FortisBC Energy Inc. ("FEI")

FEI is a company incorporated under the laws of the Province of British Columbia, operating since 1952. FEI is engaged in sales and transportation services of different energy sources, including natural gas, biomethane, and propane, to residential, commercial, and industrial customers in more than 100 communities in four service areas of the Lower Mainland, Inland, Columbia and Revelstoke, currently serving approximately 835,000 customers throughout the Province. FEI's service is provided through approximately 40,000 kilometres of distribution mains and transmission pipelines. FEI's distribution network serves more than 85 percent of natural gas customers in BC and delivers approximately 20 percent of the total energy consumed in the Province. Table below summarizes FEI's company profile.

Type of Utility	Local Distribution Company
Energy Product Offering	Natural gas, biomethane, propane
Service Area	Lower Mainland, Inland, Columbia and Revelstoke
Rate Base*	$2,717.1 (millions)
Sales/Transportation Volumes*	168,496 (TJs)
Number of Customers*	856,815
Customer Additions*	6,656
Customer Growth Rate*	>1%
Customer Profile by Demand*	
Residential	41%
Commercial	28%
Industrial	31%
Customer Profile by Margin*	
Residential	61%
Commercial	28%
Industrial	11%

*Based on 2012 Forecast, 2012-2013 RRA
Residential includes Rate Schedule 1
Commercial includes Rate Schedules 2, 3, 23
Industrial includes Rate Schedules 4, 5, 6, 7, 22, 25, 27 (does not include Burrard Thermal or Vancouver Island Wheeling)

1. Most recent Annual Report

- Canadian GAPP Annual Financial Statements for the Year-ended December 31, 2011
- Annual Information Form for the Year-ended December 31, 2011
- Management Discussion & Analysis for the Year-ended December 31, 2011

FORTISBC ENERGY INC. (FORMERLY TERASEN GAS INC.)

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

MANAGEMENT'S REPORT

The accompanying annual consolidated financial statements of FortisBC Energy Inc. have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must, of necessity, be based on estimates and informed judgments. These annual consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada. In meeting its responsibility for the reliability and integrity of the annual consolidated financial statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation focus on the need for training of qualified and professional employees and the effective communication of management guidelines and policies. The effectiveness of the internal controls of FortisBC Energy Inc. is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Risk Committee (Audit Committee) which is composed of four independent directors and one director who is an officer of a related company. The Audit Committee oversees the external audit of the Corporation's annual consolidated financial statements and the accounting and financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholders' auditors and the internal auditor to discuss the results of the external audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual consolidated financial statements are reviewed by the Audit Committee with each of management and the shareholders' auditors before the statements are recommended to the Board of Directors for approval. The shareholders' auditors have full and free access to the Audit Committee. The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Corporation's annual consolidated financial statements and to review and report to the Board of Directors on policies relating to the accounting and financial reporting and disclosure processes.

The Audit Committee has the duty to review financial reports requiring Board of Directors' approval prior to the submission to securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review shareholders' auditors' independence and auditors' fees.

The 2011 annual consolidated financial statements and Management's Discussion and Analysis were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisBC Energy Inc.

Ernst & Young, LLP, independent auditors appointed by the shareholders of FortisBC Energy Inc. upon recommendation of the Audit Committee, have performed an audit of the 2011 annual consolidated financial statements and their report follows.

(Signed by)

John Walker
President and Chief Executive Officer

(Signed by)

Michele Leeners
Vice President, Finance and Chief Financial Officer

Vancouver, Canada
February 7, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
FortisBC Energy Inc.

We have audited the accompanying consolidated financial statements of **FortisBC Energy Inc.** (formerly Terasen Gas Inc.), which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and the consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **FortisBC Energy Inc.** (formerly Terasen Gas Inc.) as at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada,
February 7, 2012.

