISO complaint, and we would imagine that those issues will translate and sort of push forward into MISO complaint #2. Our view stepping back from all of this is certainly that FERC really has 2 paths: one, they could further justify and rationalize their decisions in Opinion 531; or two, certainly with the new commission, a new complexion, a new political party at the helm at FERC, it certainly could be an opportunity to revisit sort of the rationale by which they do think about ROEs. So certainly, we don't know because we don't even have a new FERC commission. But certainly, it would suggest 1 of 2 paths: either stay the course; or two, use it as an opportunity to revisit how ROEs are established and set with this remand proceeding.

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

That's very helpful. Thank you.

Operator

Our next question comes Rob Catellier from the CIBC Capital Markets.

Robert Catellier - *CIBC World Markets Inc., Research Division - Research Analyst*

I was wondering if you could provide a bit more of a status update on the Lake Erie Connector project. In particular, is there any more detail you can provide on customer negotiations?

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

Rob, all I'll say is that we are in negotiations, bilateral negotiations with a number of parties so -- and they're going reasonably well. These are very complex contracts, 20-year kind of contracts, so it will take some time. But we're having very reasonable discussions at this point in time. And hopefully, we'll be able to get some more progress in the third quarter.

Robert Catellier - *CIBC World Markets Inc., Research Division - Research Analyst*

Okay. And then just on the Watay, what are the milestones do you think to get the cost-sharing agreement between the federal and provincial governments? It sounds like that could be a highly politicized process. And then the second part of the question is, what's the earning impact of the deferral account for the development cost? And is that effective immediately? And what type of earnings impact does that have?

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

On the latter question, it really has no significant impact on earnings. Primarily, our cost going forward will be -- will not go to, I guess, our bottom line. It will set up as an asset to be recovered in rates. The retroactive part of it was not significant at all so I really -- it's not a matter that will show up anywhere. In terms of the politics, I would have to tell you that things are aligning very well. There's a lot of support for this project, provincially and federally. We're obviously trying to get underneath the federal budget to see where some of the funds could come from, but the federal government has really made it a priority to encourage remote communities in Canada to be connected to the grid. And this project really fits very well with that. So I am optimistic that the federal government and the provincial government will be a big player in making this project a success. We're working very closely with the First Nations communities, obviously. They are playing very much a leadership role in the discussions with the federal and provincial governments, and we remain very optimistic that we'll be able to bring together the parties to make this a very viable project.

Robert Catellier - *CIBC World Markets Inc., Research Division - Research Analyst*

Okay. And then finally, I know there's a lot of details you don't you have yet, but do you have an updated view on the implications of the U.S. tax reform?

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

Rob, it's Karl. Not really an updated view. I mean, anything that we've set up to this point in time doesn't really change in any material way based on the plan that was announced last week. The bigger issue for us as we always stated was interest deductibility and it was mute on that point. So I don't know what you want to read into that. The 15% rate is positive for our utilities, we think. We're supportive of that. And until we get further details with respect to the plans, it's difficult to do any further assessment, Rob.

Robert Catellier - *CIBC World Markets Inc., Research Division - Research Analyst*

I concur. Thank you.

Operator

Our next question comes from the Robert Kwan from RBC Capital Markets.

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

If I can just come back to your Erie Connector to start, just wondering, can you give some of your thoughts just as to the pace of discussions in some of the key issues? Just I guess wondering whether the political policy stability matters in the discussions, things like EPA policies and tax law. Or is it really just the underlying economics and state-level environmental policy that's shaping the discussions?

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

Sorry, Rob, are you talking about the ROE complaint?

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

No, I'm sorry, on the Lake Erie project.

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

Right now, Robert, I would say the politics are sort of on the side. We're dealing with the parties who will be the transmission system off-takers, I guess, that would enter into the TSA agreements and working with sort of the IESO in Ontario and PJM as well. So those are the folks we're dealing with at this point, and I would say that provincial politics have not played a part in this at this point in time so -- and that's fine. I think this needs to stand on its own and be a good thing for Ontario and a good thing for the PJM market. So if we can't convince both of those parties that it's a viable project, then it won't go ahead, but I'm very optimistic. And I would keep pointing back to the NEB decision. That's a very detailed decision assessing the value of this project, and I think they came down on the side that this is a project that should go forward.

