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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Emera Q2 Analyst Conference Call. (Operator Instructions)

Please note that this call is being recorded today, August 10, 2018, at 9:00 a.m. Eastern time.

I would now like to turn the meeting over to your host for today's call, Ken McOnie, Vice President, Investor Relations and Treasurer for Emera. Please go ahead, Mr. McOnie.

Ken McOnie - *Emera Incorporated - VP of IR & Treasurer*

Thank you, Dan, and good morning, everyone, and thank you for joining us for Emera's Second Quarter 2018 Call and Live Webcast.

Emera's second quarter earnings release was distributed yesterday after market closed via newswire and the financial statements, management's discussion and analysis and the presentation being referenced on this call will be available on our website at emera.com.

Speaking on the call today is Scott Balfour, Emera's President and Chief Executive Officer; and Greg Blunden, Chief Financial Officer. Scott, Greg and other members of Emera's management team will respond to your questions following their prepared remarks.

This morning, Scott will begin with an update on the business and our strategic initiatives, and Greg will follow with an overview of the financial results. We expect the prepared remarks to last about 15 minutes, after which we will be happy to take questions from analysts.

I will take this moment to advise you that this conference call will contain forward-looking information and statements with respect to Emera. Forward-looking statements involve significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements. Generally, these factors or assumptions are subject to inherent risks and uncertainties surrounding future expectation. Such risk factors or assumptions include, but are not limited to, regulation, operations and maintenance, energy prices, general economic conditions, weather, derivatives and hedging, capital resources, loss of service area, licenses and permits, environment, insurance, labor relations, human resources and liquidity risk. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements.

And now I will turn things over to Scott.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Thank you, Ken, and good morning, everyone. Before we dive into the quarter, I'd like to take a moment to welcome Jim Bertram and Jochen Tilk to Emera's Board of Directors. Jim and Jochen are both accomplished executives with extensive experience leading and building Canadian publicly traded companies. I have no doubt that their business board and public market depth, combined with respective backgrounds in the energy and natural resource sectors will make them invaluable to our board.

Yesterday evening, Emera reported second quarter 2018 adjusted net income of $111 million or $0.48 per share compared to $117 million or $0.55 per share in 2017. Results for the quarter were slightly below our expectations and reflect the challenges of less favorable weather in key service territories, timing differences in our Nova Scotia and Maine utilities, and a stronger Canadian dollar. However, for the year-to-date 2018, I'm pleased to report that Emera has delivered adjusted net income of $313 million or $1.35 per share, and operating cash flow before changes in net working capital of $767 million. This represents a 6% increase in our adjusted EPS and a 9% increase in our cash flow year-over-year. I will also point out that the results -- the year-to-date results continue to track in line with our expectations of delivering adjusted EPS and cash flow growth in the range of 10% or higher for the full year.

We've had a busy and productive first half of 2018. In addition to delivering strong year-to-date financial results, the team has made good progress on a number of key initiatives. In May, we announced that we would be proceeding with the opportunity to modernize our Big Bend Power Station in Florida. The modernization will include repowering unit 1 and retiring unit 2 early. Unit 1 will be repowered with 2 natural gas combustion turbines and 2 heat recovery steam generators that will generate steam for a refurbished steam turbine. Construction is expected to take approximately 5 years with in-service dates of 2021 for the combustion turbines and 2023 for the full combined cycle. This USD 850 million investment will significantly reduce the carbon intensity of the energy produced by the facility and is expected to generate savings on a net present value basis of approximately $750 million for customers. Detailed engineering is well underway, and we expect to receive the necessary environmental approvals to advance construction in or around May of 2019.

Also in Florida, we continue to make good progress on our solar investments. So far, we've invested approximately USD 400 million of the forecasted total capital spend of $850 million, and remain on track to bring the first tranche of 145 megawatts online in September, with the second tranche of 250 megawatts scheduled to follow in January of 2019.

Pursuant to the solar base rate adjustment mechanism, or SoBRA, announced in September of 2017, as each tranche of solar is brought online, there is an immediate cash recovery in customer rates. Tranche 1 will add USD 8 million of incremental revenue in 2018, and tranche 1 and 2 combined will add $70 million of revenue in 2019.

As we highlighted in our first quarter call, the Florida Public Service Commission has already reviewed and approved tranche 1. In June, we filed the cost of tranche 2 for review and anticipate a positive decision in October. We believe that there is further capacity in the Florida grid for solar, and we are actively looking at the potential to develop an additional 600 megawatts post 2020. While additional fast-acting generation is needed on the Florida grid to enable this additional solar capacity, our investment in the modernization of Big Bend will do just that and provide the important backup generation required, in addition to the other customer benefits of that project.

Our investments in Tampa Electric highlight the significant opportunity we see to grow rate base of the utility while transforming its energy mix.

Over the next 5 years, we will invest over USD 1.7 billion or approximately CAD 2.2 billion in our solar and Big Bend projects, which will add cleaner, more efficient generation to the system for customers, while growing earnings and cash flow for shareholders. To put that in perspective, these 2 projects together will drive the earnings and cash flow growth of more than 2 Maritime Link Projects, all while significantly reducing the carbon intensity of Tampa Electric's energy mix.

