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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 12, 2019, at 8:30 a.m. Eastern Time. I would now like to turn the meeting over to your host for today's call, Erin Power, Manager, Investor Relations for Emera. Please go ahead, Ms. Power.

Erin Power - *Emera Incorporated - Manager of IR*

Thank you, Chris, and thank you all for joining us this morning for Emera's Second Quarter 2019 Conference Call and Live Webcast. Emera's second quarter earnings release was distributed this morning via Newswire, and the financial statement, management's discussion and analysis and the presentation being referenced on this call are available on our website at emera.com.

Joining me for this morning's call are Scott Balfour, Emera's President and Chief Executive Officer; Greg Blunden, Emera's Chief Financial Officer; and other members of Emera's management team.

Before we begin, I will take a moment to advise you that this morning's discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slides. Today's discussion and presentation will also include references to non-GAAP financial measures. You should refer to the supporting slides for definitional information and reconciliations of historical non-GAAP measures to the closest GAAP financial measure.

And now I will turn things over to Scott.

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

Thanks, Erin, and good morning, everyone.

We've continued our positive momentum in the second quarter, increasing our year-to-date adjusted earnings per share by 10% and generating operating cash flow consistent with 2018. Adjusted earnings per share growth was primarily driven by our U.S. utilities, whose strong results more than offset the earnings impact of completed asset sales and weaker Marketing and Trading margins.

I'm pleased with these results, particularly the strong growth we're seeing in Florida, and we continue to be on track to deliver adjusted earnings per share and operating cash flow consistent with 2018 normalized results. We're benefiting from a period of regulatory stability as we look forward onto our regulatory initiatives for the balance of 2019.

Last month, we received a noteworthy decision from the New Mexico Public Regulation Commission approving the stipulation related to the New Mexico gas 2018 distribution rate case.

The commission approved a modest USD 2.5 million increase in base revenues to be phased in over 2 years and approved a weather normalization mechanism. This mechanism, the first of its kind in the state, will allow New Mexico Gas an improved opportunity to earn its allowed return regardless of the weather, creating a more consistent earnings profile for the utility. Also with the necessary historical test year behind us, future rate applications by New Mexico gas will be on a forward test year.

The commission also ruled that New Mexico Gas does not need to retroactively refund customers for savings related to U.S. tax reform. Because it was uncertain how the commission would rule on this matter, New Mexico Gas had accrued CAD 8 million refund to customers in 2018 and additional $4 million in the first quarter of 2019. The $12 million adjustment recorded this quarter reverses those previous accruals.

We're pleased with the commission's decisions, and we are encouraged by the recent changes in the economic environment in New Mexico.

Here in Nova Scotia, we're working to extend rate stability as we continue to execute on the transformation of Nova Scotia Power's generation fleet from coal to clean. In June, the utility applied for an annual average fuel rate increase of 2% per year beginning in 2020 through to 2022.

Nova Scotia Power has maintained stable rates since 2014 while continuing to focus on rate base investments to reduce its reliance on carbon and to improve reliability. A hearing on the application is scheduled for October, and we're expecting a decision later this year.

We're on track to invest approximately $2.5 billion in our regulated utilities in this year, and we remain committed to our $6.5 billion capital program through to 2021.

As we've highlighted in the past, almost 70% of our capital spend over the next 3 years will be invested in the state of Florida. This is largely driven by the considerable growth opportunities we see at Tampa Electric as we continue to clean the generation mix and make investments to storm-harden the system.

We believe Florida is a very attractive jurisdiction with one of the largest and fastest-growing economies in North America and a business-friendly environment. We continue to advance our solar program in the state.

Today, Tampa Electric has over 445 megawatts of solar capacity installed, and construction of the next 150 is well underway and on track to come online in early 2020.

By 2021, Tampa Electric will have over 640 megawatts of solar capacity, and customers will get about 7% of their energy from the sun, the highest percentage of any Florida utility.

Our use of solar base rate adjustment ensures that our investments in solar is reflected in rates once the capacity is in service. Today, approximately 405 megawatts of solar is being paid for through this mechanism, which is expected to generate an incremental USD 62 million of revenue in 2019.

In late June, Tampa Electric became the first utility in the state to offer its customers community solar. Sun Select, our 17.5-megawatt community solar program, offers a cost-competitive alternative to residential and commercial customers who want to ensure their energy is coming from the sun. We're pleased with the level of investment -- level of interest in these programs so far, and we'll continue to look for opportunities to expand Sun Select in the future. We're very proud that our solar programs are leading the way in Florida, and we think we can do even more.

We believe this system has the capacity to handle further solar generation beyond the 600 megawatts we have announced so far. The team in Tampa's working through a multiyear generation plan to determine the timing and magnitude of future solar investments. We expect the results of this work later this year.

We continue to make progress on the Big Bend modernization, and we are pleased to now have all the necessary approvals in place. Construction has started, and we're on track to invest approximately USD 235 million in the project this year. As a result of our investment in solar and modernizing Big Bend, by 2023, more of Tampa Electric's energy will come from the sun than from coal, and the utility's GHG emissions will be 30% lower than they would have been without these investments.

