FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fortis Inc.conference call. At this time, all participants are in a listen only mode. My name is Christine and I will be your coordinator today. [Operator Instructions] I would now like to turn the program over to your host for today's call, Manager, Investor Relations of Fortis Inc., Donna Hayes (ph). Please proceed.

Donna Hayes - *Fortis - Manager, Investor Relations*

Good day, everyone, welcome to the teleconference being held by Fortis Inc.

The speakers at this teleconference are Mr. Stan Marshall, President and Chief Executive Officer of Fortis Inc., Mr. Karl Smith, Vice President, Finance and Chief Financial Officer, Fortis Inc., and Mr. Philip Hughes, President and Chief Executive Officer Newfoundland Power.

For your information, Fortis Inc. issued a media release yesterday, announcing it has entered into agreement to acquire Alberta and British Columbia regulated electricity businesses. Earlier today, Fortis Inc. issued a media release announcing filing of a preliminary prospectus for a subscription receipt offering that Fortis has been (indiscernible).

Following the speakers' comments, which we expect to take approximately 15 minutes, you will have an opportunity to ask questions. In asking your question, we respectfully ask that you bear in mind that we are in the process of distributing securities to the public, and proper procedures must be followed.

Please be advised that as this is an analyst and investor teleconference, questions from the analysts will be taken first. If time permits, we will take calls from the media. Please be advised that the duration of this teleconference will be approximately 1 hour.

To ensure all analysts have an opportunity to participate, each analyst in rotation will be given the opportunity to ask a question with one followup question if required. Please note that this teleconference is being webcast and recorded.

I would like to inform everyone that certain information included in this teleconference is forward-looking. By their very nature, forward looking statements are based on underlying assumptions and are subject to certain risks and uncertainties which may cause actual results to vary from planned objectives and estimates. Such events include but are not limited to general economics, market and business conditions, regulatory development, weather and competition.

Fortis Inc.cautions listeners that should certain risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary significantly from those expected.

I will now turn the teleconference over to Mr. Stan Marshall.

Stan Marshall - *Fortis - President, CEO*

Good day, everyone, and thanks for joining us. Fortis Inc. is pleased to announce a major acquisition that positions us as the leading leader in electrical distribution in Canada.

I'll take a few moments to summarize this acquisition and highlight (indiscernible) we believe it will add long term value to our shareholders.

Philip Hughes will then provide an overview of the operations and Carol (ph) Smith will present the key financials.

Fortis has entered into an agreement to acquire the electricity distribution business of Aquila in Alberta and BC for $1.36 billion. Together, they provide electricity to more than 525,000 customers. As some of you may know, Aquila Alberta was formerly (indiscernible) distribution business in Alberta and Aquila BC was (indiscernible).

At year end '02, the companies had an aggregate of $1.3 billion in assets, our regulatory rate base was approximately $943 million. These utilities have (indiscernible) presence in the electricity market in western Canada and operate (indiscernible) territories.

The transaction will more than double the Fortis customer base to approximately 900,000 customers and will expand our service territories across (indiscernible) Canada to five provinces.

We expect the transaction to close in the first half of 2004. The ownership and operational (indiscernible) -- we have a long history of (indiscernible) in Canada and over the last decade we have expanded into Ontario and the Caribbean. Our businesses are structured as separate (indiscernible) companies with strong local management, to assure we stay close to our customers. The (indiscernible) in each jurisdiction, the regulatory relationship is simplified and strengthened. The operations of Aquila Alberta and Aquila BC are (indiscernible) in all material respects to our other (indiscernible) and should benefit (indiscernible) from our stewardship. These business add further geographical diversity. And (indiscernible) is used as business risks traditionally associated with the operation of regulated electrical utilities.

Following the acquisition, Fortis's total assets will increase approximately 75% to (indiscernible) $3.6 billion. A regulated asset base will increase to approximately $2.8 billion of which 85% will be located in Canada.

With that, I will turn the call over to Philip Hughes.

Philip Hughes - *Newfoundland Power - President*

Thanks, Stan. Let me provide you briefly with an overview of the operations of these companies. Both Aquila Alberta and Aquila BC are as Stan said economically attractive franchises with a well diversified customer basis operating in separate and predictable regulatory jurisdictions. And similar to other Fortis utilities under the traditional cost of service regulation where prudent costs are recoverable and a just and reasonable return on capital is provided.

We are very familiar with these kind of assets and this form of regulation. Aquila Alberta owns and operates a distribution system operating through a substantial portion of Southern and Central Alberta. Its operations include approximately 100,000 kilometers of distribution lines, the company serves 385,000 customers and its service territory covers about 169,000 square kilometers.

Its customer base is comprised of residential, commercial, farm and industrial customers -- in other words, similar to the GDP. At December 31, 2002, the company had total assets of approximately $847 million and a rate base of approximately $527 million.

Over the next five years that Aquila Alberta is expected to annually invest approximately $110 million in capital initiatives to enhance reliability of service to customers to maintenance to sustain new low growth and to reduce operating costs. Aquila Alberta is regulated by the AUB or the Alberta Energy and Utilities Board using traditional cost of service methodology.