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

Got it. And U.S. politics hasn't slowed down the discussions either?

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

Not at all, not at all. At least, at this point, not on the radar at that level, so hopefully that's where it would stay.

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

Okay, great. Turning to funding with the common equity that you've now done. As you look at funding plan going forward, is it geared to metrics that align with Moody's Ba3 rating? Or are you funding the business to achieve metrics consistent with Ba2?

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

Well, I frankly think we're already at Ba2 metrics. Clearly, you read the Moody's report when they assessed us at the time of the ITC acquisition. It was somewhat a disappointing view. And so we have to work with Moody's to really convince them that the rating of the company needs to come up, and that's my goal over time is to claim back a ratings notch from Moody's. Really, I'm not happy with sitting here at Baa3 from Moody's, and we're at A- from S&P. So that's a big gap, and we need to start narrowing that gap between these 2 agencies.

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

Robert, I'll add that the credit metrics over the course of the planning horizon has steadily improved, so that should bolster our case.

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

Okay. So it sound like it's more trying to -- sorry there, yes?

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

I will point out, we still are getting tremendous support from our shareholders and reinvesting their dividends in the stocks. So we are running, I would say, well ahead of our planning on dividends reinvested. So that's helping strengthen our balance sheet over time as well.

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

Okay, perfect. So just it sounds like you're working -- trying to work a little bit more on the softer attributes of the rating rather than, as you mentioned, Barry, you think you're Ba2. So the strategy is not to have Ba1 metrics and then trying to get the upgrade that way.

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

Well, I would tell you that long term, I think our company should be a Baa1 company. I think that would -- if I was setting a long-term goal for the company, I think Fortis Inc. in that category is where we should be over the long haul. I think our large subsidiary should be in the A category. That's directionally where we would like to be. These things do take time though. We just did a very large acquisition. And as you know, ITC was a fairly levered company, and that had an impact on us. We did issue more equity in this recent transaction than just about any other utility transaction that was done in the last couple of years. So in fact, we financed ITC with likely more equity than, again, just about any other peer transaction that was done. But directionally, we're headed towards better ratings, I will tell you that. That's what my goal is for Moody's. We're fine with S&P, obviously.

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

For sure. If I can just finish, when you look at the relatively newly acquired businesses like ITC and UNS, I'm just wondering if you're seeing any additional upside that's not in the capital plan. And one aspect, is there anything material on the in-sourcing opportunities that could enhance customer service while driving rate base growth, I guess, something similar to what you did out my way with the call centers?

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

On the latter part, I don't think there's a lot of that. I don't -- basically, these businesses had not outsourced much of their activities, like UNS has its own call center already, for example, in Tucson. So I think they hadn't gone down the path as some of these other companies. I do see though -- I'm very optimistic about further growth in both those businesses. Our Arizona business is really now coming into its own with the rate case behind us, with improving economic conditions in the Tucson area, with the recent resource plan that David Hutchens and his team filed about the need for more renewable power in future years, the availability of gas-fired generation in the region to help us diversify away from coal, especially, these jointly owned plans that we're into. I think there's some real opportunities for us to add generation, maybe some transmission over the next number of years there. So I must say, I'm very, very pleased with what we're seeing in that jurisdiction. And now that we're getting much more to ITC, the prospects for ITC across America in transmission are very strong. And I'm very optimistic about projects like Erie Connector, about projects that help connect different [RTOs] together, things like that, that we can add some more growth to that business over time. I always remind people that ITC owns 16,000 miles of transmission. That's an amazing amount of infrastructure, and that in itself requires constant investment to maintain and keep to the correct standard. The final thing I will say, Robert, is that on cyber and physical security, I think this is an area where Fortis will see increased capital investment in all of our businesses for the next number of years. I can't tell you how much at this point in time but we're learning a lot from ITC, and we have some work to do in our businesses to improve in that area. And those -- that capital will be coming forward over the next number of years, so that could be additive to what we see in our plan at this point.