In 2017, 69% of the utility's energy was generated from natural gas, 24% was from coal, and about 6.5% was from other sources, including solar. In 2023, it will be about 75% natural gas, 12% coal and about 7% solar, with 6% from other sources.

The constructive regulatory regime in the state of Florida allows us to be confident that making these investments will deliver on our strategy of delivering long-term value to shareholders by delivering value to customers.

At Emera, we believe that to keep pace with the evolving needs of customers and to remain a leader in the North American utility space, innovation needs to be the center of what we do. With that in mind, we're continually looking for ways to invest in customer-focused technologies.

On June 12, the Nova Scotia Utility and Review Board approved Nova Scotia Power's plan to invest $133 million to upgrade all customers to smart meters. Installation of the meters is expected to begin at late 2019, and over the life of the investment, the project will reduce costs in the electrical -- in the electricity system by almost $40 million. NSP's investment is one in a series of advanced meter infrastructure, or AMI, investments being made across Emera. Over the next 5 years, we expect to invest approximately $500 million in AMI technology to upgrade over 1.5 million meters across 4 utilities. Our companies are collaborating across our operating regions to take advantage to combine purchasing power and to share best practices.

We believe that using this cross utility strategy will allow Emera to become a global leader in third-generation AMI technology. Our investments in Big Bend, solar and AMI form part of our $6.7 billion or about $2 billion a year capital forecast over the next 3 years. Our capital program focuses on investments in renewable and clean energy, modernization of aging infrastructure and customer-focused technologies.

Our 3-year capital program has increased significantly since we acquired TECO in 2016. At that time, we had identified approximately $4.2 billion of capital projects across the 2 companies. As we've integrated TECO into the portfolio and deployed Emera's strategy in that business, we've identified an additional $2.5 billion of accretive rate-based investment opportunities. Projects which will drive both significant value for customers and strong investment returns for our shareholders.

Our capital program is expected to drive above-average rate-based growth through to the end of the decade. Our rate-based growth profile is underpinned by sustainable and consistent growth in our Canadian, Caribbean and Maine utilities and driven by highly accretive growth investments in our Florida utilities. The rate-based profile presented reflects a conservative estimate of our growth plans and only includes projects that we are highly confident will proceed. We will continue to fill in our forecast as projects are approved.

As we highlighted on our Q1 call, we are in the midst of completing our regular strategic planning process, and we anticipate providing a refreshed long-term capital forecast, including financing considerations in the Fall. Our ability to deliver strong dividends to our shareholders and to grow that dividend level at a rate that is sustainable as well as attractive to shareholders is central to our thinking and value proposition. Over the past 4 years, our long-term shareholders have supported the construction of the Maritime Link Project and the acquisition of TECO Energy. During this same period, we are proud to highlight that Emera has grown our annual dividend from $1.55 per share to $2.35 per share, or by 11% on a compound annual basis, and delivered total shareholder return of over 10.5% compared to the approximately 6% delivered by the TSX Capped Utilities Index.

As we look at the significant near-term accretive rate-based opportunities in front of us today, we are mindful of our objectives to balance the funding of these investments with Emera's capital-raising activities, dividend payout ratio and capital structure objectives.

In that light, yesterday, we announced a modification to our dividend growth target from 8% through 2020 to a range of 4% to 5% through to 2021. We also announced an increase of the annual dividend to $2.35.

The decision to modify our dividend growth target was not taken lightly. We believe that this new target will better balance the need for funding flexibility for the business, while still providing a reasonable target growth profile and dividends for shareholders. In this, it's important to understand that the $6.7 billion investment we are making in rate base over the next 3 years is expected to drive adjusted earnings per share growth over the same period at a level that exceeds the new targeted dividend growth guidance. I would also note that as we continue to grow our dividend through to 2021, we're confident that we will still more than fully achieve our previous growth target of 8% through to 2020.

Overall, I'm pleased with the results of the year to date and the progress we've made advancing our capital program. I believe the changes we made to our dividend guidance will allow Emera to more efficiently finance the accretive rate-based growth opportunities we see in front of us, while continuing to provide above-average, long-term returns to shareholders.

And with that, I'll turn it over to Greg for the detailed financial results. Greg?

Gregory W. Blunden - *Emera Incorporated - CFO*

Thank you, Scott, and thank you all for joining us this morning. We released our earnings and filed our quarterly financial statements and MD&A for the second quarter of 2018 yesterday afternoon after market close.

In Q2 2018, Emera reported adjusted net income, which excludes mark-to-market adjustments, of $111 million and adjusted earnings per share of $0.48 compared with adjusted net income of $117 million and $0.55 per share in Q2 2017.

Our June year-to-date adjusted net income was $313 million or $1.35 per share compared to $269 million or $1.27 per share for the same period in 2017. As Scott mentioned, while the results of the quarter were slightly below our expectations, we are pleased with the growth in our year-to-date results and are confident that we'll deliver adjusted earnings per share growth of at least 10% for the year.