We're very pleased that the storm protection plan legislation has been approved, and we look forward to greater clarity from the Florida Public Service Commission on related rules by the end of October. This legislation was not contemplated when we set our current $6.5 billion capital plan last fall and will provide incremental opportunities for investment, all with recovery of rates through rider.

For several years, Emera's regulated utilities have been the primary driver of our growth. While our adjusted earnings per share has fluctuated over time as the result of one-time earnings and market-driven volatility impacting Emera Energy, earnings from our utilities have been steadily growing. While not as predictable as our utility business, Emera Energy's ability to capitalize on market changes in the Northeast U.S. provides the opportunity for significant earnings and cash flow upside, as we saw in 2018. I expect our regulated utilities will continue to drive our growth for the foreseeable future.

Following the sale of our Northeast gas generation fleet, over 95% of our future earnings and cash flow are expected to come from our regulated operations. This shift to be more regulated will improve the underlying quality and predictability of our financial results. In addition, our asset sale program will improve the overall growth trajectory of our continuing operations.

By divesting our merchant gas plans at Emera Maine, we are repositioning our portfolio and reallocating that capital to our strongest and fastest-growing businesses, which improves the rate base growth profile of our portfolio. While our capital reallocation improves our underlying growth, it will be an impact to our consolidated earnings.

For the balance of 2019, we will not have earnings contributions from the gas plants, which were approximately $40 million in the second half of 2018. And in 2020, we do not expect to have earnings contributions from Emera Maine, which have averaged approximately $45 million over the last few years.

This creates a period of transition as we redeploy capital into our continuing businesses to replace the lost earning contributions from the asset sales. Reallocating our capital in this way better positions Emera to continue to deliver long-term earnings and rate base growth for our investors.

When normalized for asset sales, our $6.5 billion capital program is expected to drive above-average rate base growth of 7% through to 2021. As we've noted in the past, we expect that over time, adjusted earnings per share growth of the continuing businesses will approximate rate base growth. The rate base profile only includes projects that we are highly confident will proceed. Additional capital investment opportunities, including further investments in solar and storm-hardening in Florida, will sustain or enhance our long-term rate base growth profile.

Given the importance of Florida to our future growth, we made the decision to postpone and relocate our fall Toronto investor event. We're planning to reschedule our Investor Day to be held in the first quarter of 2020 in Tampa. More details and a revised save-the-date will be provided as we get closer to the event.

We'll be sharing our refreshed capital, rate base and funding forecast with you on our third quarter earnings call in November.

I'm pleased with our continuing strong performance in 2019, and, over the balance of the year, I look forward to advancing our capital program and closing the Emera Maine transaction.

As I look at the growth opportunities in front of us, I'm confident that we'll continue to deliver the competitive long-term rate base and earnings growth that our shareholders have come to expect. Our portfolio includes some of the highest-quality regulated utilities in North America. And our proven strategy, which is rooted in the transition of our portfolio from higher to lower carbon energy, is particularly relevant today as we see increased global focus on reducing our collective carbon footprint

And with that, I'll turn it over to Greg, who'll take you through the financial results. Greg?

Gregory W. Blunden - *Emera Incorporated - CFO*

Thank you, Scott, and thank you all for joining us this morning.

Adjusted earnings per share for the quarter were in line with our expectations and keep us on track to deliver annual results that are consistent with the normalized 2018 results. Our U.S. utilities had a strong quarter, which more than offset lower contributions from Emera Energy.

For the second quarter of 2019, Emera reported adjusted net income, which excludes mark-to-market adjustments, of $130 million and $0.54 per share compared with adjusted net income of $111 million and $0.48 per share in Q2 2018.

Year-to-date, Emera reported adjusted net income of $354 million and $1.49 per share compared to $313 million and $1.35 per share in 2018.

Growth in the quarter and year-to-date were primarily driven by strong results from Tampa Electric and a favorable regulatory decision for New Mexico Gas, partially offset by lower earnings from completed asset sales, lower market and trading margins in Emera Energy.

A strong first quarter at the gas utilities also contributed to the year-to-date increase.

Assuming normal weather conditions, we expect that adjusted earnings per share for the balance of 2019 will be lower than what was delivered for the same period in 2018, resulting in annual adjusted earnings per share being consistent with normalized 2018 results. The expected decrease is primarily due to lost earning contributions from New England Gas Generation portfolio, or NEGG, normal marketing trading margins and a return to normal weather-driven revenues from Tampa Electric and New Mexico Gas, partially offset by growth across our regulated utility portfolio.

Year-to-date, the business delivered operating cash flow before changes in net working capital of $775 million compared to $767 million in 2018. This result was also in line with our expectation, and we continue to expect that the business will deliver annual cash flow that is consistent with 2018. And now let's get into the details.

In the second quarter of 2018, Emera delivered adjusted earnings per share of $0.48. Keep in mind, this included net earnings contributions from NEGG and Bayside. As a reference point, removing their earnings contributions from 2018 would reduce Q2 2018 adjusted EPS to $0.44.