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

That's great. Thanks Barry Thanks Karl.

Operator

Our next question comes from the line of Ben Pham from BMO Capital Markets.

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

My question is on some of the compare about your CapEx plan and as you think about the next 5 years. And Barry, you highlighted in terms of past trends that the outer years tends to -- you guys tend to see upside and you've seen that historically. But do you think that maybe that's more trend that's maybe more prevalent on the distribution side than the transmission side? Because we are seeing quite a bit of slowdown in transmission in Alberta, in particular.

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

Well, in Alberta, as you know, Ben, we have no transmission. So no matter what's happening there, we're not involved on that side. It's distribution only. And we remain pretty optimistic that we can spend in that $300 million or so plus in Alberta, which is down a bit from where we were historically, but still substantial amount of CapEx. Ben, your thoughts are good on this. We -- obviously, we are not yet including those outer years at the higher level of 5% growth. We are doing a lot of work in this area, really trying to get underneath the planning processes in each of our businesses to re-extend our view beyond the 24 months, 36 months period into those years 4 and 5. I will say it's a challenge. The industry -- our business has been designed around focusing on those couple of years out and doing all the necessary engineering and scoping and planning work around those years, not as much on those outer years. But because increasingly our shareholders want to see that growth over a 5-year period, we're spending more time on those outer years. I'm sitting here, obviously knowing that we're pursuing a lot of the development projects as well. So when I look at the picture of more CapEx in the outer years, successfully winning and proceeding with a couple of these development projects, I'm pretty comfortable that we can grow this business at the 5-plus kind of CAGR rate over time. That's my sense of it. But hopefully, we'll be able to progress our work in our businesses and provide more color once we renew our business plans later this year on that outer growth rate.

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

Okay. And then maybe just on -- similar just on that vein. What are your thoughts about what -- you've seen this big replacement investment cycle for quite a number of years, and you're spending billions for quite a long time. How do you think about it high level in terms of what inning we're in or you guys are in, in terms of that replacement cycle? And is that inning perhaps a little bit different depending what franchise you're looking at amongst your various different hubs amongst North America?

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

Yes, I think your latter comment is probably appropriate. It's not -- you can't really be generic on this. Some utilities have -- I'm not just referring to Fortis here, some utilities have done a better job of investing in those systems and others for various reasons. So I would say there are utilities out there that are under invested in their capital. I do believe that we still have room to run on investment in the sector. And there's just so much happening with the grid right now, especially on the electric side, that -- with the technology and the customer demand, that I do see continuing investment required to make sure that grid is robust enough to be able to deal with all the emerging technology issues and demands of our customers. And I think Fortis, which is now primarily focused in the poles and wires and natural gas distribution pipes, is in the perfect spot to be a big part of that investment over the next number of years. So I'm very happy that from a business perspective, our focus were we brought the company at this point in time.

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

Okay. And then lastly, just a more detailed question on FortisAlberta. You mentioned the CapEx spending you're expecting, but it seems like the results this quarter, you've seen a couple of headwinds, you've highlighted there. But I'm just wondering, why is there a big uptick for the balance of the year versus what you're seeing in Q1? And what's driving that OpEx number higher? Because it seems like some of your peers in Alberta are driving OpEx lower and not higher.

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

I would just generally point you to the fact, Ben, that this is the last year of 5-year PBR. And we can achieve similar earnings this year as 2016, which was what Karl indicated to you. Look, I'm very pleased with that, and that's where our sense is of the year. It's hard in any particular quarter in our business to really get too concerned about operating expenses being up or down. There's always things that move around a little bit. But sitting here in the last year of 5-year PBR, comfortably saying that we can hit 2016 earnings levels as we head into the next 5 years of PBR, I think that's a reasonable place for us to be in this sort of dealing with the regulatory framework in Alberta at this point in time.