We also reported an increase in our year-to-date operating cash flow before changes in net working capital of $64 million or 9% to $767 million. Operating cash flow is a key metric for our business, because this is a basis upon which our credit metrics are calculated. The increase was in line with our forecast, and we expect that our annual operating cash flow growth will approximate earnings growth for 2018.

And now the details for the quarter. Emera Energy experienced a typical shoulder season and performed as expected in the quarter. Margins in the Marketing and Trading business reflected 2017, while the generation business realized higher capacity revenues in the quarter. Energy margins also improved in Q2 2017 -- over Q2 2017, reflecting the impact of the unplanned outage at Bridgeport Energy from mid-March 2017 to mid-June 2017.

Florida and New Mexico experienced less favorable weather conditions in their service territory during the quarter. Compared to 2017, spring conditions in Tampa were relatively mild and wet, which decreased the number of cooling degree days and reduced overall load at Tampa Electric. Lower revenues due less favorable weather were partially offset by lower OM&G as a result of successful cost-containment efforts.

At Peoples Gas, earnings increased by approximately USD $2 million in the quarter compared to Q2 2017, as the utility continues to experience strong residential and commercial customer growth. Over the past 5 years, Peoples Gas has been growing its customer base annually by approximately 1.5x the population growth rate for the state of Florida.

Emera Maine's earnings continued to be impacted by the late season nor'easters experienced at the end of Q1. The storm activity delayed capital spending, which has increased utilities OM&G compared to last year. Despite these delays, we expect to complete our planned capital projects over the balance of the year, and anticipate that more OM&G will be capitalized as we ramp up our capital program. Maine's earnings were also impacted by the Maine Public Service Commission decision on our distribution rate case.

On June 19, the PUC concluded their deliberations, which included assessing the impact of the U.S. tax reform and how the benefits would be incorporated into rates. Because our initial filing was in October 2017 before U.S. tax reform was passed, our revenue requirement did not include the benefits of tax reform. Prior to the PUC concluding its deliberations, Emera's position was that the utility would retain the benefits of tax reform until new distribution rates came into effect, on the basis that overall rates were just and reasonable since tax reform would not cause the utility to earn in excess of its allowed ROE. The PUC disagreed with our position and has ordered that beginning on January 1, the benefits of tax reform are to be returned to customers. As a result, we have recorded a USD $2.5 million regulatory liability in the quarter in addition to some other smaller regulatory adjustments related to the decision to reverse the benefits of U.S. tax reform recorded in the first half of the year. The benefits of tax reform from January 1 onwards have been incorporated in the new distribution rates that came into effect on July 1.

While we are disappointed with the PUC's decision on the treatment of tax reform benefits for the first half of 2018, we are pleased that they have increased our allowed ROE from 9% to 9.35%.

Over the past couple of years, Nova Scotia Power has made significant investments in IT infrastructure, including the implementation of a new ERP system. As a result of these investments and an overall increase in plants and service, depreciation expense increased in Q2 2018 compared to the prior year. Utility also experienced legislated increases in its demand side management cost and higher interest cost as a result of an increased fuel adjustment mechanism liability and shorter -- and higher shorter-term interest rates. These cost increases were partially offset by an increase in residential load. For the year to date, Emera Energy has delivered strong earnings growth. Favorable weather in early 2018 in several of Emera Energy's key market areas resulted in higher market prices and volatility that led to higher natural gas margins.

The early 28 activity also provided favorable hedging opportunities for the first quarter. As a result of the strong start to the year, we forecast that Emera Energy will deliver at the high end of its normal USD 15 million to USD 30 million earnings guidance for 2018.

The generation business has realized higher capacity revenues throughout 2018, and as we previously noted, 2018 will see an approximate USD 40 million increase in capacity revenues.

Emera Florida and New Mexico also benefited from favorable weather in their service territories. You will recall the Q1 weather in Tampa and in Florida in general was quite favorable in January and February, while New Mexico experienced a more seasonably cold winter. In addition, the gas utilities benefited from lower income tax expenses. As a result, all 3 utilities generated strong first quarter earnings. Despite less favorable weather in the second quarter, year-to-date earnings from the segment, on a U.S. dollar basis, have increased by 7% compared to the prior year. We expect this growth trend to continue through the balance of 2018, and anticipate that earnings from this segment, on a U.S. dollar basis, will grow by a rate similar to what we experienced in 2017.

We expect that this segment will have an even stronger second half of 2018, as Tampa Electric experiences its summer peak in Q3 and continues to benefit from higher AFUDC from our solar and Big Bend investments, and Peoples Gas continues to experience strong customer growth. Quarterly earnings volatility is not unusual for Nova Scotia Power and Emera Maine. As we have seen over the past couple of years, the timing of certain expenses through the year can change the quarterly earnings profile, while the annual earnings remain consistent.

In 2017, both utilities experienced a strong first half of the year, with Nova Scotia Power realizing over 75% of their earnings by June, and Maine, on a U.S. dollar basis, realizing over 50% of their earnings over the same period. By comparison, in 2016, Nova Scotia Power realized approximately 60% of its earnings in the first half of the year, while Emera Maine realized approximately 40%. In 2018, we expect that the relatively lower year-to-date earnings will reverse out over the balance of the year and both utilities are expected to experience modest growth in their rate base and earnings on a full year basis.

