

Emera Incorporated TSX:EMA

FQ2 2016 Earnings Call Transcripts

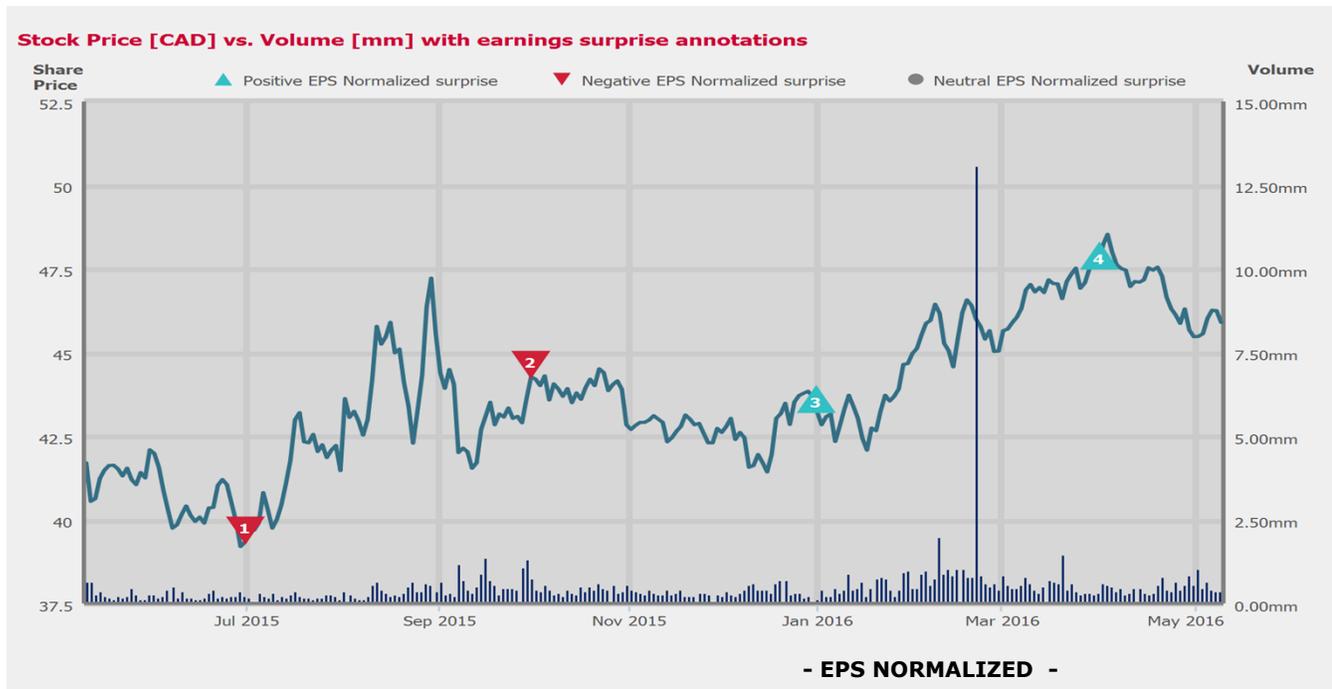
Tuesday, August 09, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.33	1.87	▲ 466.67	0.67	2.40	2.75
Revenue (mm)	654.31	499.00	▼ (23.74 %)	1242.04	4507.60	7213.27

Currency: CAD

Consensus as of Aug-09-2016 11:46 AM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	0.34	0.33	▼ (2.94 %)
FQ3 2015	0.35	0.16	▼ (54.29 %)
FQ4 2015	0.59	0.80	▲ 35.59 %
FQ1 2016	0.88	0.93	▲ 5.68 %

Call Participants

EXECUTIVES

Alan C. Richardson

*President of Emera Maine and
Chief Operating Officer of Emera
Maine*

Christopher G. H. Huskilson

*Chief Executive Officer, President
and Non-Independent Director*

Gregory W. Blunden

Chief Financial Officer

Judy A. Steele

*President of Emera Energy Inc and
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Mark M. Kane

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ANALYSTS

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Emera's Second Quarter 2016 Conference Call and Webcast. [Operator Instructions] Please note that this call is being recorded today, Tuesday, August 9, 2016, at 11:00 Atlantic time.

I would now like to turn the meeting over to Greg Blunden, Chief Financial Officer. Please go ahead, Mr. Blunden.

Gregory W. Blunden

Chief Financial Officer

Thank you. Good morning, everyone, and thank you for joining us for our second quarter conference call this morning. Before we begin, I want to welcome and introduce Mark Kane, our new Vice President of Investor Relations. Mark has many years of experience in Investor Relations and was formerly the Director of Investor Relations for TECO Energy. Thanks for joining the team, Mark, and I want you to take it over from here.

