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CORPORATE PARTICIPANTS

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

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

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

Michael L. Mosher *Central Hudson Gas & Electric Corp. - CEO, President and Director*

CONFERENCE CALL PARTICIPANTS

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

Benjamin Pham *BMO Capital Markets Equity Research - Analyst*

Linda Ezergailis *TD Securities Equity Research - Research Analyst*

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. This is the conference call operator. Welcome to the Fortis Q2 2017 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, Ruth, and good morning, everyone, and welcome to Fortis' 2017 Second Quarter Results Conference Call. I'm joined by Barry Perry, President and CEO; Karl Smith, Executive VP and CFO; other members of senior management team; as well as 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 slideshow. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our 2017 second quarter MD&A. Also, unless otherwise specified, all 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. Our strong second quarter earnings announced this morning are the result of focusing on serving our customers well, our continued focus on growing our base business, as well as realizing the benefits of our acquisition of ITC.

UNS and ITC were the main drivers of our earnings growth this quarter, and overall, our business continues to progress as expected this year. Our capital investment plan is on track, and we invested $1.4 billion year-to-date across all our utilities. The integration of ITC is also on track, and the acquisition remains nicely accretive.

During the quarter, we also found an investment opportunity in energy infrastructure within our service territory in British Columbia, with the proposed acquisition of Teck Resources' 2/3 interest in the Waneta Dam. While opportunities like this do not come up often, this investment is a great example of how the CEOs of our utility operations can be nimble as well as opportunistic.

Fortis has a winning strategy for its business. We combine the strength and predictability of being almost entirely regulated, the benefit of scale and financial capacity to invest prudently across our utility operations and in other -- and in energy infrastructure as well as the agility to capture growth prospects. Our unique business profile makes us probably the most diversified utility in North America while balancing risk and optimizing opportunity. This allows us to have the confidence to provide dividend growth guidance. We are committed to delivering, on average, 6% annual dividend growth through 2021. This, combined with earnings growth, we believe, results in a compelling risk-adjusted total return for shareholders.

Finding quality assets or investment opportunities within our service territories to grow our business is core to who we are. Our purchase of the Waneta Dam hydroelectric facility and related transmission assets in British Columbia for $1.2 billion is a great example of this. It has a total capacity of 496 megawatts of renewable power and generates an average of 2,750 gigawatt hours of energy per year. FortisBC is the operator of the facility. The transaction is expected to be immediately accretive. It will be financed with a combination of cash on hand, debt and equity, consistent with our current consolidated capital structure. It is important to note that BC Hydro has a 60-day window, expiring in August, to exercise a right of first offer to acquire the dam. If the right of first offer is not exercised, we expect the acquisition to close in the fourth quarter this year.

Fortis also holds a 51% interest in the Waneta Expansion completed in 2015. This project added 335 megawatts of renewable power generation from a second powerhouse downstream of the existing Waneta Dam. It is fitting to be speaking about Waneta and the rest of our FortisBC operations, as we are in their offices today having held our board meetings here this week. Many of you are relatively new to the Fortis story, and I thought I would spend some time providing a little background on FortisBC. It's a perfect example of how Fortis and its subsidiaries operate and grow. Fortis' entry into the BC market started in 2004 with the acquisition of the electric utility from Aquila. This was followed by the acquisition of gas LDC assets from Terasen Gas 3 years later. With Fortis Inc. providing capital and support, FortisBC has grown significantly by investing prudently to support the delivery of safe, reliable and cost-effective energy to its customers.

Since the acquisition, the electric business has grown by nearly 135%, and the gas business has grown by approximately 80%. In my opinion, with its rate base growth potential and regulatory construct, this gas LDC franchise is one of the best in North America. FortisBC Gas and FortisBC Electric deliver, in aggregate, approximately 21% of the total energy consumed in the province, the most of any utility. Whether delivering electricity, natural gas or propane in BC, more than 2,200 of our employees serve over 1.1 million customers.

Our 5-year $13 billion capital plan consists of a diverse mix of highly executable and low-risk projects. We expect that the projected consolidated midyear rate base will approach $26 billion this year and $30 billion by 2021. This base capital plan yields a 3-year rate base CAGR of 5.2% to 2019 and a 5-year rate base CAGR of 4% to 2021.