As a result, we see that consistent with 2016, NSPI has earned over 65% of its annual earnings in the first half of the year. Despite some softness in the Q2 results for the year, we are in-line with where we expected to be. Our portfolio has generated strong earnings and cash flows for the year to date, and we are looking forward to an even stronger second half of 2018. In addition, we continue to improve the quality of these earnings and cash flows.

Our Q2 and year-to-date results have benefited from increased cash earnings from the Maritime Link and higher capacity payments in New England. These predictable sources of cash, combined with a stable cash flow from our portfolio of regulated utilities, underpin our ability to grow the business and fund our dividend.

Having a strong balance sheet is also essential for our growth plans. Over the past 12 months, we have made significant progress in strengthening our balance sheet and moving closer to our 2020 targeted capital structure of 55% debt, 35% equity and 10% hybrid capital. Over the past 12 months, we have raised approximately $880 million of common equity through a combination of a public issuance and our DRIP program.

And in May, we raised an additional $300 million of preferred equity. We have been focused on deleveraging at the [whole-coal] level, and we have decreased our consolidated leverage by more than 2% over the past 12 months.

In 2018, we expect our total capital and dividend funding requirements to be approximately $2.8 billion. The vast majority of funding for these activities will be provided from cash flow from operations, which we expect will continue to show strong year-over-year improvement in 2018 and from operating company debt, in-line with approved capital structures of the utilities, which are driving the rate-based growth.

We believe that the remaining incremental funding requirement has been addressed by the preferred shares that we issued in May.

We are off to a great start in 2018, and I believe -- continue to believe that the fundamentals of the business have never been stronger. I am pleased with the progress we have made advancing our capital program, and I'm confident that significant investments we are making at Tampa will provide value for customers and shareholders for many years to come. Our revised dividend growth target will allow us to more efficiently fund these projects, while still continuing to provide a growing dividend to shareholders.

And with that, I'll now turn the presentation back over to Ken.

Ken McOnie - *Emera Incorporated - VP of IR & Treasurer*

Thank you, Greg. This concludes the presentation. We would now like to open up the call to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Robert Hope with Scotiabank.

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

Just want to maybe touch on the cash flow guidance that Greg mentioned. The 10% year-over-year in CFO growth, that's what we've seen in H1 versus H1. But if I recall on the Q1 call, which was a 28-ish percent year-over-year growth in CFO, you thought that, that higher cash flow growth could have been sustained. Just want to know if there has been any moving parts there?

Gregory W. Blunden - *Emera Incorporated - CFO*

No, nothing of any material -- I mean, we obviously had some smaller things both on the upside and on the downside, Robert. But directionally, we would expect it to be kind of in line with earnings, meaning greater than 10% and probably somewheres in the 10% to 20% range on an annualized basis.

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

All right. That's helpful. And then just -- I realize that annual strategy sessions are ongoing, but when you do look at the revised dividend growth outlook as well as your large capital plan, can you provide some additional color on how you are looking at the funding for 2018 as well as beyond?

Gregory W. Blunden - *Emera Incorporated - CFO*

We've always looked at it is through a traditional lens, is work our way up the capital structure, starting with maximizing our operating cash flow in our businesses, which we're very focused on. Obviously, the change in the dividend growth target allows us to retain more of that for our business, as I'd indicated. And we've done some financing at Tampa Electric already, the regular utilities, where those investments will be made. We'll have some opco debt issued. We still -- we've done $300 million of preferred equity. We still have room in our capital structure to do some additional preferred equity, if necessary. But as far as we are for 2018, we don't have any additional common equity requirements.

Operator

Your next question comes from the line of Robert Kwan with RBC Capital Markets.

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

There was a statement earlier of greater than 8% EPS growth through 2020, and previously, there was discussion of 10% annual average EPS growth. I was just wondering, has there been a change? I recognize those 2 statements still could be roughly the same. But how are you looking at that EPS growth out for the end of the decade?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes, Robert, our view on earnings growth have not changed. I think, the -- really what we're profiling here as it relates to the change in the dividend growth guidance is largely a capital allocation decision and a few sort of -- look, whether it's over the last 5-year period, over the last 10-year period, we've had and delivered strong earnings growth over that period. But our dividend growth has outpaced that, and so we're looking to make sure that we drive a dividend return profile that's still attractive to shareholders and still look for increases in that dividend on an annual basis. But looking to ensure that our earnings growth exceeds it. But that is certainly our view. Our view of forward-looking earnings is not different than what it was, or frankly what it has been. So no real change in our view around earnings. Really, all we're doing is making sure that, that dividend growth rate profile is sustainable and increasingly using that cash flow from operations to redeploy into the capital investment opportunities that we've got inside the business that, frankly, we think is the right thing to be doing for shareholders.