Mark M. Kane

Director of Investor Relations

Thanks, Greg. It's great to be in Halifax today and to be a part of Emera finance team now. Joining me from Emera today is Chris Huskilson, President and Chief Executive Officer; Greg Blunden, Chief Financial Officer, whom you just heard from; and other members of the management team at Emera.

Emera's second quarter earnings release was distributed yesterday evening via Newswire and the financial statements and management discussion and analysis are available at our website at emera.com. This morning, Chris will begin with a corporate update and Greg will provide an overview of the financial results. We expect presentation segment to last about 15 minutes, after which we will be happy to take questions from analysts. I'll take a 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 expectations. Such risk factors or assumptions include, but are not limited to, regulation, energy prices, general economic conditions, weather, derivatives and hedging, capital resources, loss of service area, license and permits, environment, insurance, labor relations, human resources and liquidity risk. A number of factors could cause actual results, performance or achievement to differ materially from the results discussed or implied in the forward-looking statements.

In addition, please note that this conference is being widely circulated via a live webcast. Now I'll turn things over to Chris.

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Thank you, Mark, and welcome to the team, and good morning, everyone. Emera delivered adjusted net income of \$237.5 million or \$1.59 per share in Q2 of 2016 compared to \$48 million or \$0.33 per share in Q2 of 2015. Adjusted net income, excluding costs related to the TECO Energy acquisition, was \$279.5 million or \$1.87 per share. There were several onetime gains in the quarter which more than offset the transaction costs associated with our acquisition of TECO Energy. This has been a very productive quarter for Emera. While there remains a theme throughout this year-to-date, the theme being a mild winter and a late start to summer, Emera's base operations have and continued to perform well and are on track to support our 8% annual dividend growth target through 2020. Greg will take you through the details of

the quarterly results later in his remarks. But first, I'd like to touch on some key strategic highlights and milestones Emera reached in Q2 of 2016 and subsequent to the quarter.

I'll begin with the closing of the TECO Energy acquisition. On July 1, we acquired TECO Energy. Our teams efficiently moved through the approval process and met our mid-2016 time line. We welcomed 3,700 new dedicated employees into the Emera family and 1.6 million new customers. With the acquisition, Emera now operates in 2 new constructive regulatory jurisdictions, Florida and New Mexico, which also possess some of the best organic growth in United States. The combined businesses expect to have over \$8 billion in capital investment over the next 5 years, and this concludes only our committed and visible projects.

Moving forward, we see additional opportunity to apply Emera's strategy centered on clean, affordable energy to drive growth. At Tampa Electric, we see opportunities for potential large-scale solar power generation; and at Peoples Gas and New Mexico Gas, we see potential to grow these businesses by expanding the distribution of cleaner burning natural gas to vehicles, industrial customers and new residential customers. The significant earnings and cash accretion expected from TECO Energy, combined with the growth for the consolidated businesses, has provided the Emera board confidence to recently increase the annual common dividend by 10% to \$2.09 per share and extended the annual 8% dividend growth target through to 2020.

Moving to the Maritime Link Project, construction continues to progress. Early civil construction on major work sites is now complete and ABB is working on both converter sites in Nova Scotia and Newfoundland. Horizontal directional drilling for cable entry into the Cabot Strait is nearing successful completion. Manufacturing of both subsea cables is progressing, with installation on schedule for mid-2017. A joint venture between Emera Utility Services and Rokstad Power was recently selected to replace Abengoa to complete the high-voltage direct current transmission lines. Abengoa has been under global creditor protection and the decision to replace them is a result of their failure to perform and was based on what is best -- in the best interest of the project and our customers. We continue to be confident that the project will be completed on budget and on schedule in late 2017.

For Emera Energy, natural gas market conditions continued to be weak in Q2 of 2016 with sustained low absolute pricing, price spreads and volatility. This is a reflection of weather conditions, and the result: reduced demand for natural gas from electricity generation. Emera Energy generated \$34 million in margin on gas sales over the quarter, a \$12.6 million increase over last year. This increase was more than offset by higher short-term fixed cost commitments for transportation and storage, which drove the decrease in net margin quarter-over-quarter.

Emera Energy manages risk by avoiding exposure to commodity price changes and investing in transportation capacity to provide the opportunity to move gas from lower to higher price markets when conditions are right. The downside risk is known and limited to the cost of the transportation. I should point out that a transportation deal can be profitable overall, but not look that way in any particular period, because the costs are allocated evenly over the term but the related revenue generating opportunities are seasonal. That is the case for Q2.