Growth from the normalized 2018 base of $0.44 was largely driven by a very strong performance from Tampa Electric. During the quarter, Tampa Electric contributed USD 93 million of earnings, an increase of 27% over the second quarter of 2018.

Growth in the quarter was driven by higher base revenues related to in-service solar projects, favorable weather and customer growth of 1.9%, partially offset by higher interest and depreciation costs related to capital investment.

Cooling degree days were 8% above the 2018 period, which provided the utility the opportunity to generate an incremental USD 6 million of revenue.

Earnings growth in the gas utilities and infrastructure segment was largely driven by the favorable regulatory decision in New Mexico, which, as Scott discussed, caused us to book a $12 million adjustment in the quarter to reverse previous accruals, $8 million of which related to 2018.

The second quarter solar season is generally not a lucrative one for Emera Energy's Marketing and Trading business. In Q2 2019, Marketing and Trading endured particularly weak market conditions, largely due to weather. Degree days were 20% lower than the last 2 years, which reduced absolute pricing and volatility and, hence, margin opportunity.

Fixed costs for transportation and storage were also higher quarter-over-quarter. And as a result, Q2 2019's net loss was $15 million higher than Q2 2018.

It is difficult to forecast variance for Marketing and Trading, especially since the last 2 months of the year are often material contributors to the total. That said, at this point, as a result of weak market conditions experienced in Q2 2019, we believe the best we can expect to do is to earn at the low end of our normal USD 15 million to USD 30 million this year.

To give you some context, I'll remind you that in 2017, Marketing and Trading also had a similar weak first half of the year earning USD 9 million compared to USD 7 million in 2019. Nonetheless, full year U.S. dollar earnings in 2017 were $16 million.

For the quarter, earnings across our other utilities were relatively consistent with prior year. In Maine, second quarter earnings benefited from higher capitalized overheads as a result of less storm activity this year and the absence of regulatory adjustments.

Recall that in the second quarter of 2018, Emera Maine recorded USD 2.8 million of negative after-tax adjustments related to its 2018 distribution rate case.

At Nova Scotia Power, earnings in the quarter were lower than the 2018 period largely due to timing of regulatory deferrals. In the quarter, Nova Scotia Power deferred $14 million of excess nonfuel revenues compared to no deferrals in 2018. The timing of these regulatory deferrals caused us quarterly earnings volatility, while full year earnings results are more predictable. And at this point in the year, Nova Scotia Power continues to expect a modest increase in annual earnings.

[Profits] for the year-to-date period are largely consistent with the quarter, with growth in the U.S. utilities being partially offset by lower Marketing and Trading margins.

Recall that both gas utilities had a strong first quarter. New Mexico results benefited from favorable weather and incremental earnings from an asset management agreement.

At Peoples Gas, earnings benefited from lower depreciation rates and increased earnings related to its ongoing cast iron and bare steel investments. Annual customer growth at Peoples Gas continues to be strong at 3%, which has been helping to offset less favorable conditions in 2019.

Increased year-to-date losses in the other segment were primarily due to lower Marketing and Trading margins, a modest $3.5 million net loss on asset sales and $3.5 million of after-tax transaction costs related to Emera Maine, partially offset by a $10 million gain on the sale of property in Florida realized in Q1.

During the quarter, we have continued to make progress against our 3-year funding plan from the objectives we outlined last fall. One of our key objectives was to reduce and potentially eliminate any discrete common equity issuance.

As we highlighted on our Q1 call, we will achieve that objective with the successful execution of our select asset sale program.

The Emera Maine transaction continues to progress as expected, and we are working through the regulatory process collaboratively with ENMAX. We have 3 required regulatory approvals in hand, including FERC and Hart-Scott-Rodino, and we are continuing to progress our remaining regulatory applications. Based on the progress made to date, we anticipate that the transaction will close late this year.

Our remaining equity requirements over the 3 years is modest, and we expect approximately 2/3 of required equity will be raised through our dividend reinvestment plan. The remainder will be raised as an -- on an as-needed basis through a combination of hybrid capital and common equity issued through our recently established ATM program.

A portion of the proceeds from asset sales will be used to retire holding company debt, with the objective of sustainably reducing our holdco debt to total debt to below 40%.

In June, a portion of the proceeds from the NEGG transaction were used to retire a USD 500 million bond at Emera US Finance LP, and, last month, a further USD 50 million bond was retired. And assuming Emera Maine closes in 2019 as expected, we will achieve our target by the end of the year.

In addition to reducing our holding company leverage, we continue to be focused on sustainably improving our cash flow to debt metrics, and we have made good progress. On a trailing 12-month basis, our S&P FFO to debt is approximately 12%, and our Moody's CFO to debt is approximately 11%.

Over the course of 2019, we would expect our cash flow to debt metrics to sustain at these levels. And looking forward, we would expect these metrics to continue to strengthen, to be sustainably at or above 12% by 2021 with the objective of sustaining this level or higher over the longer term.

Management has demonstrated that we're committed to doing the right things for the business, and, over the past 12 months, we have taken significant steps to improve the quality of Emera's underlying cash flows and business risk. And I'm pleased to say that this progress is being recognized by the credit rating agencies.