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

Got it. And as we think about dividend policy in general, you've reduced the growth rate, but you're -- you reiterated your long-term 70% to 75% payout target, while also making a statement that you expect to be above that range through the guidance period. How does -- I guess, at what point do you see yourself coming back into the range? And if you think about where you were, the fact that you've reduced your dividend growth, was it completely unachievable to come back into the range prior to reducing the dividend growth rate?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes. So I don't really want to get boxed in, Robert, to saying a time line as to when -- or date as to when we'd get the payout ratio back towards our target. Certainly, I'd say, we remain comfortable that, that is the right target. In the meantime, we're not uncomfortable with it being higher than that, given the quality of earnings and cash flow profile that we've got within the business and recognizing the highly regulated nature of it at well in excess of 90% regulated now, really more like 95%. So I think -- as I say, if you look over the last 5 or 10 years, earnings per share over the last 5 or 10 years has kind of grown in the range of 6% a year. Meanwhile, our dividends have grown in the range of 10% a year. That's obviously not a sustainable forever pass, and all we're looking to do is to make sure as we continue to see a profile in front of us that has robust earnings growth driven by all the things that Greg and I spoke about, that are tangible and here and live now as we're actively making those investments that we know drive strong growth in earnings that we make sure that we have a dividend growth profile that is sustainable, but also allows us to retain more funding flexibility within the cash generation that the business has, and directing an increasing amount of that cash into that growth investment profile. And as we work our way through that, that dividend payout ratio, of course, is -- earnings growth is higher than that dividend growth profile that the payout ratio will, over time, come down.

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

Got it. And if I can maybe just finish on overall capital allocation. I think that the dividend growth target that you got now makes a lot of sense. But when you look at your overall funding strategy and kind of having historically been regularly out for common equity and the amount of savings, notwithstanding it will compound over time, it's relatively small compared to the amount of equity you've raised. So are there other actions that you are considering to help funding over and above just the reduction in the dividend growth rate?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes. I'd say...

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

I guess, specifically, I'm looking at asset sales.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes. No, I understand. I mean, I might say it this way, Robert, that we've recognized that our cost of equity today is relatively high as to where it's been. And so -- and always part of our strategic planning exercises that we do on an ongoing basis, that Greg also referred to. We've looked at and continue to look at all options as it relates to how to best allocate capital and finance that attractive capital profile that we have in front of us. And now we've got a plan. We're looking to minimize, to the greatest degree that we can, the need for raising equity at these -- at this pricing level. And we've got a plan and we're working that plan.

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

Okay. And just to be clear, were asset monetizations discussed at the same time as reducing the dividend growth rate, i.e., have we kind of just passed that as part of at least this year's strategic planning process? Or is that still on the table?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes, I think -- when we talk about and look at strategy, we think about everything, and all those things are in the mix. And so all of those things we work through in trying to make the best capital allocation decisions that we can. And we're comfortable that we've got a plan that addresses appropriately those needs over time. And when we have something more to share and talk about, we'll do that.

Operator

Your next question comes from the line of Ben Pham with BMO.

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

I'm just wondering, were debt repayment, does that play a role in your overall incremental cash or savings here to the -- to dividend change?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes. No, Ben, it's Greg. If you look at the maturity profile that we have on our longer-term debt, we, like many of our peers, have taken advantage of the yield curve over the last decade or so and gone out maybe a little bit longer than normal. So we don't really have anything material maturing either at the opcos or the holdco over the next 3 or 4 years. So that really didn't come into play with any of the decisions that we've made to date.

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

Okay. And maybe I can go back to some of the disclosures you had, couple of different data points that provide a particular impression where EPS could go? And you've said, you can price (inaudible) 8% plus EPS dividend 4% to 5%, but then the target payout is still going to be above that 70% or 75% range. But if you just simply take an EPS CAGR of 8%, it seems like your payout will get down to 70% to 75% in 2021. Or is there something else that's playing a role there, capacity payments that maybe is a bit of volatility? That's -- are you trying to reconcile there?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes. So let me try -- I'm not sure I completely get where you're going, Ben. But I don't think we've said that our earnings growth target is 8%. We have talked about our 8% dividend growth target, of course. We've generally tried to stay away, frankly, from EPS growth guidance. So although, obviously, we've given a sense directionally as to where we see things now with the reference in my remarks to 2018's expected growth of something in the range of 10% or higher. And that our longer-term view of EPS growth over the guidance period, i.e., through 2021 is expected to exceed on average the dividend growth profile, which is really the fundamental message that we're trying to convey, that our earnings growth profile is unimpacted. It remains robust. It remains consistent with levels we've achieved in the past. And all we're really trying to do is set the dividend rate at a level that we think is sustainable and allowing us to, as I say, take some increased funding flexibility into our financing plans.

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

Okay. And maybe can I ask you maybe another way. Was your -- is rate-based growth a good indicator of EPS growth?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Ben, it's Greg. I think directionally, obviously, not all rate-based growth is the same. So, obviously, if you're investing in certain utilities that have higher equity thicknesses and higher allowed ROEs, that would have a bit more of a -- of an overall impact on EPS growth than some other things. But I'd say, directionally, you'd be right, just recognizing some of this probably a little bit more helpful than others.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes, I think just to pile on to Greg's point, I think if you look at the rate-based growth profile that is a part of the materials for this call, the component part of that, that is in Florida, where we're seeing more growth and where relative to some markets, the ROE -- the allowed ROE ranges are a little bit higher and the equity thicknesses are a little bit stronger. The rate-based growth profile that we have, that shows it on average, is weighted toward those Florida utilities. Those Florida utilities are growing at a rate through that period that is in excess of that consolidated rate. So to Greg's point, yes, it's a helpful proxy, but in this case, I think you're seeing some of the growth coming from some of our stronger performing operations.