Turning to Massachusetts. The state has made a major commitment to clean energy and associated transmission as part of its effort to meet legislated state GHG emissions reduction and renewable energy targets. An act to promote energy diversity was approved by the Massachusetts legislature on July 31 and signed into law by Governor Charlie Baker on August 8. The bill mandates a competitive solicitation for long-term contracts to supply Massachusetts with hydro resources and a combination of wind and hydro generation totaling 9.45 terawatt hours. There must be an initial solicitation issued by the electric distribution utilities in Massachusetts no later than April 2017, including transmission. Reference shall be given to proposals that combine hydro generation with new Class I renewables and energy delivery during winter months. In Nova Scotia, we're implementing a plan to provide stable and predictable rates for our customers through to the end of 2019. We worked with stakeholders and reached agreement on a Rate Stability Plan, which has recently -- was recently approved by the UARB. With this plan in place, the average annual increase in customer rates is 1.1% for each of the next 3 years. We're stabilizing rates, while at the same time, completing the most ambitious transition to renewable energy in Canada. With the

Rate Stability Plan in place, all of our customers in Nova Scotia will have stable, predictable and affordable electricity pricing that can -- they can depend on as the end budget allows.

In Barbados, we maintain a Self Insurance Fund, or SIF, to cover the risks to customers against damage and consequential loss to certain Barbados Light & Power assets. Early in our ownership and with our experience as utility operators, we recognized that the fund was likely overfunded to provide risk protection for customers. We engaged third-party risk advisers to do a detail analysis. They identified the ability to recapitalize \$43.4 million after tax to Emera, while still maintaining adequate funding to cover the risk for customers. Support was secured from the government of Barbados, the trustees of the SIF and the Central Bank, and the cash has been received.

Our 10-megawatt solar plant in Barbados was recently completed on time and under budget. Power was first generated on June 11, just 6 months after construction commenced. Total solar generation on the island is now at approximately 23 megawatts, and we are looking for more. We're advancing our strategy to move away from primarily oil-based generation to more renewable, clean energy sources with the focus on affordability and rate stability.

In conclusion, our strong and diverse regulated businesses provide stable support for our growing dividend. We target having 75% to 85% of our earnings from regulated businesses. TECO Energy brings this to almost 85%. We also target a dividend payout ratio between 70% and 75% of earnings. While earnings for the balance of 2016 will continue to have adjustments, the underlying base business earnings are consistent with our growth projections, and we expect the dividend payout ratio for 2016 to be within our target range. Our earnings growth are on track to support our 8% annual dividend growth target through 2020.

And with that, I'll turn it over to Greg, who will provide an overview of our financial results. Greg?

Gregory W. Blunden
Chief Financial Officer

Thank you, Chris. Emera's consolidated net income in Q2 2016 was \$207.8 million or \$1.39 per share. When quarterly results are normalized for the \$29.7 million of mark-to-market losses, second quarter 2016 net income was \$237.5 million or \$1.59 per share. Adjusted net income in Q2 2015 was \$48 million or \$0.33 per share.

There are several significant items in Q2 2016, including: TECO Energy acquisition costs of \$42 million after tax or \$0.28 per share; a cash gain on the sale of Algonquin Power common shares of \$145.5 million after tax or \$0.97 per share; a gain on the conversion of Algonquin Power subscription receipts and dividend equivalents into common shares of \$53.1 million after tax or \$0.35 per share; and as Chris mentioned, a gain on the reduction of Barbados Light & Power Self Insurance Fund liability of \$43.4 million after tax or \$0.29 per share. In addition, we had a charge in the quarter of \$11.8 million after tax or \$0.08 per share to recognize state fuel taxes at Emera Energy from November 2013 through to March 2016, of which \$2.1 million related to Q1 of this year.

Moving to the segmented results. I'll begin with Nova Scotia Power, which provided net income of \$28.4 million in Q2 2016 compared to \$16.9 million in Q2 of 2015. The increase was primarily due to the timing of regulatory deferrals, decreased OM&G and lower regulatory amortization, partially offset by DSM program costs that are no longer being deferred. Nova Scotia Power's net income year-to-date was \$80.9 million compared to \$84.9 million for the same year last year.

Emera Maine contributed \$9.7 million to consolidated net income in Q2 2016 compared to \$13.7 million for the same period last year. The decrease was primarily due to amortization of transmission revenue adjustments. Emera Maine's net income year-to-date was \$19.0 million compared to \$25.2 million for the same period of last year. Emera Caribbean's net income increased to \$58.1 million in Q2 2016. The higher net income was primarily due to the gain realized from the Self Insurance Fund and a decrease in OM&G, partially offset by increased income tax expense. Year-to-date, Emera Caribbean's net income was \$67.9 million compared to \$13.6 million for the same period of last year. Our Pipelines segment contributed

adjusted net income of \$8.3 million in the quarter, a decrease of \$1 million from Q2 2015. Year-to-date net income was \$18 million compared to \$19.2 million for the same period of last year.

Emera Energy contributed an adjusted net loss of \$28.7 million in Q2 2016 compared to an adjusted net income of \$3.4 million last year. This decrease was primarily due to the recognition of state fuel taxes at the New England gas generating facilities for the period of November 2013 through March 2016 and lower marketing and trading margin, which included a \$12.6 million increase in margin from gas sales that was more than offset by an increase in short-term fixed cost commitments for transportation and storage. Year-to-date, Emera Energy contributed adjusted net income of \$19.2 million.