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

Ok. Thank you.

Operator

Our next question comes from the line of Andrew Kuske from Credit Suisse.

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

You had a really minor FX drag in the quarter, but I also note that the dollar Canada is at CAD 1.37, which was the average a year ago. So we're sort of back to where we were. But just sort of philosophically when you think about the balance sheet overall, you're about, call it, 60% of your assets are exposed in the U.S. When do you think about effectively reporting in U.S. dollars en masse as opposed to being a C dollar reporter?

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

I think the general answer, Andrew is right now our shareholders are probably like 80% Canadian, right? So if we were successful in moving that dial to more than a majority of shareholders being U.S.-based institutions, retail shareholders, I think we'd have to look at this situation but not before then. That's my sense. We're managing the risk effectively, and as Karl mentioned, it's not as great as you would think because of the fact that we've issued most of the corporate debt at the -- in U.S. dollars. But I think, we are pushing very hard to increase our U.S. ownership, and it's the thing we will monitor over time to see how successful we can be in attracting those large U.S. institutions to the stock. And then we'll have to revisit it in future years.

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

Andrew, currently about 10% of the volume trades through the New York Stock Exchange. So we'd have to see that come up significantly from there before we'd start thinking about changing our currency.

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

Okay, that's helpful context. And then maybe just continuing on the cross-border theme. When you think about just the rate base growth that you've got line of sight on in the next 5 years and just say highly prospective things that may happen, putting acquisitions aside, do see the bias of growth really coming from the U.S. asset base along with the opportunity set really existing there versus that in Canada?

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

Well, I would say, Andrew, we're pushing on all aspects of our businesses, like I'm very excited about British Columbia, the LNG area. I'm not giving up on that. Tilbury, we're bringing online here shortly in July. We're looking at further expansion of that site. If we can get that done, that could be as much as several billions dollars of investment. And so BC itself could go a long ways to starting to even out the asset mix of the company. In terms of acquisitions, clearly, when we're ready to go back to that market, I do see the opportunity set being much bigger in the U.S. for Fortis than in Canada. So I think that if we did manage to get ourselves in a situation where we could acquire another good U.S. business, I think that starts to skew it even further but in Canada remains very few opportunities on the acquisition side for the company.

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

Okay. That's very helpful, thank you.

Operator

Our next question comes from the line of Linda Ezergailis from TD Securities.

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

Barry, if I could just follow up on your outlook for British Columbia. I'm wondering if that shifts post the pending provincial election. Some of the, I guess, comments from the NDP party have caused some investors kind of pause on how the energy outlook might change. And I'm wondering if you've had discussions with the NDP government and how a change in BC might affect your outlook for not just your LNG prospects, but also the rest of your franchise there.

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

Linda, I'm obviously not going to wade into the BC election. I will say that generally we always keep all parties informed about our business and what we're doing in each of our jurisdictions, and that would be the case in British Columbia as well. We're really just focused on serving our customers well there. Gas service is a very economic service for customers in British Columbia. We keep promoting that and that obviously aligns with the NDP program, I think. And so we continue to focus on our customers, working with the regulator in British Columbia and really making sure that we conduct a good business there, and I think that will prove well for the company under any government, frankly. So that's our approach.

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

And maybe just moving across the country. As you're probably aware, the Ontario government is scheduled to release its long-term energy plans sometime this spring, and I'm wondering again how that might affect your franchise, if at all. For example, is there such compelling rationale for the Lake Erie Connector and your other transmission projects that I have a hard time pronouncing in terms of reliability, economics, et cetera, remote connections that you wouldn't expect sort of any shifts given that Ontario government is focused on cost containment, et cetera?

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

Again, a good question, Linda. And at this point, we think these projects are viable projects. They appear to be getting strong support from both levels of government, and there's no sense at this point at least that they're going to be pushed to the back burner related to any announcements that are coming down the pipe. But obviously, it could happen. I'm not saying that it can't, but we have no information to suggest that, that is in the cards at this point in time.