Operator

Your next question comes from the line of Linda Ezergailis with TD.

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

I realize there is a lot of strategic iterations that are going on, and it can be somewhat dynamic. But maybe you can help us understand where you're at in your discussions with the debt rating agencies? And beyond capital structure, what sort of credit metrics kind of informed your views on optimizing your financing plans?

Gregory W. Blunden - *Emera Incorporated - CFO*

It's Greg. We have regular dialogue with both credit rating agencies. Obviously, they're insiders. They have full visibility on our plans. I'd say, every step that we've taken to date is consistent with representations that we would have made to them last year when they did their annual reporting, including the equity issue last December, the preferred share issuance that we did in May. And so we -- we're continually evaluating our capital plans, making improvements on our operating cash flow, on our FFO by -- as an extension of that, and again continually believe that we're on track to maintain our investment-grade credit ratings.

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

And maybe also from an operational perspective, are there any changes that you are considering with new leadership in terms of operationally how that might augment your rate-based growth from a cost-savings perspective? Or anything else that might be shifting?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

No. Linda, I think we're really comfortable with -- certainly with the leadership team that we have in place. Obviously, there were some changes made over the last 12 months in some jurisdictions. But I have every confidence in each of the leaders of the businesses that we've got. Of course, driving efficiency of cost and process is a core element of everything that we all do, both at the corporate and the operational level, as we -- but that's sort of a core part of the DNA here. And something that is in focus for Greg and each of the business leaders. And I have every confidence that all of those things are being done and tackled appropriately. But no -- yes, there's no big changes like that contemplated.

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

Okay. And maybe if you can help us understand some of the -- you've been very helpful in helping us understand the timing effects that we've seen in the quarter, but -- on earnings -- but maybe if you could help us understand if weather was normalized for the first half of the year, what Florida and New Mexico earnings might have been to give us a sense of what sort of a base we should grow off of for next year?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Linda, I don't have the exact numbers in front of me. But interestingly enough, if you think of what we experienced in Tampa Electric, I'd say, over probably the first 6 months of the year, it's probably been relatively consistent from a weather perspective versus what we've seen over the last few years. But what we've seen is, it was a little bit colder than normal early in the winter in Tampa, which helped, both not just Tampa Electric but also Peoples Gas. Then they did have some heating load or cooling load, I guess, to deal with late Q1 warmer weather. And then that kind of offset itself in Q2 with the cooler and milder weather. So what's interesting is it's kind of balanced out so far on the 6-month basis. So I can't say, on a year-to-date basis, if there's been anything material, although there's been some ups and downs by month and obviously by quarter.

Operator

Your next question comes from the line of Andrew Kuske with Crédit Suisse.

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

I think the first question is for Scott. And you mentioned something in the prepared remarks about $2.5 billion of accretive rate-based opportunities at TECO since the acquisition. If you could maybe just give us a better context of how much did you contemplate at the time you did the TECO deal of the growth that you've actually seen thus far?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes, I don't -- in terms of numbers, I don't know whether Greg has that handy. I don't -- what I can tell you is projects like the 600 megawatts of solar was not contemplated at the time of the acquisition, that is incremental, that arose out of strategic planning work, that was done during -- between the announcement and the closed period and thereafter. And I know the sort of thinking around the Big Bend plant had been in the works, but the ultimate project that we announced earlier this year was -- there wasn't full color around that, and the scale of that would have been unclear at the time of the acquisition. So a component of that would be incremental as well.

Gregory W. Blunden - *Emera Incorporated - CFO*

And Andrew, just maybe probably a little bit more color around it. When -- if we think of the '18, '19 and '20 period, when we originally acquired TECO, we were expecting to spend in Canadian dollars a little bit north of $2 billion over that period. That number has effectively doubled because of the solar investment and the Big Bend modernization. So just to give you a rough number, so it's gone from about $2 billion over that 3-year period to above $4 billion.

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

That's very helpful. And then maybe just an extension of that, so when we think holistically about just the dividend, what you've done from a guidance standpoint and really the future of earnings, you're going to be earning -- effectively putting more capital to work at a greater equity thickness of higher earning utilities also with U.S. dollars than you would have been doing previously?

Gregory W. Blunden - *Emera Incorporated - CFO*

That's correct.

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

Okay. And then maybe if I just finish upon one thing. On the advanced metering at NSPI and then there's some commentary about your best practices across the whole portfolio. Beyond just the capital that you're deploying, what other benefits do you -- the portfolio of utility is getting from the AMI initiatives?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes. So I think -- I mean, obviously, AMI, whether it's second generation or third generation, does provide much more efficiency as it relates to the process of needing readers, and so that's a first and obvious impact. But to get into this, it's really a digitization of what has been, to this point, a nondigital process. The third-generation meters has computing power that is unlike previous generations that will now allow things like remote connects and disconnects of electricity that creates a lot of operating efficiencies for the utility that we are right now. That obviously is a much more manual labor-intensive process. So it gives much more and better data for the utility to share with its customers. And so customers will have a better access to their energy usage and how that applies. So those would be some of the benefits.