Chartered Accountants

FortisBC Energy Inc.
Consolidated Balance Sheets
As at December 31
(in millions of Canadian dollars)

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 17.2**	$ 15.2
Accounts receivable, net	**238.4**	298.1
Inventories of gas in storage and supplies (note 2)	**101.3**	136.3
Prepaid expenses	**3.1**	2.7
Future income taxes (note 13)	**10.1**	8.6
Current portion of rate stabilization accounts (note 5)	**68.5**	96.3
	438.6	557.2
Property, plant and equipment, net (note 3)	**2,513.1**	2,466.1
Intangible assets, net (note 4)	**116.6**	94.9
Other assets (note 6)	**434.6**	365.7
	$ 3,502.9	$ 3,483.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term notes (note 14)	**$ 65.0**	$ 178.0
Accounts payable and accrued liabilities	**303.7**	357.9
Income and other taxes payable	**39.4**	36.0
Current portion of rate stabilization accounts (note 5)	**18.7**	3.6
Future income taxes (note 13)	**-**	1.3
Current portion of long-term debt (note 7)	**2.9**	2.6
Other current liabilities and deferred credits (note 8)	**-**	11.7
	429.7	591.1
Long-term debt (note 7)	**1,542.5**	1,442.1
Rate stabilization accounts (note 5)	**22.4**	7.1
Other long-term liabilities and deferred credits (note 8)	**155.0**	141.5
Future income taxes (note 13)	**303.8**	279.6
	2,453.4	2,461.4
Shareholders' equity		
Share capital (note 9)	**719.0**	719.0
Contributed surplus (note 9)	**266.2**	256.1
Retained earnings	**64.3**	47.4
	1,049.5	1,022.5
	$ 3,502.9	$ 3,483.9

Approved on Behalf of the Board:

(Signed by) Harold Calla
Director

(Signed by) John Walker
Director

The accompanying notes are an integral part of these Consolidated Financial Statements.

FortisBC Energy Inc.
Consolidated Statements of Earnings and Comprehensive Earnings
For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
Revenues		
Natural gas transmission and distribution	**$ 1,354.8**	$ 1,362.1
Expenses		
Cost of natural gas	**763.3**	790.0
Operation and maintenance (note 15)	**218.6**	206.2
Depreciation and amortization	**81.2**	82.9
Amortization of intangible assets	**8.1**	8.2
Property and other taxes	**50.4**	49.3
	1,121.6	1,136.6
Operating income	**233.2**	225.5
Financing costs (note 11)	**104.3**	102.5
Earnings before income taxes	**128.9**	123.0
Income tax expense (note 13)	**27.0**	29.8
Net earnings and comprehensive earnings	**$ 101.9**	$ 93.2

The accompanying notes are an integral part of these Consolidated Financial Statements.

FortisBC Energy Inc.
Consolidated Statements of Retained Earnings
For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
Retained earnings, beginning of year	**$ 47.4**	$ 38.2
Net earnings	**101.9**	93.2
	149.3	131.4
Dividends on common shares	**(85.0)**	(84.0)
Retained earnings, end of year	**$ 64.3**	$ 47.4

The accompanying notes are an integral part of these Consolidated Financial Statements.

FortisBC Energy Inc.
Consolidated Statements of Cash Flows
For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 101.9**	$ 93.2
Adjustments for non-cash items		
Depreciation and amortization	**89.3**	91.1
Other	**(0.6)**	(7.3)
	190.6	177.0
Changes in non-cash working capital	**94.9**	(14.7)
	285.5	162.3
Investing activities		
Property, plant and equipment	**(139.1)**	(136.5)
Intangible assets	**(29.9)**	(20.5)
Other assets	**(17.1)**	(13.4)
	(186.1)	(170.4)
Financing activities		
Decrease in short-term notes	**(113.0)**	(26.0)
Issuance of long-term debt	**100.6**	2.2
Issuance of common shares	**-**	125.0
Dividends on common shares	**(85.0)**	(84.0)
	(97.4)	17.2
Net increase in cash and cash equivalents	**2.0**	9.1
Cash and cash equivalents at beginning of year	**15.2**	6.1
Cash and cash equivalents at end of year	**$ 17.2**	$ 15.2

Supplementary Information to Consolidated Statements of Cash Flows (note 12)

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles (Canadian GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

As a qualifying entity with rate-regulated activities, the Corporation elected to opt for the one-year deferral and, therefore, continued to prepare its consolidated financial statements in accordance with Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook for all interim and annual periods ending on or before December 31, 2011.

Certain comparative figures have been reclassified to conform to the current year's presentation.