Our Corporate & Other segment posted a \$161.7 million adjusted net income in the quarter compared to a loss of \$100,000 in Q2 2015. The variance was primarily due to the gain on the sale of Algonquin Power common shares and the conversion of Algonquin Power subscription receipts and dividend equivalents into common shares. As well we have increased income from equity investments partially offset by TECO Energy acquisition costs. Year-to-date, Corporate & Other's adjusted net income was \$152.7 million compared to a loss of \$3.1 million for the same period of last year.

Before opening up for questions, I'd like to give you a quick overview on the financing for the TECO Energy acquisition. The financing was completed in June and outperformed our expectations. The U.S. debt was raised at a weighted average interest rate of 3.6% with an average duration of 15 years, which was well in excess of our expected duration. We also raised over CAD 500 million in May through the sale of the majority of our ownership interest in Algonquin. And finally, the final installment payment for the convertible debentures issued to finance the TECO Energy acquisition was due on August 2, and upon receipt of the funds we issued over 50 million shares as the debentures were converted into Emera shares. That's all for my update, and now we'd be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Your first question today comes from Linda Ezergailis from TD Securities.

Linda Ezergailis

TD Securities Equity Research

I have some questions with respect to your energy services business and some of the trading activities there. I'm just wondering, I realized there's some seasonality in terms of revenues and maybe more of a stable cost outlook. But can you give us a sense of the balance of the year, what sort of a fixed cost commitment for transportation and storage you might have in place? And what you're seeing in terms of market dynamics at this point for Q3 and the balance of the year?

Judy A. Steele

President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc

Great. Linda, it's Judy. So the gas market continues to be relatively weak, but it has provided a little bit more opportunity lately than in the second quarter. As always, our guidance is that we expect the business to be able to deliver between \$15 million and \$30 million of net earnings annually, with some opportunity for upside. So we've had a few of those upside years lately, but 2016 won't be one of them. It's kind of hard to forecast precisely because, of course, November and December are often very important to the overall yearly results. But that said, at this point, we do expect to wind up at the lower end of our guidance range. Just to give a little bit more perspective on it, if you think the Q2 we probably had about \$15 million a month in fixed cost transportation and storage and asset management costs, that's dropped off to about \$12 million now in July, August and half of that will be gone completely by the end of October. So all other things being equal, what's there now at about \$12 million a month will be \$6 million a month starting November 1. Now that said, there'll be new business that will come along between now and then and we'll make assessments about the market value of kind of anything we would be interested in that regard, but it gives you a sense of the cost profile.

Linda Ezergailis

TD Securities Equity Research

That's very helpful, Judy. Now just following up on the power side of the equation, base side power. Can we use Q2 as a new run rate? Or is there some seasonality there with the expiry of some favorable natural gas contracts?

Judy A. Steele

President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc

Well, the natural gas contract expiry has less of an impact in the winter months, of course, because gas is kind of fundamentally a flow-through in the PPA. It has -- so it's more significant in the summer period. What I would say is it -- probably Q2 would be the weakest, I guess, to some extent. And if we get a little bit of a rebound in power prices, which have been very, very weak through the summer, through Q2 and Q3, base side should be able to do a little bit better. The impact of the gas contract was magnified by very thin spark spreads of light. In the summer months, the gas contract is actually preferable to New England market pricing. It's just not as attractive as it was before.

Linda Ezergailis

TD Securities Equity Research

Okay, that's helpful. And maybe that's a good segue into your New England power operations and what you're seeing there, and what the outlook is from a market dynamic perspective.

Judy A. Steele

President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc

So I'm going to kind of normalize for our tax adjustment in order to give a sense of the operational perspective on the facilities. But basically, 2016 will be -- the earnings there will be lower than 2015. So we expect somewhere in the range of \$25 million to \$35 million that is normalizing for the effect of the tax adjustment this quarter. So that is clearly less than 2015, but I'll remind you that we have some very lucrative hedges in the first and fourth quarter of 2015 that really enabled us to earn outsized returns there in excess of \$50 million in earnings. So the \$25 million to \$35 million is kind of what we think right now. We're frankly reasonably all quite open for the rest of the year because spark spreads have been thin, and we think the real-time market will deliver more than that. So we haven't overly hedged. So I can't predict with exactness where we will wind up, but I think it's reasonable to think between \$25 million and \$35 million, which is really well above the expectations we had when we actually acquired the assets. And once we get into 2017, of course, we've got a doubling of capacity prices beginning in June, which will add about \$30 million in capacity revenues to the facilities.

Operator

Your next question is from Robert Hope from Scotiabank.