The current regulated ROE for 2003 is 9.50. Aquila BC generates transmits and distributes electricity in the Southern interior of British Columbia for approximately 140,000 customers. Of these 50,000 are served through the wholesale sale of power to municipal utilities. And as Stan mentioned earlier it was formally called West [indiscernible] Power. In terms of size, its service territory covers approximately 50,000 square kilometers.

Aquila BC's integrated utility assets include four hydro-electricity generating plants on the Cootney (ph) River with a combined capacity of 205 megawatts and approximately 10,000 kilometers of transmission and distribution lines. The company generates approximately 50 percent of its power needs and acquires most of its remaining supply requirements through long-term power purchase agreements. It has virtually no commodity exposure.

At December 31, 2002, Aquila BC had total assets of $461 million and a rate base of approximately $416 million. Over the next five years Aquila BC is expected to annually invest approximately $80 million to enhance reliability of service to customers, including the replacement of significant portions of the transmission systems. It's going to upgrade hydro generation facilities and also fund normal low growth and this in turn will also reduce operating costs. The company's regulated by the BCUC or the British Columbia Utilities Commission. Its revenue rates are based on performance-based regulations which allows the share cost savings of customers above the regulated ROE. In the moment for 2003 Aquila's BC's regulated ROE is 9.82 percent. I'll now turn things over to Carl who will provide some financial highlights.

Karl Smith - *Fortis - VP, Finance and CFO*

In terms of financing Fortis has entered into a credit at the bank of Nova Scotia to provide bridge financing in the acquisition. In order to provide further certainty for the transaction Fortis today has filed a preliminary prospectus for the securities commissions, all the Canadian provinces in respect of the issuance of approximately $350 million of subscription receipts. (indiscernible) subscription receipts will convert into common shares upon closing of the acquisition. These securities are expected to be priced in the context of the market within the next week. Fortis believes that upon completion of the subscription receipts offering it will have satisfied all of its common equity issuance requirements in respect of this acquisition. By closing of the acquisition, funds from this offering will be used to reduce the bridge financing requirements. Following closing Fortis expects that you'll undertake additional preferred shares and debt offerings. Such as on a pro forma basis its total debt to capitalization will be slightly less than 60 percent. We believe this acquisition represents value for shareholders and provides key financial benefits to Fortis. The purchase price of $1.36 billion is approximately 1.3 times the expected rate base at closing. And this multiple is within the range of values obtained in recent years for similar assets.

Over the next five years, we expect the rate base of Aquila Alberta to grow by an average of 6 percent per year and the rate base of Aquila BC to grow by 11 percent per year. Also, based on our extensive experience with similar assets, we believe we can deliver operational savings. And we fully expect to share these savings with customers.

We expect the acquisition to become modestly accretive to earnings at the end of the second year following closing. The increased diversification in asset base, earnings streams and cash flows is expected to reduce the overall risk profile at Fortis. Following this acquisition, Fortis will have regulated utility businesses in five provinces of Canada and in two other countries. Our total asset base will increase approximately 75 percent to surpass 3.6 billion and no one regulated utility will account for more than 25 percent of the earnings, assets, or cash flow of the company.

We believe this acquisition allows us to continue to grow earnings but on a much larger asset base. This acquisition gives Fortis a significantly improved capital market profile. We expect our market cap to increase which should result in greater market liquidity and broader general access to capital.

Aquila Alberta and Aquila BC provide stable earnings in cash flow and in 2002 Aquila Alberta had net income of $28 million and Aquila BC had net income of $12 million, after excluding a $6 million after-tax nonrecurring charge. The stability of earnings and funds from operations will help Fortis to attract the capital needed to grow. Those are the key financial highlights pertaining to this acquisition.

Unidentified Speaker

Operator we will now ask that you open the teleconference for questions.

QUESTIONS AND ANSWERS

Operator

[Operator Instructions] Maureen Howe (ph) of RBC Capital Partners.

Maureen Howe - *RBC - Analyst*

[indiscernible] perhaps maybe you can help. In terms of the capital expenditures for [indiscernible] Alberta as well as Aquila BC, to what extent -- wonder if you could just elaborate a little bit more on what capital expenditures in Alberta will be and also the comfort level you have from the regulators with respect to your ability to get [indiscernible] convenient for the spending.

Unidentified Speaker

Maureen, I can ask Philip to address that question.

Philip Hughes - *Newfoundland Power - President*

In Alberta as most of you know, the assets are a pure distribution company. They -- outside the substation (indiscernible) their sales growth, their maintenance and we believe that with our experience in regulatory and capital expenditures that there should be no problem having the Alberta assets proved by the regulator. You referred to the certificates of convenience in BC. The BC capital expenditures -- there is a large upgrade program on the transmission system they're converting several 69 KV (ph) lines into a brand-new 230 KV system that will reduce costs and reduce maintenance. They're also upgrading the generation facilities even though they're in excellent shape. There are some upgrades that need to be done to improve efficiencies. There are also some substations in BC for example the Basset (ph) terminal.