REGULATION

The Corporation is subject to the regulation of the British Columbia Utilities Commission (the BCUC), an independent regulatory authority. The BCUC exercises statutory authority over such matters as rates of return, construction and operation of facilities, accounting practices, rates, and contractual agreements with customers. Rates are bundled to include transmission and distribution services, where applicable.

In 2009, the Corporation reached a negotiated settlement agreement (2010/2011 NSA) that was a cost-of-service based agreement and covered the 2010 and 2011 time periods. FortisBC Energy Inc. (FEI) earns an allowed rate of return that is based on a deemed debt-equity ratio of 60.00 per cent debt and 40.00 per cent equity. During 2009, FEI applied to the BCUC for and received an increase in the common equity component in capital structure allowed for rate-making purposes to 40.00 per cent from 35.01 per cent effective January 1, 2010. During 2009, the Corporation applied to the BCUC for an increase to the ROE and to discontinue the use of the automatic adjustment mechanism previously used. Late in 2009, the BCUC directed the ROE to be set at 9.50 per cent for FEI effective July 1, 2009 and directed the Corporation to discontinue the use of the automatic adjustment mechanism previously used.

In order to recognize the economic effects of regulation, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under Canadian GAAP for non-regulated businesses.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates. Long-term regulatory assets are recorded in other assets whereas rate stabilization accounts are recorded as current portion of rate stabilization accounts. Long-term regulatory liabilities are recorded in other long-term liabilities and deferred credits, whereas rate stabilization accounts are recorded as current and long-term rate stabilization accounts.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REGULATION (CONTINUED)

The impacts of rate regulation on the Corporation's operations for the years ending December 31, 2011 and 2010 and as at December 31, 2011 and 2010 are described in these Significant Accounting Policies, and in note 3 "Property, Plant and Equipment", note 5 "Rate Stabilization Accounts", note 6 "Other Assets", note 8 "Other Long-Term Liabilities and Deferred Credits", note 10 "Employee Benefit Plans", note 11 "Financing Costs", and note 13 "Income Taxes".

RATE STABILIZATION ACCOUNTS

The Corporation is authorized by the BCUC to maintain rate stabilization accounts that mitigate the effect on its earnings of certain unpredictable and uncontrollable factors, such as volume volatility caused principally by weather and natural gas cost volatility. The Revenue Stabilization Adjustment Mechanism (RSAM) accumulates the margin impact of variations in the actual versus forecast volume use for residential and commercial customers.

The Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA) accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in rates. The two accounts segregate costs that are allocable to all sales customers (MCRA) and all residential customers and certain commercial and industrial customers for whom FEI acquires gas supply (CCRA).

All rate stabilization account balances are amortized and recovered through rates as approved by the BCUC.

CASH and CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term deposits with maturities of three months or less from the date of acquisition.

INVENTORIES

Inventories of gas in storage are valued at weighted-average cost. The cost of gas in storage is recovered from customers in future rates.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures for system expansions, betterments and replacements, an allocation of overhead costs as prescribed by the regulator and an allowance for funds used during construction as prescribed by the regulator. When allowed by the BCUC, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

Depreciation of regulated assets is recorded on a straight-line basis over their useful lives. Depreciation rates for regulated assets are approved by the respective regulator.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Effective January 1, 2010 as approved in the 2010/2011 NSA, asset removal costs are recorded in operating and maintenance expense on the consolidated statement of earnings and comprehensive earnings and gains and losses on the sale or removal of utility capital assets are recorded in a regulatory deferral account on the consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval.

INTANGIBLE ASSETS

Intangible assets are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures, betterments and replacements, an allocation of overhead costs and an allowance for funds used during construction. When allowed by the regulators, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization rates for regulated intangible assets are approved by the respective regulators, and for non-regulated intangible assets require the use of management estimates of the useful lives of assets.

Intangible assets are derecognized on disposal, or when no future economic benefits are expected from their use. Effective January 1, 2010 as approved in the 2010/2011 NSA, asset removal costs are recorded in operating and maintenance expense on the consolidated statement of earnings and comprehensive earnings and gains and losses on the sale or removal of utility intangible assets are recorded in a regulatory deferral account on the consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or where there are indicators that two or more indefinite useful life intangible assets should be combined, then as a single unit of accounting. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset and eventual disposition. If the carrying amount of an asset exceeds its estimated future cash flows and eventual disposition, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There was no impairment of long-lived assets for the years ended December 31, 2011 and 2010.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED CHARGES

The Corporation defers certain costs that the regulatory authorities or contractual arrangements require or permit to be recovered through future rates. Deferred charges are amortized over various periods as approved by the BCUC and depending on the nature of the costs.