As you are aware, there's a decline in the outer years of our capital plan. We have a record of exceeding our plan in the outer years, and we continue to pursue growth opportunities in our existing service territories to do just that. In parallel to this, we also pursue larger development opportunities, which are also not reflected in our base plan.

A key focus is to get better visibility on the outer years of our plan as we go through the business planning cycle this year. We have a very strong and consistent record of making prudent investments across our utilities, and we simply need to do a better job of having this reflected in our planning process.

Consolidated capital expenditures for this year are now forecast to be approximately $3.1 billion or about $100 million higher than our prior forecast. This increase is driven by UNS Energy and FortisBC Energy. At UNS Energy, the incremental capital investments are largely due to investments in natural gas-fired facilities and distribution modernization projects. At FortisBC Energy, it is due to the advancement of capital spend for the Lower Mainland System Upgrade to 2017 from 2018.

ITC is on track to invest approximately $300 million in 4 Multi-Value Projects, or MVPs, in 2017, with nearly $550 million expected to be invested from 2017 through 2021. The MVPs are regional electric transmission projects that have been identified by MISO to address system capacity needs and reliability in various states.

Construction on the Tilbury LNG facility expansion in British Columbia is nearing completion. The total cost of the project's scope was approximately $400 million before allowance for funds used during construction and development costs.

Key activities during the first half of 2017, include a commissioning of the LNG storage tank and the continued installation of liquefaction piping insulation as well as electrical and instrumentation cabling.

While we are focused on executing on our low-risk, highly diversified capital plan, we do have a few sizable development projects, which would be -- provide meaningful upside to our base plan if it was successful. These include the Wataynikaneyap Power project, the Woodfibre pipeline expansion and the Lake Erie Connector. In the past, we have had the opportunity to speak in detail about the Woodfibre pipeline expansion and the Lake Erie Connector. Both of these projects continue to progress, and we remain focused on achieving key milestones for each.

Today, I wanted to spend some time on the Wataynikaneyap Power project, as it highlights our constructive and collaborative relationships with First Nations as well as our ability to partner with multiple stakeholders. Fortis has a 49% ownership interest in the partnership, with the remaining 51% ownership interest being held by 22 First Nation communities. This project continues to advance with a mandate to develop new transmission lines to connect remote First Nation communities to the electricity grid in Ontario. Over the life of the project, this transmission connection to these remote communities could result in over $1 billion in cost savings compared to continued diesel generation, as well as significantly reducing greenhouse gas emissions. The preliminary capital cost estimate is approximately $1.35 billion. We are encouraged by the progress we have made. In addition to environmental assessments underway, other regulatory approvals are currently being sought.

The next regulatory milestone will be the preparation and filing of the leave to construct with the Ontario Energy Board, which is expected to be in the fourth quarter of 2017. Construction would commence pending the receipt of permits, approvals and contribution agreement between the federal and provincial governments.

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

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

Thanks, Barry. Good morning, everyone.

As Barry highlighted, our second quarter 2017 financial results were strong. Adjusted earnings for the quarter were $253 million, nearly double compared to the same quarter last year. Adjusted earnings per share of $0.61 for the quarter was higher by $0.16 or 36%. On a year-to-date basis, adjusted earnings of $540 million was higher by $221 million, and adjusted earnings per share was higher by 16% or $0.18, reaching $1.31.

Cash flow from operations of $1.2 billion for the first half of 2017 increased approximately 28% over the same period in 2016. The increase was driven by higher earnings mainly at ITC and UNS.

There are a couple of things to note this quarter with respect to reporting the results of our Aitken Creek facility, which is included in our nonregulated energy infrastructure segment. We are no longer excluding the mark-to-market of derivatives and the calculation of adjusted net earnings, as we now have a full year of comparative information. Also, effective in 2017, energy supply costs at Aitken Creek are being netted against revenues. In 2016, revenues and energy supply costs were reported separately. This change in reporting has no effect on earnings.