So it is all solid capital expenditures, very much what we're used to and the assets are ones we're familiar with the hose and wires, hydro generation.

Maureen Howe - *RBC - Analyst*

Well [indiscernible] [inaudible] are these levels of spending levels that have been approved by the regulator?

Philip Hughes - *Newfoundland Power - President*

In BC there has been a major plan that's approved. There will be further approvals required by the regulator which is something that we do in our other utilities. For example, the transmission upgrade if I'm remembering correctly -- the $119 million and that's been approved. The substance of it. And also so that part of that major plan has but there will in the next two, three years be the need to apply for the regulator. We spent expensive due diligence going through it because obviously a key part of this acquisition is the capital expenditures and we had an expensive operations and engineering team that physically reviewed the assets and went through their books and records and had discussions with their various management.

So we're comfortable, but not only is it good for customers, improves our reliability but it will also be approved by the regulator.

Maureen Howe - *RBC - Analyst*

So if I can follow-up with that, then, your factoring in $80 million a year in BC for the next -- each of the next five years?

Philip Hughes - *Newfoundland Power - President*

That's right -- it is an average, it is not always exactly 18. In Alberta it averages a $110 million a year over the five years and BC averages 80 and we spent as I said a tremendous amount of time in diligence with our operations and engineering and also our environmental experts going through that to satisfy ourselves that that was reasonable. And, also, we went through it with our own experience and with our regulatory people to make sure we did not see any problem with it being approved.

Maureen Howe - *RBC - Analyst*

And just for [inaudible] clarification, of the expenditures in BC of the amount approved so far it is 119 million for the transmission?

Philip Hughes - *Newfoundland Power - President*

That was just one aspect of the major plan -- the transmission. There's more details in the prospectus but I'll just (indiscernible) out one item which is a major item which is the transmission. At the moment they've got several lines in the same right of way that are older and this will become much more efficient and reduce electrical losses.

(indiscernible) (inaudible)

Operator

Bob Hastings of Raymond James.

Bob Hastings - *Raymond James - Analyst*

Thank you, yes, just a few operational questions if I might. In terms of looking at the operations, particularly the generation in BC here are there things you saw in your investment that the -- that are potential improvements that can be had that the current management team did not see so you're looking at some additional savings on -- sort of unforeseen by others?

Philip Hughes - *Newfoundland Power - President*

In terms of the generation we felt that the Aquila management was very much on track. There is an extensive program they have. Those plants in particular are well run. In terms of the pulls and wires we believe that we did see more opportunities. We've got a lot of experience operating in some of the harshest environments for electrical utilities. The weather conditions in Atlantic Canada are obviously far worse than they are from an electrical point of view than they are in Alberta, for example the salt and the fluctuating between plus three or four degrees minus five degrees so you get more freezing rain. We get a lot of experience taking cost out. If you look at our other utilities, for example, Borders Ontario we watched being done with (indiscernible) at the moment or Newfoundland Power where you see that the operating cost excluding purchasing costs are essentially flat for a decade with declining operating cost per customer. It's this experience, this sort of acumen that we hope to work with Aquila management to improve the operating efficiencies particularly on the pulls and wires but on the generation, plants are in good shape and they're pretty much on track.

Bob Hastings - *Raymond James - Analyst*

And in terms of transitioning your ownership you made it close in the first half of next year -- I assume you'll be spending a lot more time on these operations in the meantime and do you see that given Fortis's location and now you're a long ways away, will you be sort of making any changes in management structures?

Karl Smith - *Fortis - VP, Finance and CFO*

Well, there's a [indiscernible] will have a super broad [indiscernible] companies are doing prior to closing also take advantage of that and we will have at least one key person up there very soon to focus just on that. So when the time of closing occurs we will have [indiscernible] business and we will have had input for several months. So [indiscernible] operations.

Bob Hastings - *Raymond James - Analyst*

Just one last question if I might -- it's in your previous acquisition they have been more bite size if you will and you've been very successful in making those acquisitions either accretive immediately or sort of neutral with some growth coming in very quickly. This one is diluted [indiscernible] is there -- going back to the operations improvements is that why you're willing to accept dilution earnings effect (ph) , you think there is greater potential here?

Karl Smith - *Fortis - VP, Finance and CFO*

We believe there's a big potential for long return -- no question of that.

Bob Hastings - *Raymond James - Analyst*

Thank you very much.

Operator

Winifried Fruehauf from National Bank Financial.

Winifried Fruehauf - *National Bank - Analyst*

Thank you. [indiscernible] referred to accretion in the second year following closing. What year would that be? 2005 or 2006?

Karl Smith - *Fortis - VP, Finance and CFO*

That would be post 2005 depending on the time of closing. It would be part way through 2006.

Winifried Fruehauf - *National Bank - Analyst*

Okay so if we were to assume that at June 2004 closing we would -- the second year would then be the year ending in June 2006?

Karl Smith - *Fortis - VP, Finance and CFO*

Yes.