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

So then ultimately, you should land in a spot where you have lower OM&A associated with a lot of those activities and, therefore, greater efficiencies?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

That's exactly right.

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, that's correct.

Operator

Your next question comes from the line of Robert Catellier with CIBC Capital Markets.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

I just wanted to clarify some of the numbers I think I heard on the call here. Well, it sounds like you're shying away from providing formal EPS guidance. On the 8% CAGR you're talking about, is that from the adjusted EPS number of $2.46 in 2017 through 2021?

Gregory W. Blunden - *Emera Incorporated - CFO*

So, Robert, it's Greg. What we've said is that we expect our earnings growth over the guidance period to exceed our new dividend growth guidance. And we also expect earnings growth in the current year to be kind of in the 10% plus range in 2018 versus 2017. But in both cases, you're correct, that would be versus the $2.46 in 2017.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

And maybe what's created the confusion, Robert, is the other reference was that we would still expect to meet the 8% dividend growth CAGR from when that -- from when we put that 8% target in place even with this new dividend growth profile.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Right. So the question is, what is the base -- that 8% was based of? I think that's the 2016 number?

Gregory W. Blunden - *Emera Incorporated - CFO*

So that 8% was a dividend number. And so that would be based on when we first provided the 8% dividend growth guidance in 2015.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

2015, that's right.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So the 8% effectively is not a -- an EPS CAGR?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

No.

Gregory W. Blunden - *Emera Incorporated - CFO*

Correct.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

No. Correct.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So I just wanted to clarify that. And then just looking at the -- your comments, I think I heard on the FFO or cash flow relative to your debt and the targeted -- I think it's a 12% target you have. Have you socialized the expected cash flow growth with the -- And where you'll end up as a ratio with the rating agencies? And how -- where are you with the sort of managing the outlook on the credit rating?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes. So, Rob, it's Greg. We have regular dialogue with rating agencies on all of our plans in terms of both forward-looking as well as year-to-date results, and again, we are confident. And I believe they are equally confident that we will achieve the targets that we have set for ourselves both in '18 and '19.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Yes. I guess, where I'm struggling is getting to the 12% in 2018 with the FFO number that I think you said this year, 10% to 20% growth in cash flow.

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Robert, so we're working through that. We're making sure we maximize as much of our operating cash flow as we can, as we had indicated earlier. We've done a prep share issuance. We have room in our capital structure, if necessary, to do an additional prep share. So we're making measurable progress towards that 12% goal.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. And then just 2 other quick questions here. I think I noticed in the MD&A slight wording change on the timing of cash from LIL cash earnings due 2020 from late 2020, has there been an appreciable change of -- with respect to cash earnings there?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

No.

Gregory W. Blunden - *Emera Incorporated - CFO*

No.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. And similar question on the U.S. tax reform, there is obviously wording and they're still under analysis, which is understandable, given the nature of the beast. But is there anything that's changed specifically related to your expectations on interest deductibility? Or the valuation of alternative minimum tax credits?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Robert, it's Greg again. No. Certainly, the feedback we're getting mostly through the efforts of Edison Electric Institute are that the interest deductibility and the methodology that will be employed is consistent with, or maybe even slightly better than what most of us would have initially thought. So we're not seeing any impediments to continue to deduct holdco interest, as it relates to utility operation. So that's a positive. Other than the one bulletin that the IRS came out with, there has been nothing else on the sequestration of the alternative minimum tax, but we're continually watching that and recognizing that -- and that will be single digits millions of dollars in cash flow if something -- if that was to play out. But there's been nothing to update on that. And from an operating business perspective, obviously, we made the reference to Emera Maine, but, again, just to quantify, we're talking $1 million or $2 million on our overall cash flow. So nothing overly material that would impact ratings.

Operator

Your next question comes from the line of Christopher Turnure with JPMorgan.

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

It looks like your disclosure today says that you're bringing down the dividend growth rates in part to save cash flow, but you also mentioned that the payout ratio has been or remained above the range during the period. I'm wondering, if that is your goal, why not bring the dividend growth down lower than you did today?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes, I think, Chris, really -- as I stated in my remarks, it's really about, for us, finding the right balance between making sure that we've got the dividend at a sustainable level and maintaining a growth profile that we think is -- provides an appropriate and attractive value proposition for shareholders. As I mentioned, we're not uncomfortable with the fact that the existing payout ratio is higher than that target on a temporary basis, recognizing the quality of the earnings stream and the predictability of that earnings stream and cash flow profile that is in front of us. And so, really, it's just a goal to reduce that over time. And we didn't see a need and didn't see it as necessary to look to reduce the dividend growth profile. We're comfortable with the target that we've set.

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

And is that in part informed by your post-2020 view being perhaps better on the EPS flip side than through 2020?