As noted on the previous slide, adjusted earnings per share increased $0.16 compared to the second quarter of 2016. UNS delivered a strong second quarter, improving our adjusted earnings per share quarter-over-quarter by $0.10. Both the establishment of new rates at 2 of UNS' business, Tucson Electric Power and UNS Electric, as well as higher electricity sales due to hot weather conditions, contributed to the earnings growth. While record-high temperatures were set in Arizona during the second quarter, weather was relatively less significant on the overall quarter-over-quarter increase, as hotter-than-average temperatures were also experienced last year.

ITC continues to contribute to earnings growth. During the quarter, ITC contributed $0.04 to adjusted earnings per share or 6.5% accretion after considering finance charges and increased equity associated with the acquisition. We're obviously pleased with the accretion from ITC, particularly as the balance of our business outperformed this quarter, meaning base earnings for comparative purposes were higher, having the effect of tempering accretion. A $0.01 increase in earnings per share quarter-over-quarter was driven by Aitken Creek and relates to unrealized gains on the mark-to-market of derivatives, which were $3 million during the second quarter of 2017 compared to an unrealized loss of $2 million for the same period in 2016.

Additionally, favorable foreign exchange impacts provided a $0.01 increase in the second quarter earnings per share over the same period in 2016. The average U.S. dollar to Canadian dollar FX rate was $1.34 this quarter, up from $1.29 in the second quarter last year. As a whole, earnings are not significantly affected by U.S. dollar to Canadian dollar foreign exchange fluctuations. 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.

For the first half of 2017, adjusted earnings per share increased $0.18 compared to the same period in 2016. Year-to-date, UNS has had strong performance, improving our adjusted earnings per share by $0.14. The revenue impacts resulting from the recent rate order and higher electricity sales due to hot weather were the major reasons. As well, timing of operating expenses and more favorably priced wholesale electricity contracts contributed to higher earnings for the first half of this year.

Aitken Creek contributed $0.05 to earnings per share year-to-date. The treatment of unrealized gains on the mark-to-market of derivatives contributed to the increase by approximately $0.04 for the first half of 2017 compared to the same period in 2016.

ITC contributed $0.04 to adjusted earnings per share for the first half of 2017 after considering finance charges and increased equity associated with financing the acquisition.

Partially offsetting these increases were higher corporate and other expenses, lower earnings from other regulated utilities mainly driven by FortisAlberta and a higher weighted average number of common shares outstanding as a result of our Dividend Reinvestment Plan.

Our low business-risk profile, diversity of operations and the stand-alone nature and financial separation of each of our regulated subsidiaries, 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 June 2017, there was $4 billion of unused capacity, including approximately $940 million of unused capacity on our committed corporate credit facility. Our current capital plan is fully funded through debt raised at the utilities, cash from operations and contributions from our Dividend Reinvestment Plan. Furthermore, in September, our U.S. shareholders will be eligible to participate in our Dividend Reinvestment Plan.

These factors will dictate what form and when we go to the market to fund incremental equity requirements beyond our base plan, including funding for Waneta. That being said, we do intend to finance the Waneta acquisition, consistent with our current capitalization profile. Overall, we continue to have a flexibility to pursue incremental organic growth in our existing service territories and other development opportunities not included in our current plan.

We are in a period of relative regulatory stability in 2017, and we continue to ensure we work with all of our regulators in a constructive and respectful manner. We do have 2 current regulatory matters of note: ITC's second ROE complaint decision by FERC and Central Hudson's rate case filing, that we expect to file later today.

At ITC, we await a decision from FERC on the second ROE complaint and anticipate a decision early next year. The rate case expected to be filed today with the New York Public Service Commission by Central Hudson, request an increase in the electric and natural gas rates. We have requested an increase in the allowed ROE to 9.5% from 9% currently and the equity component of the capital structure to 50% from 48%. An order is expected mid-2018.

Beyond these 2 pending regulatory matters, we are also looking at 2 regulatory proceedings in 2018: one at Tucson Electric Power; the other at FortisAlberta. In February, Tucson Electric Power completed the first phase of its rate case, receiving an order establishing its revenue requirement. The second phase for the rate case is ongoing and relates to net metering and the rate design for new distributed generation customers, which is expected to be completed in the first quarter of 2018.