On June 13, Fitch assigned a BBB rating with a stable outlook to Emera's debt. Later that month, Moody's reaffirmed Emera's Baa3 rating and revised its outlook from negative to stable. We are very pleased with both these actions and remain committed to maintaining our investment-grade standing and doing the right things for the company's long-term success.

I am pleased with the financial results that we have delivered for our investors in 2019 and the progress we've made on strengthening our balance sheet. While there'll be a period of transition as we complete and absorb these asset sales, I remain confident that our prudent and disciplined reallocation of capital in 2019 will result in a stronger Emera that is well positioned to continue to deliver long-term earnings and cash flow growth to our shareholders

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

Erin Power - *Emera Incorporated - Manager of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Linda Ezergailis of TD Securities.

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

I'm wondering if you could give us some perspective on some of the recent developments in Florida, specifically related to deregulation proposed by different stakeholder groups. Can you comment on kind of what the bookends of possibilities might be in terms of process and outcome, and what your suggestions are for kind of evolving the energy, I guess, commercial frameworks in the state, if at all?

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

Sure. Linda, it's Scott. Thanks for the question, and maybe I'll start and Nancy can fill in if I miss anything. So yes, there has been an initiative proposed called a ballot initiative that's been proposed in Florida. That process has now sort of advanced in the sense that there has been already a conference on financial impacts that occurred that provides some of the data that the Supreme Court requires in order to determine as to whether the language that has been proposed on this will, in fact, get added to the 2020 ballot.

There is a conference or an oral hearing by the Supreme Court at the end of August, August 28, I believe, and we would expect a decision from the Supreme Court at the end of October. Ourselves and the other investor-owned utilities, of course, are actively engaged in this. And we have made submissions to the Supreme Court, but, in total, there were 40 different parties that made submissions to the Supreme Court that was raising concerns with the language in the initiative that has been proposed. We obviously are optimistic that we think that the Supreme Court's view on this will have some concerns with what's been proposed. But the process would be a decision from the Supreme Court that we expect in October. If the decision from the Supreme Court is against our view as to the validity of this proposed language, what would happen in terms of process is that a certain number -- a threshold number of signatures would need to be gathered in order for that language to then make the ballot in 2020.

It's not clear to us at this point as to whether the requisite number of signatures would be gathered for that to make the ballot or not.

At this point, I'd say we're cautiously optimistic that this will take care of itself. Obviously, Florida's a state right now that enjoys some of the lowest energy costs in the country, has a reasonably stable rate profile. The system operates well there. The regulatory construct is very well defined there, and we think that the initiative to disrupt all of that with this ballot initiative is seen not just by us, but by other parties in the state as not being the best thing for the people in Florida.

Nancy, anything you want to add to that, that I might have missed?

Nancy G. Tower - *Tampa Electric Company - President, CEO & Director*

Scott, the only thing I would add is when you talked about the briefs in front of the Supreme Court for the organization filing a total of 18 briefs, I think it's significant that the attorney general of Florida House and Senate and the Florida Public Service Commission all presented briefs that would be against putting this on the ballot. So there's lots of -- we feel that there's lots of support and lots of significant support to keep it off the ballot. But we do, as you said, have to wait for the Supreme Court rule.

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

That's helpful context. And maybe just following up. Looking at your funding plan, it continues to progress, so a lot of time still till the end of 2021 to finish all your equity raise requirements. Can you just give us an updated sense on what would cause you to trigger using the ATM versus the -- your views on the relative attractiveness of the hybrid capital markets?

And, I guess, I know there's no plans right now to sell some or full assets, but at what point might you revisit that? Would it be if your capital program increased significantly? Or what are the moving parts that you use to continue to assess the relative merits of Plan A, B and any sort of Plan C for your funding?

Gregory W. Blunden - *Emera Incorporated - CFO*

Thanks, Linda. It's Greg. I mean we're not in a position right now where we need to do anything over the near term. As we think over, as you rightly identified, 2021, we'll continue to look at the capital markets. I don't know if I'd call it the attractiveness or lack of attractiveness of the hybrid capital markets these days but, fortunately, we're not in a position where we need to access that market.

What we will be doing in November on our call, though, is we will be refreshing our capital program, and we might, hopefully, have some visibility in terms of what the storm-hardening legislation will be in Florida. And it would really be through the context of any kind of material change in our rate base growth opportunities in our utilities that might cause us to rethink our funding plan, but we'll provide that update to you in November as well.

And then we will always go through the cost of capital ladder in the most effective way, starting with internally generated cash flow, moving our way up through operating company debt, hybrid capital and equity.

Operator

Your next question comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

So I wanted to follow up on a few different items here. First, maybe a couple of housekeeping items first. I suppose you shifted the date on the Analyst Day here. I just wanted to...

Gregory W. Blunden - *Emera Incorporated - CFO*

Julien, it's Greg. You're breaking up. We can barely hear you.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Can you hear me now? I am off the headset.