Robert Hope

Scotiabank Global Banking and Markets, Research Division

Just moving on to the maritime transmission projects, just regarding the Labrador-Island Link, seeing the cost increased there and the push-out of the in-service date, can you just clarify when you expect to earn cash on those assets? Is it when they are placed in service, I guess, in mid-2018? Or will it be when they actually start generating or transmitting electricity?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Yes. No, so at this point, we're expecting those facilities to go in service in late '17, and so they will begin generating cash at the first of '18. And the other thing is we actually haven't seen a cost increase, in fact, we're still in very, very good shape to be on budget for the cost of that project, and so we would say even though we've been squeezed a little bit on time because of the D.C. -- the change in the D.C. contractor, we still expect to be able to get that project in on time and on budget. And it would be in service and used and useful the first of '18.

Robert Hope

Scotiabank Global Banking and Markets, Research Division

Sorry, I was referring to the Labrador-Island Link.

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Sorry, okay. I thought you were talking about Maritime link. So Maritime -- Labrador-Island Link is expected to be, as you said, in the middle of the year. We'll be able to continue to earn AFUDC on that project up until it goes in service, and so the cash earnings will happen when it goes in used and useful.

Robert Hope

Scotiabank Global Banking and Markets, Research Division

Okay. And then given that you're not really in control of the schedule there, do you have any potential remedies if the contractor there goes slower to match up the in-service date there with when Muskrat Falls will begin to generate power?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Well, again, so that project is coordinated, I think, first and foremost, we're getting the transmission system in service. And we're very confident that transmission system will be in service in early to mid-part of '18. And so I think that, that's where that project is right now. From a cost perspective, as you

know, we are protected. And once the transmission systems goes in service, we will be able to access other resources in the network. And so I think that, that's the way things will evolve at that point.

Robert Hope

Scotiabank Global Banking and Markets, Research Division

All right, that's helpful. And then, just one follow-up. With little over a month under your belt regarding TECO, can you just update us with any opportunities you're seeing there or challenges that you're seeing there that you're seeing now that you have the assets in hand?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

I mean, first of all, I think the close went very well. We were very pleased with the way things came together. TECO has had a good first 6 months of operations. They were on plan or just slightly better than plan for the first 6 months and it's been a very, very warm July. So we will get the benefit of earnings from TECO Energy for the second half of the year. I think, the Tampa area had 29 days above 90 degrees in the month of July, and Q3 is always the highest value period for the entity. So we're quite pleased with how things are going there. Sales are very strong and the business is doing well. As it relates to working together, things are also going very well in that regard. I think, as people know, things are very stable in that market. We've -- Gordon Gillette, who is the current President of Tampa Electric, and the Florida operations will continue in his role. And Gordon is doing a very good job for us, and the same thing about Ryan Shell in New Mexico. And so that creates a lot of stability for the people in that market and for the business itself. And so we're excited to be engaged.

Operator

Our next question comes from Paul Lechem from CIBC.

Paul Lechem

CIBC World Markets Inc., Research Division

Just a couple of quick questions on TECO. First of all, on the financing. I thought in the original financing plan there were expectations that there will be going to be some preferred shares issued and they ended up being oil and gas. Any thoughts about the capital structure and need to shift into more prefs to try and increase the equity percentage? What's the financing outlook for this?

Gregory W. Blunden

Chief Financial Officer

And so we're complete the financing on it, Paul. If you recall the U.S. hybrids that we issued effectively have the same treatment from the rating agencies as preferred shares and what we always said is with issue in and around \$1 billion to \$1.2 billion in some combination of U.S. hybrids or Canadian prefs. And obviously, our preference was to have as much in U.S. dollar denomination as possible, which is why we did the full \$1.2 billion in U.S. hybrids.

Paul Lechem

CIBC World Markets Inc., Research Division

Got you. That's helpful. Just on, also, on TECO. Could you remind me again when are the nearest upcoming regulatory decisions that we need to worry about in Florida or New Mexico?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Yes. Well, so I mean, I think both entities are in a very stable position from a regulatory perspective. If I just start with New Mexico, we won't be seeing any need for rates until the latter part of the decade, and in fact, we're in a settlement agreement there on that issue. When it comes to Florida, there actually is a change in rates coming. As with most regulated electric's fuel costs are passed through, and in fact, there's been declining fuel rates, in general, in Florida, because of gas pricing and the amount of gas that

is being used there. But as well, we also have the Polk project coming on stream. It gives us the ability to generate a lot more of our energy on gas, and therefore, provide some real value to customers there from that perspective. And that project, under a settlement agreement, will see about \$110 million of new revenue come to the business as those assets go into service. And so that's really the only change, other than normal fuel changes, that we expect over the next reasonable period of time.