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

Okay. I don't mean to be schizophrenic but maybe we can jump back across the country and just looking at Alberta and what's going on there with some of the kind of coal to gas conversion and focus on renewables. Have you evolved your thinking on how Fortis might participate in that, if at all? Or is it still kind of status quo there?

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

Well, just on renewables generally, Linda, clearly, I would like to -- for Fortis to do more renewables under long-term contracted arrangements and that could be in Arizona, for example. As a mentioned, TEP is a long-term resource plan that indicates that they need to procure another 800 megawatts, I believe, of renewal power to 2030. In case of Alberta, I think, frankly, where we'll play is more hooking up renewal power to the grid into our various rural distribution facilities, those kind of things. So we might get some upside there. We may play a small role in some of these sort of micro facilities, that kind of thing. But at this point at least, I don't see any significant upside for us to be building wind farms in Alberta at this point in time.

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

Great. Thank you.

Operator

Our next question comes from David Quezada from Raymond James.

David Quezada - *Raymond James Ltd., Research Division - Equity Analyst*

Just a general question, I guess, as it relates to your capital program. I'm wondering, just given the large amounts that not only you but other utilities are spending in terms of CapEx, are there any trends worth noting on the cost side, be it contractors, building materials? Any evidence of inflation in any one of those buckets that you would note?

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

I haven't heard of any at this point, but maybe I'll just canvas my 2 U.S. folks since the economy down there -- well, my 3 U.S. folks. The economy in the U.S. is improving maybe a little faster than Canada. I'll start with Linda. Linda, are you seeing any things that have risen to your attention on the inflation side for some of the big purchases that we have?

Linda H. Blair - *FortisAlberta Inc. - Director*

No. At this time, we have not seen anything. I mean, certainly, in the context of projects that are going to take several years to construct, I mean, some of those estimates are built into our project cost estimates. But no, we're not seeing anything that's out of the ordinary or any significant change in direction at this time.

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

And Dave Hutchens?

David Gerard Hutchens - *UNS Energy Corporation - CEO, President and Director*

Yes, nor have we in Arizona have seen anything out of the ordinary.

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

And Michael Mosher?

Michael L. Mosher - *Newfoundland Power Inc. - Director*

Same here.

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

And maybe, Mike Mulcahy, anything out in BC, Mike, that you're seeing at this point?

Michael A. Mulcahy - *FortisBC Inc. - CEO, President and Director*

No, Barry, nothing.

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

Okay, so just nothing to report there.

David Quezada - *Raymond James Ltd., Research Division - Equity Analyst*

Okay, good. That's good to hear. A lot of my other questions have been asked but maybe just any update on the ITC Mexico transmission projects. Anything on the horizon there?

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

Nothing other than waiting to hear about the new sort of rules that will come out. I think CFE is going to be releasing some new bid sort of guidelines, I guess, for lack of a better description. So until that happens, really nothing to report.

David Quezada - *Raymond James Ltd., Research Division - Equity Analyst*

Okay great thanks. That's all I had.

Operator

Our next question comes from Chris Turnure from JPMorgan.

Chris Turnure - *JP Morgan - Analyst*

You guys mentioned in your prepared remarks in Alberta that you would be seeing flat net income year-over-year. If we strip out the impacts of load changes, purchase power, cost changes, what's the impact of rates alone in '17 versus '16?

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

Phonse Delany is here. Phonse, in terms of the thinner equity, the sort of rate impacts, it's not big.

Phonse Delaney - *Fortis Inc. - CEO of FortisAlberta and President of FortisAlberta*

I think the single biggest single impact is the reduction in equity thickness. Our rates are comprised of the inflation less productivity factor plus additional revenue for capital trackers. With respect to the inflation less productivity factor, that would be negative in 2017. So we have a rate reduction, but it's more than made up by the capital tracker revenue that would apply to 2017. It's a bit of a complex formula there.