Gregory W. Blunden - *Emera Incorporated - CFO*

Perfect, Julien. Thank you.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Sorry about that. All right. Excellent. First, a housekeeping item with respect to the Analyst Day. Can you just elaborate a little more specifically, why the delay? What should we be looking towards if there's any evolution in the story on that front? And then secondly, can you elaborate a little bit more on 2019 as you see it? I heard some commentary about some of the expected shifts and timing this year are obviously a trading impact to 2Q, but I just wanted to get a sense as to the trajectory in 2019 and 2020 of earnings growth as you see it. Are we -- should we be thinking about some kind of rate base-type growth? Or should we think about more normalized sort of flatter levels, given the Emera Maine dilution, for instance, et cetera? I just want to make sure we have a good sense as to what you're expecting here over the next couple of years. I'll leave it there for now.

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes. Julien, it's Greg. Let me start with the Investor Day. As we started to schedule our traditional fall Investor Day, what we were hearing from investors and analysts was the key things for them was: they wanted updates and clarity around the closing of Emera Maine, which obviously we will not have until end of year; looking for much more insight in terms of the potential of what the storm-hardening legislation will be in Florida, and again, that will be something that we really won't have until, at the earliest, late October; and then for us to assess what the rule-making comes out of the Florida Public Service Commission sometime late this year.

And as well, as I think most folks are familiar, we're doing kind of a generation-planning exercise inside Tampa Electric, kind of a mini IRP, if you will, which will start to give us some greater clarity and visibility around what we think is the potential for another tranche of solar. That is also scheduled to kind of wrap up towards the latter part of this year. So the most important things for our investors and analysts all seem to point to the fall would be a little bit premature and it would be a much more productive discussion in the first quarter of next year.

So that was really the driver. What we'll do is still provide what we would have otherwise provided at that meeting in terms of an updated CapEx forecast, funding plan, et cetera. We'll carve out a portion of our Q3 analyst call and provide that in November to you.

Look, in terms of specific guidance, I think we've been clear on this year, is that if you took last year and normalized for the $0.10 of tax benefit that we booked in the second half of last year, the $2.78 is kind of where we think the year we'll end more or less, and we're certainly on track for that. We're a bit ahead of that plan year-to-date. But as I indicated with the loss of NEGG, in particular, in the second half of the year, we would expect to come in pretty much in line with where we were last year on a normalized basis.

We're not going to get into specific guidance for 2020. We'll provide a bit more color and update in November, but I think it's fair to say that we feel very confident in our ability to generate long-term earnings growth that is consistent with our rate base growth, and nothing has changed in our business. Obviously, in a period of transition, you might see a bit of a tail on that growth, in that -- your observations that next year without Emera Maine will probably be a little bit softer than if Emera Maine was in the portfolio, and I think that's a fair way to be thinking about it.

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

Julien, it's Scott. Just to add to that, I think Greg said that well, but we see the contributions that the NEGG fleet added in the first quarter, roughly, the contributions from Emera Maine. Obviously, none of those 2 businesses will provide contributions in 2020 on the assumption and expectation of closing Emera Maine this year. So that math for you will be relatively simple.

The other thing though that you'll see, that has happened as a result, you'll see that the rate base growth profile, we've now taken Emera Maine out of that on a go-forward basis. And you'll see that what was a 6% growth profile is now a little more than 7% growth profile. So you see what's happened as a result is the underlying growth profile of the business actually is stronger on a go-forward basis. So really, those are the 2 things we're trying to point your attention to.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Right. So maybe repeating it back to you. It's adjusted for the Emera Maine, net financing impacts, looking forward to next year, in fact, 7% rate base growth might be the counterpoint if I've got it straight?

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

Yes. What you're seeing in that capital plan and the rate base growth profile through to 2021 is that a little north of 7% rate base grow profile, that was what -- is what we expect this business to do. We've said that we expect earnings growth to approximate that rate base growth profile over time. Obviously, the near term, that won't be true in 2019 and 2020 because of the impacts that we shared.

Operator

Your next question comes from Rob Hope of Scotiabank.

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

And I may be jumping the gun here a little bit with your upcoming Analyst Day, but it would seem that the growth opportunities in front of you continue to realize or even increase. How do you weigh capitalizing on storm-hardening growth, additional solar versus your want to get to that 12% FFO to debt?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes. Robert, it's Greg. I mean one of the nice things about the solar program that we have today and what we would expect the storm-hardening legislation to come out with would do via rate riders, there's immediate cash recovery on those investments. So from an FFO or a CFO to debt, those projects are actually accretive when they go into service, which is helpful. As opposed to, for example, a Big Bend conversion, which obviously has a drag on credit metrics during construction when you're accruing FUDC. So some of the opportunities that we see in front of us in Florida that may be incremental to what we have in our plan would actually be accretive to our credit metrics.

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

All right. And then when we're looking at storm-hardening, can you give us some goalposts of potential CapEx over the 10 years? Or maybe if we're going to cut it another way, what percentage of your grid would you view as hardened so far, and which percentage would need to be invested in?