Winifried Fruehauf - *National Bank - Analyst*

And taking the premium overbook that you have agreed to pay, plus the five-year plan capital expenditures you spoke about for both BC and the Alberta operations and assuming that the current year approved rates of return [indiscernible] equity portion [indiscernible] will not change. In what year would you be earning 9.5 to 9.82, respectively, on your actual book equity investment?

Karl Smith - *Fortis - VP, Finance and CFO*

Yes it's going to depend on the particular rows in any given year Winifried, as Philip stated it will take some time to get through that premium that we paid, but on a book basis as we've indicated we see this thing getting accretive to earnings until after [indiscernible] second year.

Winifried Fruehauf - *National Bank - Analyst*

Well if you work to take the average capital expenditure estimates for each of the five years and multiply them by five, it would seem to me that it will probably not be until early in the next decade that you would be earning 9.8 to 9.5 percent respectively on your book investment. Is that correct?

Karl Smith - *Fortis - VP, Finance and CFO*

While I understand your point, we tend to look at it a different way in terms of are we adding earnings for the shareholders? And it will take a while to get through the premium, obviously, and get to that rate of return, but with the pace of growth that we're looking at I think it would be faster than most of the other acquisitions that we've made.

Philip Hughes - *Newfoundland Power - President*

The capital expenditures are slightly front ended. So although I gave you the average there's more on the front end than the back end.

Winifried Fruehauf - *National Bank - Analyst*

Yes but would you disagree with me that if for example 9.8 to 9.5 percent were the equity cost of capital, you would not likely be earning that cost until early in the next decade? On these two investments?

Karl Smith - *Fortis - VP, Finance and CFO*

I'd have to go back and look at the exact year but the point that you're making is one that we generally agree with. In terms of its acquisition I think we have to look at the other things that it brings to Fortis and to its shareholders. This is significantly going to expand the regulated aspect base of the company, is going to give us opportunities to do what we've done in the past and earn other or better returns on that regulated rate base, think of Fortis as a pyramid and the higher up you go on the pyramid, the better the returns. But we need to broaden at the base and that is exactly what we are doing now. I also think that is going to improve the business profile of the company. It's going to add some common equity to the Canadian universe for regulated utilities which I think is going to be well-received.

Winifried Fruehauf - *National Bank - Analyst*

I have no quarrel with anything you have said, but you know I have a very simple mind. If I have a dollar, I have an option of spending it on a capital project or giving it to the shareholders. And it's from that perspective that I asked my question.

Karl Smith - *Fortis - VP, Finance and CFO*

And [indiscernible] we accept your point of course that applies to all the acquisitions we've made. We've had a tremendous history of being able to improve our performance and that has been our history that is what the success has been so we went through our application of our [indiscernible] managerial rate of our expertise change this [indiscernible] and improve their performance and improved in terms of shareholders and (indiscernible) that's what we're going to do here.

Winfried Fruehauf

I know that you have proven that you have the golden touch and am prepared to accept that this would apply for this transaction too so thanks very much.

Operator

Matthew Akman (ph) of CIBC world market.

Matthew Akman - *CIBC World Markets - Analyst*

On a strategic level I am wondering whether you can get more specific about some of the strategic benefits of these assets other than Carl I understand that it would fit with your current asset base the regulated electric utility [indiscernible] but is there anything you can do with these assets over and above run them efficiently you think in terms of maybe splitting any parts off or merging with anything else or spending part out or doing anything like that that creates value here?

Karl Smith - *Fortis - VP, Finance and CFO*

That's another approach to things but again, go back to the history what we've done, we got involved with other distribution companies. We found that that had been to other opportunities on the French that we can capitalize on so we tend to have incremental value that way as opposed to giving directly [indiscernible] . So I think there are opportunities here but not the way you've expressed [indiscernible] Philip you want to add that.

Philip Hughes - *Newfoundland Power - President*

Yes we think there's some good opportunities to revenue growth in our other utilities. We've done a lot of work with the telcos, the cable companies and various other people that has enhanced returns and there is relatively little revenue growth at the moment going on in these two companies. We believe that there are opportunities on that side. Exactly, as Dan said sort of a growth from an organic kind of viewpoint.

Matthew Akman - *CIBC World Markets - Analyst*

So just to follow on that, you think there is something you can do with telcos on these assets?

Karl Smith - *Fortis - VP, Finance and CFO*

Just an example what we intend to do a lot of things like [indiscernible] generation for example [indiscernible] small [indiscernible] jurisdictions which had additional value (indiscernible).

Philip Hughes - *Newfoundland Power - President*

An example in our past is that we did transaction with Alliant in Atlantic Canada and that worked out very well for both Alliant and ourselves with both [indiscernible] core competencies and enabled them to reduce costs and us to increase revenue.

Matthew Akman - *CIBC World Markets - Analyst*

Okay, just moving on. In terms of announcing, how do you expect, Carl, I guess rate agencies to react to this level of equity that you're suggesting 250 (ph) million gross? Can you tell us how much preferred you have to do in your mind to get to that 60 percent debt level and then how do the rating agencies, how are the rating agencies going to look [indiscernible] in the next couple of years they going to look at that and give you equity credit or more debt?