In April 2017, FortisAlberta filed a rebasing application to establish the revenue requirement for the second PBR term and the subsequent distribution rates for 2018. A decision on this application is expected in the first quarter next year. Also, the Generic Cost of Capital process to determine a ROE and capital structure for the period 2018 through 2020 is ongoing. A decision on this is expected in the third quarter of 2018.

I'll now turn the call back to Barry.

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

Thanks, Karl. 2 clear goals for us in 2017: we're realizing the economic benefit of the acquisition of ITC, which remains nicely accretive; and securing a reasonable outcome in our first large rate case at UNS Energy since the announcement of the acquisition in 2013. Achievement of these 2 goals were key factors in delivering strong second quarter results.

Looking ahead, we remain focused on achieving strong operational and financial performance. As we look past 2017, we are seeing upside to our 5-year base capital plan at our utility businesses. The opportunities we are identifying will enhance our ability to serve our customers and grow our rate base. This, in turn, supports our 6% average annual dividend growth target while maintaining a conservative payout ratio.

In closing, I am comfortable where Fortis sits today. We are largely a big wires and gas LDC business delivering energy to millions of customers. It is the quality of our employees, the diversity of our portfolio of utilities, our constructive regulatory relationships, our ability to capitalize on opportunities and our focus on regulated or regulated-like assets that, combined, have created a high-quality, low-risk business that can deliver superior risk-adjusted returns to our shareholders.

And now I turn the call back over to Janet.

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

Thanks, Barry. We've concluded our prepared remarks. And at this time, we'd like we would to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Robert Hope with Scotiabank.

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

Just wanted to touch base on M&A. In some prior calls, you had noted that you look for a large corporate M&A, to take a pause in 2017. You didn't really focus on that during this call and instead focused on your organic growth. Should we take this to potentially read that we -- I guess, in 2017 and beyond, we could see Fortis' growth shifting more towards its organic growth in its core businesses versus corporate M&A?

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

Yes, you got the correct message.

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

All right. That's helpful. And then, maybe just following up on that corporate -- or on the organic growth profile there. When we look at some of your larger projects that are in the potential buckets, specifically Lake Erie, it's seeing good regulatory milestones north and south of the border. Just want to get a sense of when do you think commercial contracts should be secured for that and when we could see an FID for that project, if that is the first of the larger projects that you think will get across the finish line?

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

We're very pleased with the progress on Lake Erie Connector. There seems to be momentum building right now, Rob. Obviously, the big -- a big next thing is the commercial arrangements, and we're very much focused on that. We're hope that -- hoping that we will be able to make progress before the end of this year, and that would lead fairly quickly to sort of announcing a go on the projects. So we're -- I hope that we will have more to say at year end, I would say, for sure, and -- but there are really positive discussions going on right now.

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

All right. And then, just to confirm, so it looks like Lake Erie is the first one to potentially go over that group?

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

I wouldn't place my bets there. We're making great progress on Woodfibre as well. As you know, Woodfibre is not in our current forecast, and we're continuing to have dialogue there and again, hopeful that we'll have more to say about that in our -- even in our third quarter as we head into our Investor Days and stuff as well. So I would say, both -- all 3 of the big projects that we're working on, Woodfibre, Erie Connector and Wataynikaneyap, are very much still in the, sort of, real possibility of moving forward, so we remain very pleased with that, frankly. And another thing, Rob, just on your point at -- about organic growth, I mentioned in my remarks that we -- we're are really digging in to our planning processes and especially related to those outer years of our 5-year plan, and we are seeing upside potential there. And as we finalize our business plan this year, we'll have more to say about that as well.

Operator

Your next question is from the line of Andrew Kuske with Credit Suisse.

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

You've obviously got a pretty wide geography of service territories. If you could just give us maybe some color on fundamental economic changes you're seeing in some of those service territories, maybe with specific focus on just what you have in Western Canada, Arizona and then a little bit on ITC, to the extent that you can comment on that.