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

Robert, let me start, and then maybe Nancy can add in. To be honest, I think it's just premature to speculate. What -- it's not clear to us yet whether the storm-hardening legislation is going to be very narrow and specific to the undergrounding of the T&D system or if it's going to be broader and including storm-hardening and protecting our generation assets, whether it's going to include things like vegetation management. And this is one of the reasons why we're thinking about the timing of the communication around this. We really need to see the rule-making of Florida Public Service Commission before we start to kind of put bookends around that. I think if you took the FP&L numbers and divided by 6, because they're about 6x the size of us, you'd certainly kind of probably be in a ballpark range. But that's over a 20- to 30-year period, so I'm not so sure how helpful that is until we see what the actual rule-making is.

Nancy G. Tower - *Tampa Electric Company - President, CEO & Director*

Robert, the only thing I would add is there's lots of opportunity for storm-hardening. Only 45% of our distribution system today is underground. And then all the other things that Greg named, there's lots of opportunity, and the -- we won't be limited by capital opportunity in that regard.

Operator

Your next question comes from David Quezada of Raymond James.

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

My first question here. Just on Emera Energy, there was a comment in the MD&A about higher fixed costs for commitments on transportation and storage assets. Just wondering if there's any color on -- you can provide on how material that is going forward, and if it affects your expectations for that earnings range at all?

Judy A. Steele - *Emera Energy Inc. - President and COO*

So it's Judy, Judy Steele. So they vary, right? As soon as I kind of drop a number, the number will change. But directionally, it's around $10 million a month. Most of these things are kind of -- some of them are 3 months long and some of them are over the course of a year or a season. So it's kind of a constantly evolving portfolio. I think the right number to think about it currently for 2019 is about $10 million a month. I do remind you, though, that lots of those are hedged, so that the net exposure is less than that. So we're still comfortable with our guidance at the low end of the earnings range.

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

Okay. And then my second question, maybe just more broadly on your New Mexico business. Obviously, there's a lot of renewables being built there. I'm wondering if you see that driving any opportunities above your current capital plan going forward here.

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

Yes. David, it's Scott. So I think we -- as mentioned in the remarks, we're encouraged by some of the activities that we're seeing in New Mexico. I think that the development activity in the Permian and other activity, frankly, broadly in the state is starting to drive a more robust economic environment. We know that the recent efforts to decarbonize the electric sector, we think all of those things contribute positively to the opportunities for New Mexico.

Obviously, it's early days as it relates to both impacts on the economy or creating opportunities, but, overall, as I'd say, we're encouraged by what we see as opportunities in front of us in New Mexico today even relative to what we were seeing a year ago.

Operator

Your next question comes from Patrick Kenny of National Bank Financial.

Patrick Kenny - *National Bank Financial, Inc., Research Division - MD*

Just, first, at a high level here, the 95% of earnings coming from regulated businesses going forward, just wanted to confirm, Scott, if that is also your long-term business target? Or do you see room to backfill with additional nonregulated or commodity-based cash flows towards 10%, 15%, 20% of the business over time?

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

Look, I think we're comfortable with where we are today. We don't have so much of a commitment to say it has to stay at 95%. Certainly, we've targeted 90% or more to be regulated. But right now, with the business environment where we're at and the growth opportunities in front of us, we're comfortable with the portfolio that we've got. We're pleased and comfortable with the Emera Energy business and the opportunity that it has in front of it. And I think what you expect from -- you can expect to see is a business scenario that's predominantly regulated, has a small amount of unregulated in it that adds both financial and strategic value. But we're on a path to be substantially regulated as we are now.

Patrick Kenny - *National Bank Financial, Inc., Research Division - MD*

Got it. And then the work you're currently doing to assess the ultimate potential for solar in Florida, if you do end up pursuing more than 600 megawatts for Phase II, Phase III, would that coincide with accelerated coal retirements as well at, say, Big Bend? Or would this just be incremental net capacity to the portfolio?

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

Nancy, you want to tackle that?

Nancy G. Tower - *Tampa Electric Company - President, CEO & Director*

Yes, I'll take that. So we're looking at all those options right now in terms of the, as Greg called it, sort of a mini IRP. We're doing a review of our generation in its entirety to see what is the best for customers. I'll just say that from a -- the ability to build another 600-megawatts of solar, once we get Big Bend modernization in place in 2023, that will give us the ability to put more solar in our system, having more fast-acting generation.

But the rest of it, as I said, we're taking a look at the entirety of our system through this process.

Patrick Kenny - *National Bank Financial, Inc., Research Division - MD*

Okay. Great. We'll stay tuned for the update there. And then last one, maybe for Greg here, the negative outlook on the S&P rating, just curious, are they looking for any change to the funding plan that you've put forth or the capital plan? Or are they just waiting to make sure you execute the plan that you have over the next year or so before moving back to stable?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Patrick. I mean I wish I had a crystal ball on it. I mean the report pointed to a couple of things, including some uncertainty around the closing of our sale of our gas plants, which we've now achieved, and we've achieved their targeted FFO to debt metrics. And so certainly, our belief is that it's just continued execution, wrapping up Maine, closing 2019 and sustaining a 12% FFO to debt. We think that should be enough of a catalyst to get back to stable.