Karl Smith - *Fortis - VP, Finance and CFO*

Okay. We are financing plan, starts with the equity. We will do $350 million in equity -- common equity. We then anticipate that we will do an amount of preferred -- there will be more preferred shares than there will be debt in the rest of the financing requirement. As I indicated in my comments, at the end of the day once we get through the financing for this we expect our debt to total capitalization will be around the 60 percent level. For regulated assets, regulated distribution assets, primarily, that we have here and bear in mind that 85 percent of the company will now be Canadian regulated assets. We think that preferred equity is an appropriate, permanent source of capitalization. We think that the benefit coming out of this in terms of the credit rating is the business profile. We know that there have been some concern expressed by the rating agencies concerning the business profile for us and we think this is a big big step in mitigating some of those concerns.

Matthew Akman - *CIBC World Markets - Analyst*

Okay and how much prep did you say you need to do?

Karl Smith - *Fortis - VP, Finance and CFO*

I think we are probably looking somewhere around -- we're probably looking somewhere in the neighborhood of 200 million.

Matthew Akman - *CIBC World Markets - Analyst*

Last question just a small thing that showed up in the prospectus -- this is a lawsuit outstanding relative to I guess [indiscernible] responsibilities that Aquila had in delivering on the retail codes. Just want to understand whether you have a view on the potential exposure there and whether that would be your responsibility going forward?

Karl Smith - *Fortis - VP, Finance and CFO*

We have a comprehensive view of that litigation. We incorporated [indiscernible] purchase price. There's a reserve for over $4 million directly, I think, attributable to that, certain other things we set up but we will assume responsibility after closing. We think certainly [indiscernible].

Matthew Akman - *CIBC World Markets - Analyst*

Thanks - that answered all my questions.

Operator

Karen Taylor of BMO Nesbitt Burns.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

Thank you. Given the present state of Aquila and their well-known financial troubles can you describe for me if you have had any discussion with the regulators and whether you anticipate that they could put any sort of special condition on the purchase and sale of these assets by Fortis, considering that it's a large transaction versus your total market cap? Has there been any thought that the size of the acquisition financial capability might cause the regulators to impose more stringent financial conditions, in particular, because the West [indiscernible] conditions on sale by Aquila I believe were never actually affected and can you just generally describe how you think this is going to be perceived by the regulators?

Karl Smith - *Fortis - VP, Finance and CFO*

I think that should be welcomed by the regulatory authorities in British Columbia in particular because they're aware of our models that we elect to maintain, (indiscernible) separate stand alone entities, their own management teams and their own capability (indiscernible) to raise capital so I think that will be well received. Obviously can't speculate on the future of Aquila, I think we've addressed it to the degree we can in the [indiscernible] taken advice from U.S. Council (indiscernible) of things. We don't anticipate any particular difficulty there. Overall, we think the -- our acquisition will be well received in Canada [indiscernible].

Karen Taylor - *BMO Nesbitt Burns - Analyst*

You mentioned something about the sharing as far as aware of West [indiscernible] had a one year extension on the PBR that was effective January 1st of 2000 and was to have expired at the end of 2002 and to best of my knowledge Alberta-based assets are not yet subject to PBR, so when you're talking about a sharing an operational efficiency unless you do get PBR (ph) put back into place where BC initiates in Alberta, how are you going to have those benefits flow through to the shareholders?

Philip Speaker

If you go through the two jurisdictions, in Alberta, Alberta now doesn't now have to have the rate case every year.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

Uh-huh. No, I know.

Philip Speaker

So if we're correct in that we can use a model in expertise to have cost savings in between rate cases that would be not only improved earnings but also if anything adverse came up -- surely it will in some places -- you've got more savings to cover it so you've got the periods between rate cases. You've also in the BC side as you say you got the PBR, so it's through things like that and if you look at our other utilities and you say lookit, say the earnings the returns as you well know on say, Newfoundland Power, you would've seen earnings that were higher than the expected range based on those operational efficiencies.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

We're going into a generic rate hearing for 2004 - it started on Nov. 12th [indiscernible] in Alberta for determining ROE so I guess what I want to make sure you're sort of banking on the notion that the 2003 rates settlement or decision as it came out which was quite punitive to Aquila, you'll be able to not go back for '04 and then further to that than you expect operating efficiencies to overcome the deficiency of the taxes that are less that you're collecting (indiscernible) less than what you're actually paying so that you actually are denying the half percent at [indiscernible] [indiscernible]. Is that fair?

Philip Hughes - *Newfoundland Power - President*

Without getting into the details we've assumed that on a regular basis, there are rate cases. We've also assumed that we will be able to.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

When you say -- when you say rate cases on a regular basis is that every year every two years and when do you assume that you're going to file the next rate case in Alberta?