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

Thank you, Andrew. Economic activity in British Columbia remains still pretty strong from our perspective. We're adding gas customers, especially. We're also seeing some improvement in construction, in the interior, in our electric business. A lot of folks are selling their homes in Vancouver and moving to the interior and building nice homes in Kelowna. So that business, I think, will continue to grow as well. But on the gas side, as I mentioned in my call, I really believe that our gas business in BC is benefiting from all the economic activity here, and we do have a lot of prospects to expand that business, both in sort of larger projects related to Tilbury and just the normal growth in the business and in maintaining this massive pipeline system that we have here. We have a very large network of pipes in British Columbia that will -- that require pretty substantial asset maintenance over time. So economy is good in BC. Arizona's economy, Tucson is improving. It's the best that we've seen it since we've bought the business. There's a fair number of new jobs being created in Tucson. Firms like Raytheon and Caterpillar are adding jobs in that region. Mining has actually stabilized and picking up. So we're optimistic there. Alberta is stable for us, so we still are investing some substantial capital. Economy is stable now. Customer growth has slowed from historical levels, but we're still adding customers in the market, so we remain very, very pleased with the overall performance of that business. ITC clearly is not as affected by economic matters; it's more about reliability, asset integrity. That business continues to perform well in the Midwest, although I think the economy is picking up in those regions. Michigan has been strong for sure, and we're getting some residual benefits from that with some new larger facilities requiring transmission services, those kind of things. New York is still -- surprisingly, Central Hudson is still in a slow economy in Hudson Valley. I think it takes a lot to move that economy, but if you get a chance, look at the rate case filing today. It's still a utility that will -- that's going to grow at, the fastest of any of our businesses over the next few years, largely related to a sort of asset maintenance and those kinds of capital investments for that region. Eastern Canada, still pretty slow. Newfoundland is -- well, probably they have the worst economy in Canada right now. That's a slow area. We do have a great business there. It's doing well for us. But the economy is definitely slow there. And I think that takes care of most of them.

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

That was very helpful. And then, with that kind of background and context, especially the growth in some of your larger businesses, how do you think about just the probability of backfilling your capital program in the out years to levels that you're seeing, that you've got now?

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

I'm very optimistic about that, Andrew. Obviously, it's going to be a focus of our Investor Days in New York and Toronto that are going to be happening in October. We'll be doing a deep dive into our CapEx programs. But we've historically outperformed, right? So it's not like this is new information. Clearly, we present the numbers that we build up from our various subsidiaries. They do currently show this declining curve. But if there's one thing that I've been focused on this year as we've been integrating ITC, is really trying to sort of get our -- all of our CEOs across our group, to focus on the 5-year plan. Because it's so important that we provide good guidance in that area, and I am expecting to see progress. We may not get fully there this year. It takes a little bit of time to turn this big supertanker that we have here at Fortis, but we are making great progress in filling in those outer years.

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

Yes, you keep upsizing your boat, but I presume that (inaudible)

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

We're at the VLCC size right now. As for the nonoil people, that's very large crude carriers.

Operator

Your next question is from Robert Kwan with RBC Capital Markets.

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

Just maybe on FX exposure and you've got your earnings translation guidance. I'm actually just wondering, when you look at your cash flow and the CapEx mix, Canada versus U.S. from a cash generation out of utilities, how -- does that kind of translation guidance follow on the cash side? Or is there kind of a more muted impact based on the way you're spending and the way cash is coming out of the different businesses?

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

Yes, Robert. It's -- there's a lot of things that go into that calculation and the resulting cash flow, as you can appreciate, but they're similar on terms of direction and so on. We're generating significant cash flows throughout the foreseeable future, not affected terribly by the FX -- change in FX. We are looking at implementing a FX program, hedging program around currency that's tied into our cash flow that flows from the U.S. back into Canada. And I guess, like everybody, we got taken a little bit off guard on how quickly the FX rate changed over the last month or so. But in the near future, we'll put a program in place that's programmed and tied into those quarterly cash flows. So cash flow generation for us is -- continues to be a positive and probably get stronger as we go forward.

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

Okay. Maybe turning to Aitken Creek, how much capacity is currently being used on a proprietary basis? And do you expect this to change over time as you kind of continue to operate the asset?

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

Rough numbers, Robert. It's about 50-50. 50% of the storage capacity and the gas associated with that storage, supplies our gas business here in British Columbia, and the remaining half is sold or rented out to others. And we trade around that other half from time to time in a very low-risk, nonspeculative basis.