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Yes, I'd say, we're not trying to extend the guidance period beyond what we have stated as to the guidance period. But I think that we're comfortable that, that dividend growth profile allows us to reduce the payout ratio over time with earnings growth profile that exceeds that dividend growth target.

Gregory W. Blunden - *Emera Incorporated - CFO*

And I think -- Chris, it's Greg. It's important, remember too that there's a number of other factors that are not necessarily reflective of the other underlying business that impacts EPS, and by default, dividend payout ratio in any given year. U.S. tax reform would have been one, but foreign exchange is another. And we alluded to it earlier in my comments about the impact of FX in the quarter and obviously, Canadian dollar has been stronger, that has an impact on earnings, EPS and dividend payout ratio. And so it's important for us to make sure that we have a dividend growth rate that's reflective of the underlying business and discuss point -- the fact that we may be above our dividend payout ratio for other factors that are not necessarily tied directly to the underlying business, doesn't make us uncomfortable at all.

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

Okay. And then just modeling questions. I guess, your 10% EPS growth this year, and then your message is something above the dividend growth rate for next year. What is your EPS -- or, pardon me, your rate-based CAGR these years or over the longer-term period? And is there anything in your 2018 plan that wouldn't necessarily repeat in 2019?

Gregory W. Blunden - *Emera Incorporated - CFO*

No. So, Chris, we don't provide annual EPS targets or growth guidance. We're expecting for the 6.5% growth in our rate base from the end of '17 through to 2020. There are some things in '18 that won't necessarily be replicated in 2019 from a rate-base investment perspective. So obviously, some of the solar that we're spending now wouldn't necessarily be replicated. But we also have -- starting up spending on the Big Bend modernization program at Tampa. So when you look at that in totality, we're actually seeing an uptick in rate-base investment in Florida. But other than that, I can't think of anything material on any of our businesses where there's an unusual investment in '18 that wouldn't kind of be maintained going through the balance of the years.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

But yes, to Greg's point, I mean, we are careful trying to say, look, it's -- we expect the earnings growth profile to exceed that dividend growth target on average over the period. There can be impacts in any 1-year timing of CapEx or those kinds of things that can impact that. So don't want to think that it's a year-by-year number. We think about it on average.

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

Okay. That's helpful. And in terms of the repeating in 2019, I was referring more towards your net income or your EPS. Anything in there that would not repeat next year?

Gregory W. Blunden - *Emera Incorporated - CFO*

No, I don't think so. I mean, obviously, we're having very strong performance of our Emera Energy business this year in large part from the increased capacity payments, which took another step-up in June 1 of this year. So we'd expect to be pretty consistent across that. I think as we look across our businesses, there's nothing really unusually positive this year that we wouldn't anticipate continuing.

Operator

Your next question comes from the line of Jeremy Rosenfield with Industrial Alliance.

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

Can I just turn to the capital investment forecast for a second and appreciate that you're probably going to have an update at some point this Fall. But previously, I think you've elaborated on about $2.1 billion of capital investment in each of 2019 and 2020. And I'm just curious, if you can provide some details on how much might be associated with AFUDC? So potentially not cash capital investment, particularly at TECO, I'm thinking. If there's anything there?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Jeremy, the -- when we generally quote capital investments, we do it on a pre-AFUDC level, so those would be the actual through the -- obviously the -- a rate-base investments, depending on the nature of the investment would be slightly higher when you include AFUDC.

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

Okay. That's good. And then just on the NSPI advanced metering investment, I'm assuming that that's not -- or that was not in the previous $2.1 billion number, just to be clear?

Gregory W. Blunden - *Emera Incorporated - CFO*

Not that exact amount and in that exact time frame. We did know that over the planning period that there would be some investment in AMI. We probably had a little bit -- a significantly smaller amount a little bit earlier. And now that we're not doing a pilot project and going to the full implementation, we see $133 million being spent predominantly, I guess, in 2019 and 2020.

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

Okay. And then just in terms of the strategic planning and taking off all options that are on the table and we've discussed asset sales and other things, but just a question on -- in terms of delaying future investments or trying to play with the timing of capital deployment opportunities, is that something that you have some flexibility on as you go through the planning process?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, I mean, we always have some flexibility on the timing of capital in some places. If you're making rate-base investments in very strong regulatory regimes, it's hard to see a compelling story why by putting your foot on the brake would be helpful from that perspective. But there's some things that naturally move between years. We just talked about AMI and probably a little bit larger spend, but probably in a different profile than we initially thought. As we look at some of our other markets, whether it's a Caribbean or Maine and given where we're at in various regulatory hearings, we always have the flexibility to move some capital around. Although, I'd say, it's probably the capital that we have been thinking about moving around is relatively small to the overall capital program. The majority of our capital program is rate-base investments with very strong -- in very strong regulatory environments with returns that we like.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

And compelling customer benefits.

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes.

Operator

And I'm showing no further questions in the telephone queue at this time.

Scott Carlyle Balfour - *Emera Incorporated - CEO, President & Director*

Okay. So with that, thank you all for participating in the call and the robust set of questions. We look forward to talking with you again after our third quarter results in the Fall.

Operator

Thank you to everyone for attending today. This will conclude today's call, and you may now disconnect.