Philip Hughes - *Newfoundland Power - President*

I'd rather not get into the exact details of what is in or not in our forecast but, obviously, we're very experienced with these kinds of jurisdictions and what will happen is that between rate cases if we are correct that our experience in expertise and particularly (indiscernible) the polls and buyers which is exactly what Alberta is is 100 percent pulls and wires company and say for example if you are to look at Fortis Ontario or Newfoundland Power the cost history and operating costs for customer is fairly impressive. If we're able to do that and we believe based on a very, very thorough review that we will be able to, then you will see the efficiencies come. And they come over a period of time. And as they come over a period of time, there will be a sharing with customers.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

Thank you very much.

Operator

Jonathon Norwood -- Equity Research analyst.

Jonathon Norwood - *Beacon Securities Ltd - Analyst*

I have one quick question. My original question was already asked, but can you comment on the dividend policy going forward, because a larger percentage of your bottom line will come from regulated utilities now. Just wondered if you're considering a higher payout, I think you slipped to around 50 percent trailing twelve-month earnings at this point?

Unidentified Speaker

Jonathon, we're proud of our historical [indiscernible] record and we know we have the power [indiscernible] and we've increased our dividend in each of the last 30 years and those are things we are very proud of -- we think this transaction will enhance our ability to carry on those important track records.

Jonathon Norwood - *Beacon Securities Ltd - Analyst*

So you haven't set any target pay or ratio at this point?

Unidentified Speaker

We had never [indiscernible].

Jonathon Norwood - *Beacon Securities Ltd - Analyst*

Okay, do you expect to increase it from 50 percent?

Unidentified Speaker

We expect to preserve our record.

Jonathon Norwood - *Beacon Securities Ltd - Analyst*

Okay, thank you.

Operator

Kelly Woodall of UBS.

Kelly Woodall - *UBS - Analyst*

All my questions have been answered. Thank you.

Unidentified Speaker

Are there any more questions from the analysts?

Operator

Maureen Howe from RBC Capital Markets.

Maureen Howe - *RBC - Analyst*

Thanks very much. Couple of questions on the income for the two utilities that you gave, I think it was 28 million for the Alberta system and 12 million for BC. It looks like, based on those numbers BC's earning about a 7 percent ROE at the Alberta asset business about a 13 percent and just wondered if you can particularly address the under earning in British Columbia?

Philip Hughes - *Newfoundland Power - President*

I can't comment on those specific numbers and, probably, I shouldn't either, but we expect BC to earn a very respectable return.

Maureen Howe - *RBC - Analyst*

I mean, it is historical numbers so if it's 12 percent is there something that is dragging that number down?

Philip Hughes - *Newfoundland Power - President*

Well, if you're talking about the history, don't forget there's the write off of the Weldon plant in the goodwill. I think it was $10 million, was it, Karl?

Maureen Howe - *RBC - Analyst*

10 million before tax. So is that a one time thing, the 12 million then is not a run rate, it is a one time item [indiscernible].

Philip Hughes - *Newfoundland Power - President*

What happened in the Weldon (ph) plant there was a breach and the breach has been repaired. The Weldon plant is a non-regulated asset and we've believed that the Weldon plant has been written down to a realistic value. So sorry Maureen, I didn't realize you're going historical but there was that $10 million write-down.

Maureen Howe - *RBC - Analyst*

Okay and just with respect to these capital spending numbers, you said they're front end loaded so if I put the two numbers together and assuming that they're front end loaded I guess for (indiscernible) going forward for the next couple $200, $300 million a year and I just am wondering, Karl, what financing plan for that level of capital spending is going beyond this acquisition level but to finance the capital expenditures for the next couple of years?

Karl Smith - *Fortis - VP, Finance and CFO*

We will use the same approach, Maureen, that we used with our other utilities in that , for the most part, they will self finance themselves. We anticipate that there will be a requirement for modest equity injections because of the capital expenditures over the next couple of years. But beyond that, they should be pretty well self financing.

Maureen Howe - *RBC - Analyst*

(inaudible) to be back in the market within the next year or two to bolster up the equity component reflecting these capital expenditures?

Karl Smith - *Fortis - VP, Finance and CFO*

The amounts I'm thinking about are very modest, in terms of going forward, it will get thrown into the bigger mix of what else is happening with Fortis to the extent that we can generate the capital that's required for these businesses from our other businesses then that would mitigate the need to go back to the market.

Maureen Howe - *RBC - Analyst*

Okay, thank you.

Operator

Bob Hastings of Raymond James.

Bob Hastings - *Raymond James - Analyst*

Just a couple of things, one is just a follow-up on Maureen's question and the level of the BC earnings. As I understand that $12 million of earnings was excluding not including but excluding the $6 million after-tax non-recurring charge. Is that not correct? That's what it says in the perspectives. And if so the 12 million on the (indiscernible) equity (indiscernible) 7 percent return so going back to her question why would it be so low?

Karl Smith - *Fortis - VP, Finance and CFO*

It should be 16 million before the Weldon write-down.

Bob Hastings - *Raymond James - Analyst*

Prospectus says it's 12 million after a $6 million non recurring charge which I assume is a Weldon write-down.