Operator

Your next question comes from Ben Pham of BMO.

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

I had one follow-up on the -- some of the questions and your comments on earnings generally tracking rate base growth. And I know it's pretty difficult to kind of pin this thing down by year just looking at specific years. But I'm just curious, like when you think about this rate base growth of 7% and earnings, is the way to think about it, is it looking at 2018 as a base and just seeing how it looks the next 5 years on average just -- going on your eyes? Or is it more just going through this time period of asset sales and you start to use a new starting point in 2020 or '21 going forward?

Gregory W. Blunden - *Emera Incorporated - CFO*

Good question, Ben. And let me take the first run at it and see if I answer your questions. I mean when we provided kind of a 3-year guidance last fall, we were using 2017 as a base. And obviously, 2018 came in materially stronger than 2017, and 2019 is expected to be relatively flat. So whether -- quite frankly, whether you use 2018 or 2019 as the base, you're kind of effectively using the same base, which is probably convenient for your purposes. And then when we look out over the longer term off of that base, yes, we expect EPS growth to be pretty much in line with the rate base growth that Scott had identified, recognizing that similar to this year, as we go through a transition, there'll be a little bit of a step-change as we go through those 3-year period.

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

Okay. That's very helpful. And then second question is the funding, and I'm curious about the asset sales, and you're starting to have urgency to sell more assets, but are you guys opportunistically still looking at asset sales? I know there's a couple of disclosure this quarter, last quarter and some smaller monetizations. Maybe you can comment on that. And how does your -- if you look at your ladder approach, how does asset sales look relative to your stock across equity at this point of time?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes. Ben, it's Greg. I mean I think we're done -- the asset sales that are required to meet our funding targets that we laid out last fall. As we go forward, the way we would look at any additional asset sales that -- and I would call it they're probably around the margin. It would be more through a strategic lens than it would be through any sort of, I would argue, financial lens, and always done in the context of how does that compare to raising equity in the capital markets.

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

And then the -- so I know last year, it was pretty obvious, selling assets made more sense than issuing equity. But are you -- can you look at how your stock's done? It's done quite well, similar to peers, but are you -- is there a pretty similar talk list now at this stage between asset sales?

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes. I mean I think, Ben, if you look at some of our assets right now, we would obviously depend on valuation. But at a $55 share price versus a $40 share price, the math is very different on asset sales versus raising equity in the capital markets than it would have been a year ago.

Operator

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

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

Great. I'm just wondering if you had some additional color on how the process in Maine is going, particularly with just some of the recent headlines with respect to some opposition that seems to be popping up a little bit here.

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

Yes. Robert, it's Scott. So frankly, we think the process is on track. And yes, there's going to be, from time to time, headlines and distractions, but at the end of the day, the commission has a job to do. There's a defined structure for these things that has been -- that is not new ground for the commission.

We think we have a solid application. We think ENMAX is a great next owner for Emera Maine. We think they're demonstrating that today in the state of Maine already, and we continue to be confident that this transaction will close in and around year-end.

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

That's great. Maybe if I just turn to Marketing and Trading. Does this quarter represent kind of a very minimal revenue quarter? Put differently, is the $28 million negative margin close to the straight-line cost of transportation?

Judy A. Steele - *Emera Energy Inc. - President and COO*

I'm not sure I understand your question, Robert. Can you take another crack at it?

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

Sure. Recognizing this as a seasonally weak quarter, and then you've got a bunch of the fixed costs that are out there, did you generate very minimal revenue? Like is this about as bad as it can get?

Judy A. Steele - *Emera Energy Inc. - President and COO*

Yes, yes, it is. Yes, sorry, I don't mean to be blunt. It was extremely weak market conditions throughout the whole of the quarter, frankly. Anybody living in the Northeast can attest to that. So we had very limited opportunity. And as you know, the -- we carry the burden of the fixed-cost investments we make in transport and storage through the summer months, so that we have the opportunity to make money on them through the winter months.

Gregory W. Blunden - *Emera Incorporated - CFO*

If I can add to that, Robert. It's the one quarter where we actually expect to lose money in the quarter. That's the norm. And in part, the transportation costs that Judy refers to is we -- they get booked evenly through the year, where obviously the offset in revenue opportunities are more seasonal in nature. So that's why we generally see that kind of pattern.

Judy A. Steele - *Emera Energy Inc. - President and COO*

The only other thing I'll add, and just to remind to folks, is, as I said earlier, they're generally relatively short-term commitments. We acquire them in competitive processes. If market conditions are such that people don't see the value in the transport or the storage, if they don't see as much, then market prices adjust accordingly on the next go-round. So it's kind of a self-correcting cycle. So it has to be endured, but I expect a return to brighter days eventually.

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

Okay. I guess maybe just to follow in terms of how you then think about the business or whether it's just going into the contracts or, as you referenced, you have, it sounds like, higher level of contracts on the books right now. When you're going into it, how do you decide the amount that you want to take out with respect to how much are you locking in or hedging against that fixed cost, let's just say, on an annual basis?