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

Okay. And I guess, just on...

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

Yes, we don't anticipate that's going to change much going forward.

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

Okay. And just with the derivative, though, how locked down is it with respect to, like is it a station 2 contract? And do you have firm transportation, like is there any other gaps on the commodity?

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

No. No, no gaps.

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

Okay. Last question is just on Waneta. Have you had any direct discussions with Hydro, particularly post-election with the new Hydro leadership?

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

We've, always have continued dialogue with Hydro almost, just because of the nature of our operations here in British Columbia, on a regular basis, Robert, so that continues. Clearly, they're in a period of transition to new leadership at this point in time with the new government as well. So things are just normal at this point in time there.

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

All right. Nothing specific to read to Waneta at this point?

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

No. No. They're a -- obviously, that's a Teck -- more of a Teck-BC Hydro matter, not a Fortis-BC Hydro matter, so it's a -- we're waiting with bated breath like everyone, so.

Operator

Your next question is from Linda Ezergailis with TD Securities.

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

But I can't avoid asking some regulatory questions. So with respect to Central Hudson, can you describe the basis for your request to increase the ROE and equity thickness? Is it rising interest rates? Is it increased risk, etcetera, etcetera? And are there any other key attributes in your application that have kind of changed versus your current framework?

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

Linda, I have a guy on the phone. Mr. Mike Mosher can give you more than enough detail on that, so I'm going to let Michael, if he's able to speak here, to answer that question. Michael, are you ready?

Michael L. Mosher - *Central Hudson Gas & Electric Corp. - CEO, President and Director*

Yes. Linda, with respect to the ROE, we believe that, that is introducing some risks that really are different and new. So we're asking for an increase of 50 basis points from where we are today. With respect to our increase in equity layer, New York is a bit of an outlier with respect to capitalization for most of the U.S. utilities. And given our strong investment in capital and a desire to maintain our strong financial position, we really do think we need a thicker equity layer. I would categorize the main drivers of the filing really as, across the board, continued modernization of our electric and gas systems, with a lot more distribution investment with respect to modernizing and automating portions of our distribution system. The gas business, it's driven by leak-prone pipe replacement and then a lot more information technology investment.

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

Thanks, Mike.

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

And just maybe a more bigger-picture question. You've got a few large-scale transmission projects in your domestic backyard in Ontario. At what point and in what jurisdictions are you starting to explore other large-scale merchant transmission possibilities?

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

Well, I don't really want any merchant transmission possibilities. Yes, in a true sense of the word, as you know, Linda, we're looking for these long-term contracted assets, that if it's outside the regulatory compact, I'll call it. North America, Linda, is our stomping ground, right? Like it's really -- with ITC's expertise, their strategy is to look at every bit of transmission in North America. Every opportunity in that area comes up, ITC would have been around it. So we're not going to win everything. We're going to get some of it, but that company will be pushing to review every opportunity that comes up. And they're a big thought leader in this area, and we're obviously representing in various sort of states with the RTOs of projects that should be done. And so there's -- I wouldn't want to exclude any geographic location in North America, and that also includes Mexico, by the way, like there will be some transmission built in Mexico, and we're going to compete for that as well, so.

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

Okay. And maybe also with your renewables business, again, you see stuff in Arizona, to a lesser extent in Alberta, in your current backyard. Is there any other jurisdictions where you're seeing the potential for emergent opportunity?

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

Not -- well, Caribbean, frankly, is another area, I would say, that, over the next few years, I'd like to do more solar generation in the Caribbean, especially. That's an area that I think could benefit from that. So we're -- we have a focus there. Clearly, ITC is benefiting from all the wind that's going into the Midwest in terms of transmission, but not participating in the actual generation side of the business given it would lose its independent status, and a piece of its ROE under that basis. We'll continue to monitor how that sort of independence process works going forward. But as of now, it would be a negative to get involved in generation in those regions. In Arizona, clearly, we are progressing our move away from coal, our diversification strategy. We are purchasing solar at Tucson Electric Power from others at very attractive prices. When you think about, we just bought 100 megawatts from NextEra for 20 years at around $0.03 a kilowatt hour. That's pretty incredible. So -- but even there, we would like to own some solar over the next few years as well. And I think we will have opportunities to do that. And so I do want to say that we continue to focus on increasing our renewable power exposure. And the Waneta project, clearly, this purchase from Teck was very much aligned with that strategy and is probably one of the best renewable projects we would have in our portfolio if we were successful in getting it closed.