Karl Smith - *Fortis - VP, Finance and CFO*

I am just going through the perspective of looking at the BC numbers on page 41 which is [indiscernible] income statement. 6 million then [indiscernible] was 10 million [indiscernible].

Bob Hastings - *Raymond James - Analyst*

I am on page 6, there must be a contradiction. So, but again, going back to that. That is a pretty low return excluding the Weldon charge.

Philip Hughes - *Newfoundland Power - President*

Yes. We have looked at this. I mean, if you look at both the Aquila Alberta and the Aquila BC, their track record on earnings hasn't been that stellar and hasn't been that consistent. One of the things we looked at is to whether there was a continuing likelihood of this happening or whether we could put in the kind of year-in, year-out earnings that we get in the rest of the group, and from these two utilities. And we're comfortable that there will be a similar track record to our other utilities, but we did spend a fair amount of time. If you look at Alberta, you got similar items. You got the change in depreciation that occurred which obviously affected the tax flow and also affected the goodwill so there are a series of these items.

We also went through the O&M and also what would happen in the various regulatory developments that are coming off (ph) with the capital expenditures, but the comment is a fair comment. The track record has not been that great and, obviously, that was one of our biggest concerns.

Bob Hastings - *Raymond James - Analyst*

You're building into your model, it sounds like it will immediately go to normal returns.

Philip Hughes - *Newfoundland Power - President*

Things -- obviously something like Weldon (ph) is nonregulated but there are some charges that produce (indiscernible). There also was the depreciation.

Stan Marshall - *Fortis - President, CEO*

[indiscernible] BC integration.

Karl Smith - *Fortis - VP, Finance and CFO*

Bob, if memory serves me, there were a couple of items that were disallowed by the regulator. One was an O&M charge, there was also some disallowance with respect to certain integration charges, I believe. The point there is that we will apply the Fortis model to the running of these businesses whereby we have separate autonomous operating units. And that's the assumption that we've applied on a go forward basis. Which should in our view alleviate some of the regulatory issues.

Stan Marshall - *Fortis - President, CEO*

[indiscernible] in answer to your question, we think the real value we bring here is just that this managerial (indiscernible) experience which prevents these sorts of things from happening, these allowances and what not, so we wouldn't expect [indiscernible] stewardship, I think these things would happen -- in fact, we hoped none of them will happen.

Bob Hastings - *Raymond James - Analyst*

Just wondering if you built your prowess (ph) on the regulatory side and operational side into your number or there is some upside beyond that?

Karl Smith - *Fortis - VP, Finance and CFO*

Bob we're assuming a normal regulatory relationship on a go forward basis. Normal being in the context of what we at Fortis [indiscernible] is normal.

Bob Hastings - *Raymond James - Analyst*

Fair enough, you guys have got a good track record there. In terms of we talked about the level of the -- or the dilution and how long it might go on for in the first year I was working acquisition number closer to a percent dilution level is that found in the ballpark with your numbers?

Stan Marshall - *Fortis - President, CEO*

You've heard in numbers now that we are assuming for the comment equity issuance so but really that's about all I want to say in respect to that.

Bob Hastings - *Raymond James - Analyst*

Okay and then speaking of the financing, I believe you said that the common equity would represent just over 40 percent of the capital structure which would be an improvement?

Stan Marshall - *Fortis - President, CEO*

No I said the total equity including [indiscernible] and common, would be approximately 40 percent.

Bob Hastings - *Raymond James - Analyst*

Including the prep, sorry. Are there any tax issues here with your debt financing getting the interest deductible? Will you be looking at change structure on that side of things?

Stan Marshall - *Fortis - President, CEO*

I don't think we have to worry too much about that. The amount of debt that will end up ultimately getting ready at the Fortis level is about $160 million. And we think we've got the capacity to be able to deal with that.

Bob Hastings - *Raymond James - Analyst*

I am wondering now that since you are focusing more on the regulated operations in Canada, whether you would consider anything with Fortis properties in terms of the sale whether you need that now?

Stan Marshall - *Fortis - President, CEO*

No. We've always used Fortis properties to [indiscernible] acquisition so look that [indiscernible] same thing. So [indiscernible]. But going back to your earlier question here, Bob, (indiscernible) capital [indiscernible] [indiscernible] powers less rate hearing we had 100 percent of our cost allowed, so this is sort of [indiscernible].

Bob Hastings - *Raymond James - Analyst*

Thank you very much.

Operator

Karen Taylor of BMO Nesbitt Burns.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

I just want to come back to something you said to Bob before we move on. You said previously that you do about 200 million of press the equity issue given the prospectus is 350 for a total of 550. And that the debt you assumed to put on the whole (indiscernible) level is about 160. Is that all correct then and that's why I am assuming the difference in (indiscernible) to the utility asset?

Stan Marshall - *Fortis - President, CEO*

Yes and I assume that you haven't had a chance to go through the perspectives in detail yet, Karen, but when you get through that you'll see that the purchase price we come up with is 710 million.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

That's the premium is it? When you say the purchase price that's the 1.36 million less the utility debt assumed?