Judy A. Steele - *Emera Energy Inc. - President and COO*

Yes. So we would generally -- so as I said earlier, we bid competitively. So we go through a process of saying, "Okay, what do we think the upside opportunity might be in this circumstance? What can we hedge? What's the net exposure there? And are we comfortable with that equation?" So at any given time, 75% to 80% is what we would hedge, and then make a decision on how we feel about the exposure on the balance and whether or not we think that's worth taking when we compare it to what the upside might be.

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

Okay. So when we take the number versus your annual guidance, the bottom end, it could be worse than that, but it really is that, call it, 20% to 25% unhedged exposure?

Judy A. Steele - *Emera Energy Inc. - President and COO*

Yes, yes. Directionally, yes.

Operator

(Operator Instructions) The next question comes from Andrew Kuske of Crédit Suisse.

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

Maybe just another follow-up for Judy on the energy marketing. So given the pricing was poor, the volatility was poor in the quarter and you've got the greater fixed costs, when things rebound and you're in a more normal environment, do you really see the upside as being linear or is it more exponential in fashion?

Judy A. Steele - *Emera Energy Inc. - President and COO*

Well, maybe I won't use the word exponential. I think it's asymmetric. Let's put it that way. So we do manage the business so we've got a known and fixed downside. So -- and then with the opportunity for upside when market conditions present. So exponential is a big word, Andrew, but I will say asymmetrical to the positive.

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

Okay, that's good enough for me on that. And then just maybe on Florida, and this is probably for Nancy. With the quarter-over-quarter decline in coal productions about, 1,000 gigs, I think there's commentary earlier on the call that greenhouse gas emissions were 30% -- or there's a 30% decline. Do you have any quantifiable data on just air quality improvements in the Tampa area, given the transition you've had in your generation mix? And then does that become part of the regulatory dialogue not just in Florida, but elsewhere?

Nancy G. Tower - *Tampa Electric Company - President, CEO & Director*

So Andrew, I don't have anything off the top of my head on what the change has been. So what we're seeing in our current generation mix today, as you saw in the release, we're burning a lot of gas in the units that can burn gas or coal. And so that has a positive effect around the surrounding area in terms of the amount of coal we're bringing in, reduction in greenhouse gases, reduction in other pollutants on the gas versus coal. But -- so I think that by residents of the area and, certainly, in Tampa generally, I think all that is seen as very positive and will continue to be, especially as we get Big Bend modernization up and running. And not only will we have gas, but we'll have more highly efficient gas generation.

So it's certainly a positive going forward.

Operator

Your next question comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Sorry for the quick follow-up, but I just wanted to be specific about the Florida legislation and the [clause] recovery enabled there. I know it's excluded from the $6.5 billion number at present, but I wanted to understand just how you think about your earned ROE opportunity in Florida, given the potential for more clause recovery. And then separately, just could you elaborate a little bit further on the process? I know you said already this was at end of October for an FCSE decision. Just can you talk about time line and how would that would relate to any eventual CapEx update? Sorry.

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

Okay. Greg can take the first half, and, Nancy, take the second.

Gregory W. Blunden - *Emera Incorporated - CFO*

Yes, Julien. I mean all the [clause] recoveries, whether it's the SoBRA, storm-hardening or any of the environmental clause recoveries that we have in Florida, will be at the defined capital structure at Tampa Electric, and the midpoint ROE at 10.25%. And so that's relatively, I'd say, straightforward math. And then Nancy, maybe you can take the second part of the question?

Nancy G. Tower - *Tampa Electric Company - President, CEO & Director*

Yes. So the rule, when we're working right now on the rule-making with the other IOUs and intervening parties and commission staff, I suspect it will be next year before we have clarity on the exact amount of capital that will be allowed. I think the rule will give us some direction in October, but specific capital amounts, we'll have a better sense of that in 2020.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Okay. And just to clarify this, with respect to the consolidated earned ROEs at Tampa Electric, how material is the [clause] recovery? That's really what I was trying to get at is sort of the aggregate oscillations in earned ROE that you -- I suppose you previously kind of contemplated through the rate case cycle, and if this might mitigate that -- or how material could it to be mitigating that, rather?

Gregory W. Blunden - *Emera Incorporated - CFO*

Julien, we'll have to follow up with that because I don't have that off the top of my. And obviously, as you go through time, that can change. So for example, the solar today, we get through a [clause] recovery. The next time we reset rates, that will go into base rates, which will then change. But in terms of what component of the rate base today is clause recovery versus base rates, I don't have that off the top of my head. How about you, Nancy?

Nancy G. Tower - *Tampa Electric Company - President, CEO & Director*

No, I don't.

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

Maybe just to -- but I think, Julien, the key -- so obviously, it's only helpful, but I don't think it will change the path that Nancy and team are on as it relates to the time line and the need for rates. So helpful, but I don't think fundamentally it's going to shift the expectations around the timing and the need for rates.

Operator

There are no further questions at this time. I will now return the call to our presenters.

Erin Power - *Emera Incorporated - Manager of IR*

Great. Thank you all for joining us this morning, and we look forward to speaking to you guys again in November.

Operator

This concludes today's conference call. You may now disconnect.