Paul Lechem

CIBC World Markets Inc., Research Division

In New England, the tristate Clean Energy RFP looks like it got delayed. Any thoughts around what that mean? Are you still in the running there? Do you feel you have a better position than previous? Can you discuss what's going on, on the tristate side?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Yes. I mean, I think it's -- I think the simple answer is that it's always a very complicated process to decide. I think, they received something like 21 different proposals for a substantial amount of energy, potentially more than 20 terawatt hours. So it is hotly contested from that perspective, and so we would just take it as a sign that it's a complicated issue and that people are considering it carefully. I don't know whether Alan Richardson is on the line. I don't know whether he wants to add anything to that.

Alan C. Richardson

President of Emera Maine and Chief Operating Officer of Emera Maine

Nope, just that the evaluation team did indicate that the analysis was complicated, and that was one of the reasons for the delay. They issued that method at the end of July, and they've indicated that they will contact the winning bids as they select them. So we're certainly very hopeful that we'll get a call shortly.

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Okay. And I think, Paul, what's also very optimistic is what Massachusetts has just done relative to their need for clean energy. They've passed into law an act that will require at least 9.45 terawatt hours of new supply, which will be some combination of hydro and wind, or at least Class I renewables. So anyway, I think that, that's a very positive next step. So in fact, I mean, the market is looking now for about 15 terawatt hours in total, which will be something that will take at least a few suppliers to meet.

Paul Lechem

CIBC World Markets Inc., Research Division

Okay. Last question, now that TECO is on board and your regulated assets have increased 85%, are you looking at any potential increases in the nonregulated side of the business in terms of any new power assets or a number of packages on the market at present? Just wondering if there's any interest in any of those asset packages or any others?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Yes. I mean, obviously, Paul, we don't go into specifics. But I mean, I think our strategy hasn't changed. We're still very focused on making sure the business is regulated. We continue to be interested in having some portion of the business unregulated and market facing. And so that's important to us, it's important to the way we do business, and it's also important to our ability to assess those markets and to do well on those markets. So that continues to be the case, but nothing to announce.

Operator

Our next question comes from Andrew Kuske from Credit Suisse.

Andrew M. Kuske

Crédit Suisse AG, Research Division

I guess, the question is for Chris, to start off with, and it's just in light of the legislation in Massachusetts being signed yesterday. How do you look at Emera's role in playing in that market, because obviously you have multiple ways to do that? You can do it from the power side, transmission side and then have some impact on the distribution side, not in Massachusetts, but Maine, broadly. So how do you think about the best investment proposition from an Emera standpoint, given the change in legislation in the Northeast?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Well, so, Andrew, I think our focus is always on the transmission side. That's really what we believe our strength is and our positioning is best. We think about the generation part of the portfolio as an enabler to investing in the transmission. And so we will essentially do what we need to do to make sure that we're very competitive on the transmission side. And that's really the way we look at it. I mean, I think you can't, also, at this point, underestimate what's going on with the Canadian federal government and how that may play into the whole carbon issue and we would be strong proponents of having Atlantic Canada work in collaboration with New England to come up with the best outcome from a carbon perspective. We think Atlantic Canada, including Quebec, actually are really well positioned to be able to both supply energy and also integrate more closely with the market in New England. And I think that, that's the type of thing we would be promoting. But for us, that means transmission.

Andrew M. Kuske

Crédit Suisse AG, Research Division

Okay, that's very helpful. And then maybe just an extension of your comments on integrating Atlantic Canada and then providing some power, maybe into the Northeast. Do see some opportunities for Emera to be involved in New Brunswick Power's repowering of certain assets that is prospectively on the horizon, especially on the hydro side?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Well, so I mean, we've been working very closely across the region with the utilities in the region. I think, it's well known that we worked on joint dispatch with NB Power and we've worked to try to come up with the optimum approach to assets in the region. So that's really what our focus is. If you look at the Atlantic Link, that proposal is out of New Brunswick. In fact, we believe that the best connection point for New England and the Maritimes is from New Brunswick. And so we've worked closely with them in those areas as well. And so we're open to continue working collaboratively, and we believe that we do have something to bring.

Andrew M. Kuske

Crédit Suisse AG, Research Division

And then finally, if I may, just a question just on the financing around the TECO deal. I believe the comment was that the duration that you got in the market was in excess of what you're looking for in the beginning of all this. So on a longer-term accretion basis, is this a bit more modestly positive than you set up in your modeling?

Gregory W. Blunden

Chief Financial Officer

Yes, it would be.

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Yes. I mean, we're -- Andrew, we're very pleased with the way the financing has gone, and in fact, what we're seeing, as was asked earlier, now that we're on the ground in Florida and New Mexico, it's very positive. We've already identified \$8 billion of opportunity over the next 5 years and we think that, that will continue to grow.

Operator

Our next question comes from Mark Robert Kwan with RBC Capital Markets.