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

Yes, it's just a few million. Yes, my gut is in that like $3 million to $5 million range, in that kind of range.

Chris Turnure - *JP Morgan - Analyst*

Okay, that's helpful. And then, I guess I would have the same question for 2018. If your filing for the new PBR is approved as requested, how can I think about the rate impact alone there? I know you have opportunities a little further down the income statement to make up for any changes. But how can I think about that alone?

Phonse Delaney - *Fortis Inc. - CEO of FortisAlberta and President of FortisAlberta*

Yes, I think the most important input into thinking about that is following the compliance filing that's been submitted -- that's just submitted in April and getting our going-in rates for 2018 established at a good suitable level to allow us to earn our return. That will be adjusted going forward with the inflation minus productivity factor. But the key part of that equation is this hearing that will occur in September where each utility can bring its own unique situation to the table to establish those going-in rates.

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

So watch out for that.

Chris Turnure - *JP Morgan - Analyst*

Okay. And then, I mean, is there a way I can think about the best case scenario year-over-year?

Phonse Delaney - *Fortis Inc. - CEO of FortisAlberta and President of FortisAlberta*

Well, it's going to depend on what the inflation is in Alberta and like I said, getting those going-in rates at a suitable place.

Chris Turnure - *JP Morgan - Analyst*

Okay. And then one question on 2017 again. Is there a consolidated effective tax rate that I can think about?

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

It will be somewhere between 25% and 30%, Chris.

Chris Turnure - *JP Morgan - Analyst*

Okay. And then based on the first quarter coming in, I think at 24%, would you say you'd be trending towards bottom half of that range? Or is it just too early to tell?

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

No, it should not be too dissimilar to what you saw in the first quarter.

Chris Turnure - *JP Morgan - Analyst*

Okay. Great, thanks.

Operator

(Operator Instructions) And our next question comes from the line of Jeremy Rosenfield from Industrial Alliance.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Just a quick question on Woodfibre, LNG and FortisBC gas system expansion associated with that specific project. Can you just remind us of the approvals and/or milestones that you would be looking for at this point in order to move forward and maybe move that capital spending from your sort of, I would say, unsecured bucket to secured bucket?

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

Well, I would say that it really is in the customers' hands, which is Woodfibre. We are building a pipeline to hook up that customer, and so we're really working very closely with Woodfibre at this point to get through the remaining things they need to do to make their final investment decision. And we're optimistic that that will happen in the second half of this year. So rest assured, we're doing everything we need to do to be ready, and we're working closely with those folks.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Okay. Maybe just a more higher level question that I asked I've asked probably previously, maybe I'll just poll it one more time. If you look at the sort of M&A landscape, obviously, sort of diminished opportunities in North America, have you started to look at any potential opportunities? Or are you considering opportunities outside of the North American landscape, potentially internationally, for dipping your toes in new markets?

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

The answer is no. We are very optimistic that we will have more opportunities to grow Fortis in North America. We have the right business model for owning utilities in North America, and we're the company that can get transactions done with North American regulators. And when we're ready to do this again, I'm very optimistic that we'll find that right opportunity, so we have no need to go outside North America.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Okay. Thank you.

Operator

And as there are no further questions in queue, I'd like to turn the call back to Mr. Perry for any closing remarks.

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

Thank you, everyone. Just to summarize, we had a good first quarter. We're on track for a strong 2017 based on the contributions from UNS related to its recently completed rate case at Tucson Electric Power. And from the accretion from ITC, we're very happy with how the transaction with ITC has gone so far. We've just posted our first quarter, no surprises. That's pretty damn good after this largest acquisition that we've ever completed. So we're very happy with where we are as we head into the middle part of 2017. Thank you very much and have a great day.

Janet Anne Craig - *Fortis Inc. - VP of IR*

Thank you. Thanks, Carol.

Operator

Thank you for participating, ladies and gentlemen. This concludes today's conference. You may now disconnect.