Deferred charges not subject to regulation relate to projects that will benefit future periods and will be capitalized on completion, expensed on project abandonment, or amortized over their useful lives.

ASSET RETIREMENT OBLIGATIONS

The Corporation will recognize the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation will concurrently recognize a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset. The fair value of the asset retirement obligation is to be estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are to be recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are to be recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

As the fair value of future removal and site restoration costs for the Corporation's natural gas transmission and distribution systems are not currently determinable as they will be used in perpetuity, the Corporation has not recognized an asset retirement obligation at December 31, 2011 and 2010. For regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates.

REVENUE RECOGNITION

The Corporation recognizes revenues when products have been delivered or services have been performed.

Revenues from natural gas sales are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year and are adjusted for the RSAM and other BCUC approved orders.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POST-EMPLOYMENT BENEFIT PLANS

The Corporation sponsors a number of employee benefit plans. These plans include both defined benefit and defined contribution pension plans, and various other post-retirement benefit plans.

The cost of pensions and other post-retirement benefits earned by employees are actuarially determined as the employee provides service. The Corporation uses the projected benefit prorate method based on years of service, management's best estimates of expected returns on plan assets, salary escalation, retirement age of employees, mortality and expected future health-care costs. The discount rate used to value liabilities is based on AA Corporate bond yields. The Corporation accrues the cost of defined benefit pensions and post-employment benefits as the employee provides services. The Corporation uses a measurement date of December 31 for all plans.

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of assets is determined using a smoothed value that recognizes investment gains and losses gradually over a three-year period.

Adjustments, in excess of 10 per cent of the greater of the accrued benefit obligation and plan asset fair value, that result from plan amendments, changes in assumptions and experience gains and losses, are amortized over the expected average remaining service life of the employee group covered by the plan. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

Defined contribution plan costs are expensed by the Corporation as contributions are payable.

FINANCIAL INSTRUMENTS

a) Section 3855, *Financial Instruments – Recognition and Measurement*, prescribes the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. This section also addresses how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

   The Corporation is required to designate its financial instruments into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

   All derivative financial instruments are recorded on the balance sheet at fair value. The Corporation utilizes derivatives only to manage its exposure to changes in foreign currency exchange and energy commodity prices in its rate-regulated operations. The Corporation does not enter into derivative contracts for speculative purposes.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Mark-to-market adjustments on these instruments is subject to regulatory deferral treatment to be recovered from or refunded to customers in future rates. In non-regulated entities the mark-to-market adjustment would either be recorded to earnings or other comprehensive income or a combination of both depending on whether hedge accounting is applied, the nature of the hedging relationship and whether there is ineffectiveness in the hedging relationship.

In accordance with the standard's transitional provisions, the Corporation recognizes as separate assets and liabilities only embedded derivatives acquired or substantively modified on or after January 1, 2003.

The Corporation has designated its financial instruments as follows:

- Cash and cash equivalents are classified as "*Held for Trading*" and are recorded at fair value. Due to the relatively short period to maturity of these financial instruments the carrying values approximate their fair values.
- Accounts receivable and long-term receivables are classified as *"Loans and Receivables."* These financial assets are recorded at values that approximate their amortized cost using the effective interest method.
- Short-term notes, accounts payable and accrued liabilities, long-term debt, and related issue costs are classified as "*Other Financial Liabilities.*" These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.
- Natural gas contracts are classified as "*Held for Trading*" and are recorded at fair value.

The Corporation recognizes transaction costs associated with financial assets and liabilities, that are classified as other than held for trading, as an adjustment to the cost of those financial assets and liabilities recorded on the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument.

b) Section 3862, *Financial Instruments – Disclosures*, establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defines three levels of inputs to the fair value measurement process, and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the Section 3862 hierarchy are as follows:

    I. Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

    II. Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

III. Level 3 Inputs - inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

The disclosures required by the hierarchal disclosure framework are disclosed in note 14.

c) Emerging Issues Emerging Issues Committee (EIC) – 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, requires that the Corporation's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. The Corporation's consolidated financial statements are not materially impacted from applying this standard.