Robert Michael Kwan

RBC Capital Markets, LLC, Research Division

If I can come back to just Massachusetts legislation, and just wondering if you can elaborate on your thoughts as to how you see this potentially playing out specifically for some of the transmission projects that you've put forward. And I'm also just wondering, do you have any thoughts just with the delays going on at Muskrat Falls, how you think Massachusetts might view that versus, say, Hydro-Québec? It has in-place resources, load-following resources.

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Well, I mean, I guess, first of all, one of the things that Massachusetts just did was focus more on 2022, I believe, than on 2020. So I think that, that's very helpful through our eyes because there is quite a lead time for some of these large-scale projects. And I think it certainly means that Muskrat -- surpluses from Muskrat are certainly in the mix. The other thing I would say, just on that side, is as we sit today the Maritime Link, when all of the resources are on and operating, will still be somewhat underutilized. And so there's opportunity for more to be done to fill up that project and to ensure that we're doing everything we can to get clean resources to market. So I think there are some things to be done there for sure. I think when it goes beyond that, we believe that the Atlantic Link is the best positioned project in the market. It's able to draw energy from Northern Maine and certainly resources that exist there. It's able to draw energy from the Maritimes. It's able to draw energy from Newfoundland and Labrador. And it's also able to draw energy from Quebec through the New Brunswick connection. So when we look at that project, it is probably the project that is best positioned to collect the most diverse sources of energy. And we think that's an advantage which will continue to work on.

Robert Michael Kwan

RBC Capital Markets, LLC, Research Division

Do you also see that being -- a benefit being an underwater cable, just given some of the overland issues that we're seeing on transmission?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Well, so far anyway, it seems easier to get those types of projects permitted. And so -- and clearly, we now, as a team, have some very, very good experience in doing that work, at least in Canadian jurisdiction. And so we would believe that, that is a good leg up for that project.

Robert Michael Kwan

RBC Capital Markets, LLC, Research Division

Okay, perfect. If I can just ask a few very small questions here. The utility services joint venture, is that expected to be noticeable in the results?

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

That's not our focus. It's not -- obviously, we wanted to be productive, but it's not our focus. Our focus is to get the job done. And we've always said that if we had challenges on the transmission side that we have the capability of doing that work, and so this is coming to fruition.

Robert Michael Kwan

RBC Capital Markets, LLC, Research Division

Okay. And then just on the Caribbean side, the OM&G cost savings that we saw in the quarter, was some of that timing or deferrals or make-ups? Or is that a more sustainable number in your view?

Christopher G. H. Huskilson*Chief Executive Officer, President and Non-Independent Director*

Yes, I think we've seen the cost structure change in the Caribbean as a result of the work that the team has done there to make sure that we're not putting pressure on rates. I mean, certainly that region has gone through some difficult challenges as the economy has changed. And so we've made sure that, that utility is cost competitive and is doing a good job in its market. And so that would be sustainable.

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

Okay. And then the last, just back to the Emera Energy. If I'm pulling some of the numbers that I think Judy had mentioned earlier in the call, you've been targeting \$15 million to \$30 million of net income from the marketing and trading side. And then I think you mentioned \$25 million to \$35 million from the New England business. I don't know if that was inclusive of Bear Swamp. So I don't know if you can maybe just clarify that.

Judy A. Steele*President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc*

Yes. No, it wouldn't have been -- well, I was just referring to our owned assets there, Robert.

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

Okay. So basically if I add those 2 pieces, that's \$40 million to \$65 million and then we'd add Bear Swap on top of that. And that's kind of how you're thinking about build up to 2016? Are there any other major pieces that are missing?

Judy A. Steele*President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc*

Yes, yes. Well, Bayside is in there, but it can't be -- it's not \$5 million one way or the other.

Operator

Your next question comes from Ben Pham from BMO.

Benjamin Pham*BMO Capital Markets Equity Research*

Just wanted to go back to Emera Energy, just a couple -- maybe some more detailed questions. Just on your commentary on the guidance there, I think you mentioned the lower end of range. I mean it seems that you're using some pretty conservative assumptions in the back half. Just wanted to clarify that. It seems like it's pretty much assuming pretty low pricing and perhaps not exercising that transportation capacity that you bought this quarter.

Judy A. Steele*President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc*

Yes. So -- I mean, if the market has been weak, we haven't realized on our transportation capacity investment the way we have -- we generally like to. And we still got a couple of more relatively heavy cost months in there in July, August and September. So as I said, it is very challenging for us to predict with precision trading and marketing because November and December often makes a year. So right now I would agree, we are being conservative, but not overly so, to be honest. I would say the low end of the range feels like comfortable guidance for us based on the experience we've had so far this year. There is also a little bit of new pipe capacity coming on in New England, which could dampen volatility, which, generally, is a moneymaking opportunity for us, that volatility. So keeping that in mind, as well, we are cautiously optimistic. That said, very cold November and December could -- would be a very nice surprise.