Operator

(Operator Instructions) Your next question is from Ben Pham with BMO.

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

I wanted to follow up on the question on M&A versus organic growth side of things. And you kind of look back at ITC and currency has moved 10% in the (inaudible) favor and had a couple of quarters of ITC under your belt now, and cost of debt's cheap, and you're willing (inaudible) border. And I'm just curious, your thoughts about just perhaps the hesitation you guys have as you think about doing more M&A in the U.S. because you announced something today, regulatory approval process and whatnot. You're not going to really see earnings until closer to 2019.

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

Ben, we don't need to do M&A, do big M&A. We have a -- now we've -- (inaudible) push into United States over the last 3 years, 4 years here. We own 3 great businesses. We've created a company of size at this point in time. We are now focused on growing that business, and we believe we can grow this sort of very low-risk diversified business that we have, these wires and gas LDCs that we own at a rate that is comparable to the average for the industry, so all that organic growth. And when you couple that with a low-risk nature of our assets, we think that's a powerful combination, and that's where our focus lies right now. Clearly, as you know, U.S. utilities have become very expensive. We still have some uncertainty on policy as well in the U.S. So we're fortunate in a way that -- we said from the day we closed ITC that we're going to be on pause for 2017, and we're taking that time now to really focus on our organic growth profile for the business, and I'm not moving off that at this point in time.

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

Okay. And I mean, it's just on the organic growth that you mentioned, upside potential to your base CapEx plan, are you not -- we'll hear more details in the Investor Day on that. But just curious, does that -- can you comment on the sources of that? Is that driven by some of the economic drivers you mentioned earlier, Barry? And is it more kind of smaller projects that add up to something more meaningful? Or is it more bigger projects that could drive that?

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

Well, Ben, I would go back to the point that we tend to always outperform those outer years. When they arrive, we look back at our forecasting when we were forecasting them at lower levels. When they get here, we were spending more capital. So this -- it's a process issue, mostly, frankly. We really have to get to identify those projects earlier, and we're -- that's where we're spending the time at this point in time. Sure, the economy helps, for sure, but really, it's really getting your forecasting right, and that's where our focus is And I am -- we're seeing that we're going to make progress this year. I don't think we're going to get all the way there. Like I said, it takes a little while to turn the ship a bit, but stay tuned. And then, all this stuff really largely relates to some of our bigger utilities, especially in our pipes in British Columbia, our gas pipes here, asset integrity, those kind of things. And in Arizona is that the regulated business is there in terms of our -- part of our diversification strategy, away from coal, natural gas fired facilities, renewables, those kind of things that you'll see show up in the fall. But we are very optimistic that our -- we have a very strong organic growth story, and M&A is not something we need to do to grow this business.

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

Okay. And maybe lastly, on some of the commentary about Waneta financing, would it be possible like it's -- just listening to some of the comments from Karl with the outcome of the DRIP program and your cash flow generation this year and next. I mean, is it possible you may not even need to do a discrete equity deal if everything pans out in your favor?

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

Yes. I mean, it's certainly in the realm of possibility, Ben. But the wildcard, of course, and the unknown factor right now is the participation rate by our U.S.-based investors, and we'll have a better sense for that in September. But it will be an indicator. I suspect that it will grow over time. For us, we -- rather than look at it on a discrete basis, we're looking at our capital structure holistically. So when that time comes and so we don't expect we're going to close this until near the end of the year, anyway. So we'll have a much better indication then, and we'll have an update for Investor Day, for sure.

Operator

There are no further questions at this time. I turn the call back over to Mr. Barry Perry.

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

Well, thank you, everyone. I think we are complete. Thanks for the participation today, and have a great rest of your summer.

Operator

And this concludes today's conference call. You may now disconnect.