Stan Marshall - *Fortis - President, CEO*

I am talking about our equity price -- what we're paying for the equity is 710 so in other words, what we have to raise is the 710 and the rest -- the difference between that and the 1360 that you're referring to will be the assumed debt [indiscernible].

Karen Taylor - *BMO Nesbitt Burns - Analyst*

Okay, the purchase price discrepancy. Can you just tell me what it is, I am assuming it's in the prospectus but I haven't got there yet.

Unidentified Speaker

[indiscernible]

Stan Marshall - *Fortis - President, CEO*

I am not quite sure what you're referring to.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

There is going to be a difference of goodwill if you will. Is it going to be treated as goodwill or is it going to be allocated to the assets and amortized?

Stan Marshall - *Fortis - President, CEO*

No, we will treat it as goodwill.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

So it will not affect earnings.

Stan Marshall - *Fortis - President, CEO*

There are some adjustments to the assets and liabilities values. But they aren't that significant and again I think you will find that that's laid out in the prospectus.

Karen Taylor - *BMO Nesbitt Burns - Analyst*

Okay and come back to my -- no I think that was it. Thank you.

Operator

Winifried Fruehauf of National Bank Financial.

Winifried Fruehauf - *National Bank - Analyst*

Thank you. Regarding the BC operations if the 2003 rate base were to grow by 11 percent from 2003 to 2004, the 40 percent equity would not change and the rate of return earn down of 98.2 would not change. Do you expect that you would actually be earning 9.82 percent on that rate base in 2004 and if not, why not?

Stan Marshall - *Fortis - President, CEO*

Our expectation would be that we would earn on that.

Winifried Fruehauf - *National Bank - Analyst*

And the same for Alberta? Using the different rate of returns?

Philip Hughes - *Newfoundland Power - President*

[indiscernible] in Alberta as we mentioned earlier that there was cost of capital here but we would expect to earn the returns expected on the rate base growth.

Winifried Fruehauf - *National Bank - Analyst*

Thanks very much.

Operator

Jeff Gildersleeve of Millennium.

Jeff Gildersleeve - *Millennium - Analyst*

Hi, thanks for having the call. Just wondering -- you might have said this early on, but if something changed is there a breakaway, do you have the ability to get out of this transaction if you discovered something that wasn't to your liking and if so, what is the break up fee?

Philip Hughes - *Newfoundland Power - President*

In the transition period between execution of the PSA and the closing there is quite extensive arrangements if something deficient is found. There's also a material -- there's material adverse events and material adverse conditions. It's covered quite extensively. My understanding [indiscernible] Karl those PSAs are going to be filed but in those kind of unfortunate events we believe that the two PSAs' purchasing sales agreement or share purchase agreements, whatever you want to call them, cover those contingencies.

Jeff Gildersleeve - *Millennium - Analyst*

Okay but there is not a stated amount that you would have to pay in order to break off the acquisition?

Philip Hughes - *Newfoundland Power - President*

No.

Jeff Gildersleeve - *Millennium - Analyst*

No? Thank you.

Operator

Paul Mark of Edmonton Journal.

Paul Mark - *Edmonton Journal - Media*

I just want to if I could get some clarification on the status of that outstanding airport lawsuit that was with Aquila. If I understood from your earlier comment that this is part of the transaction and you absorbed the future liabilities for this, is that correct?

Stan Marshall - *Fortis - President, CEO*

We will assume responsibility for after closing. At that time current owners are responsible for it, we've made major provisions for it and we're currently looking at the details and ascertain the details of the claim and we will (indiscernible) responding when we have those.

Paul Mark - *Edmonton Journal - Media*

Okay and secondly could I just get an indication of what your headcount will be like out here in the West once this transaction is complete? Will you be taking on all of Aquila's people and will you be sending any of your own west from Newfoundland?

Stan Marshall - *Fortis - President, CEO*

We don't contemplate any major crisis as I said earlier [indiscernible] key people to make sure that the company is operating in accordance with our philosophies in up and up to our standards. At this point in time there is no major change contemplated and this is analysis we will do between now and closing and indeed over a year or two [indiscernible] but there's no planned layoffs.

Paul Mark - *Edmonton Journal - Media*

Okay, gentlemen, thank you very much.

Operator

Nancy Walsh of CBC Radio.

Nancy Walsh - *CBC Radio - Media*

My question's just been answered, thank you.

Operator

There are no more questions in the queue.

Donna Hayes - *Fortis - Manager, Investor Relations*

Mr. Marshall will now make the concluding remarks.

Stan Marshall - *Fortis - President, CEO*

Thank you all again for participating in this conference and as I think I reiterated throughout the thing, we are planned to carry on a strong history of profitable growth and as we move forward (indiscernible) focused on building upon that record. We believe that this acquisition makes a significant contribution to enhance the value for the shareholders and improve shares service to our customers and of course just focused [indiscernible] Canada and that's where we want to be. Thank you very much.

Operator

Ladies and gentlemen, this concludes your conference call. You may now disconnect.