Christopher G. H. Huskilson

Chief Executive Officer, President and Non-Independent Director

Yes, and I think, Ben, I think it's worth understanding that New England is evolving. It's evolving because new pipe capacity is beginning to come in place and then the volatility of weather is always there. And so -- and there always seems to be some stickiness if people have seen low pricing because of the low volatility of weather or weather not showing up, and that tends to hang in the market for a little while. So as Judy said, more volatility on the weather side could change things dramatically, quickly.

Benjamin Pham

BMO Capital Markets Equity Research

Okay. And because you've purchased some more transportation, I think you characterized as short term, then you have some good optionality if there's some volatility later this year. But when you think of the short term, is that you're referring to more the short-term impact on the quarter or more like a 1-year commitment on the capacity? Or is it more kind of the 5 years that we've seen before?

Judy A. Steele

President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc

Yes. No, no. So far and away, the majority of our capacity is kind of a year or less. Some of it is seasonal. That's just the nature of how it winds up generally getting released. So we had relatively larger commitments coming into the summer, half of them are rolling off by the kind of the start of the winter season in November. We will have an opportunity to bid on some new capacity going forward because, again, the transportation capacity is an enabler to the business. The fact that we had a lot in the summer, we also had a lot during the winter, and we managed to make more margin quarter-over-quarter in the winter of '16 than '15, despite the fact that the market conditions were a lot less appealing. So it was the transportation capacity that enabled that. So we're not -- we can't shrink our way to growth and earnings by not buying transportation capacity. But just kind of if you look forward from the position we're in today, all other things being equal, a significant chunk kind of comes off. And as it's rebid in a weaker market, the market value of the capacity is actually lower in terms of its absolute dollar cost.

Christopher G. H. Huskison

Chief Executive Officer, President and Non-Independent Director

So Ben, I think the main point is it's short term and known. And that's the primary issue.

Benjamin Pham

BMO Capital Markets Equity Research

Okay. I just want to see if the segment more just -- it's a lot of numbers in there. On the gas plant side, the state tax, was that -- was there a change in law that came out of nowhere? And is that, going forward, is that going to -- just the business there, is it going to attract additional sub-state tax?

Judy A. Steele

President of Emera Energy Inc and Chief Operating Officer of Emera Energy Inc

So it's not a change in law. Emera -- it's actually a tax on Emera Energy's sales of gas. And in fact, we've been selling gas in Connecticut since 2003, but not to any end users. And so we, in the course of doing some work earlier this year to get set up to sell actually a third-party end user, we realized that this tax will apply to us and that it could apply to our sales -- our intercompany sales essentially to Bridgeport Energy. So we kind of have to do a bit of a true-up there from the period of time between when we bought Bridgeport Energy to now. So that kind of is just on the adjustment. Going forward, it's -- obviously, it's a much smaller number on an annualized basis than it is over a 30-month period. The answer to kind of what's the bottom line impact is, it depends. Some days, you would think that -- so it has to be factored into Bridgeport cost of gas. So on certain days, that might mean that extra cost of gas bumps Bridgeport out of the market. That could happen. Probably not, probably not significant enough to do that. On other days, it could mean that Bridgeport winds up being the absolute marginal unit, which means it's setting the price of power. And because it's setting the price of power with the gas tax in it, we're effectively recovering that completely from the market. So there's no bottom line impact in that circumstance. And

then there's other days where we're not the market-setting entity and it's just a straight increase to Bridgeport's cost of gas. I'm probably getting way a little bit far down in the weeds here. All that to say, on an annualized basis, assuming that the worst case happens every -- in every circumstance, it's probably -- it could be \$5 million on Bridgeport's cost of fuel. But the worst case won't be the driving force every time, but I just -- I'd put that out just as a fencepost.

Gregory W. Blunden

Chief Financial Officer

And Ben, it's Greg. The guidance Judy gave you for balance of the year, the generating plants would in fact incorporate that into those numbers.

Benjamin Pham

BMO Capital Markets Equity Research

Okay, great. And if I can squeeze in another one, just with the TECO transaction. You mentioned you're heading towards 85% regulated exposure. You're at the high end. And you've created a lot of value in the New England gas plants, and it seems like there's a disconnect between plants with capacity payments and sort of merchant-like gas plants out there. So I mean, are you -- is there a possibility that you could potentially monetize those assets and redeploy in maybe some other gas plants at some pretty attractive prices today?

Christopher G. H. Huskison

Chief Executive Officer, President and Non-Independent Director

I mean, Ben, the only thing I have to say to that is we're always looking at our portfolio and will make decisions as time unfolds. But there are no plans to do that at this point.

Operator

And we have no further questions in queue at this time. I'll turn the call back over to the presenters for any closing remarks.

Christopher G. H. Huskison

Chief Executive Officer, President and Non-Independent Director

Okay. Well, thank you very much for taking the time today, for your interest in Emera, and we hope you have a great day.

Operator

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

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