COMPREHENSIVE INCOME

Section 1530, *Comprehensive Income*, requires the presentation of a statement of comprehensive income and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in fair value of the effective portion of cash flow hedging instruments. The Corporation has not recognized any adjustments through other comprehensive income for the years ended December 31, 2011 and 2010.

INCOME TAXES

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The future income tax assets and liabilities are measured using the enacted or substantively enacted income tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

The effect of a change in income tax rates on future income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense (recovery) is recognized for the estimated income taxes payable (receivable) in the current year.

As approved by the BCUC, the Corporation recovers income tax expense in customer rates based only on income taxes that are currently payable for regulatory purposes, except for certain deferral accounts specifically prescribed by the BCUC. Therefore, current customer rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED)

when they become payable. An offsetting regulatory asset or liability is recognized for the amount of income taxes that are expected to be collected in rates once they become payable.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for income tax expense that is expected to be recovered, or refunded, in future customer rates is subject to deferral treatment (notes 5, 6 and 8).

VARIABLE INTEREST ENTITIES

The Corporation has performed a review of the entities with which it conducts business and has concluded that there are no entities that are required to be consolidated or variable interests that are required to be disclosed under the requirements of Accounting Guideline 15, *Consolidation of Variable Interest Entities*.

FUTURE ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

Effective January 1, 2012, the Corporation will be required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011, however, qualifying entities with rate-regulated activities were granted an optional one-year deferral for the adoption of IFRS, due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board (IASB).

Due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, the Corporation evaluated the option of adopting United States generally accepted accounting principles (US GAAP), as opposed to IFRS, and has decided to adopt US GAAP effective January 1, 2012. Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a US Securities and Exchange Commission (SEC) Issuer. A SEC Issuer is defined under the Canadian securities rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the *US Securities Exchange Act of 1934,* as amended (the Exchange Act), or (ii) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is currently not an SEC Issuer.

Therefore, on June 6, 2011, the Corporation, along with its ultimate parent company, Fortis, filed an application with the Ontario Securities Commission (the OSC) seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions,* to permit the Corporation to prepare its financial statements in accordance with US GAAP without qualifying as an SEC Issuer (the Exemption). On June 9, 2011 the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Corporation ceases to have activities subject to rate regulation.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The Corporation's application of Canadian GAAP currently relies primarily on US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Corporation's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities which allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. The Corporation believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate-regulation has on the Corporation's consolidated financial position and results of operations.

2. INVENTORIES

During the year ended December 31, 2011, gas in storage inventories of $763.3 million (2010 - $790.0 million) were expensed and reported in cost of natural gas on the consolidated statement of earnings and comprehensive earnings.

3. PROPERTY, PLANT AND EQUIPMENT

2011	**Weighted average depreciation rate**	**Cost**	**Accumulated depreciation**	**Net book value**
Natural gas transmission and distribution systems	**2.56%**	**$ 3,100.9**	**$ (829.8)**	**$ 2,271.1**
Plant, buildings and equipment	**5.04%**	**238.7**	**(84.3)**	**154.4**
Land	**-**	**55.1**	**-**	**55.1**
Assets under construction	**-**	**32.5**	**-**	**32.5**
		$ 3,427.2	**$ (914.1)**	**$ 2,513.1**

2010	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book value
Natural gas transmission and distribution systems	2.57%	$ 2,956.4	$ (756.7)	$ 2,199.7
Plant, buildings and equipment	5.12%	228.0	(81.1)	146.9
Land	-	52.1	-	52.1
Assets under construction	-	67.4	-	67.4
		$ 3,303.9	$ (837.8)	$ 2,466.1

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As allowed by the regulator, during the year ended December 31, 2011, the Corporation capitalized an allowance for debt and equity funds during construction at approved rates of $3.3 million (2010 - $1.6 million) and $4.1 million (2010 - $2.1 million), respectively and approved capitalized overhead of $30.2 million (2010 - $29.0 million), with offsetting inclusions in earnings. Depreciation of property, plant and equipment for the year ended December 31, 2011 totalled $86.4 million (2010 - $85.5 million).

4. INTANGIBLE ASSETS

2011			
	Cost	**Accumulated depreciation**	**Net book value**
Software	**$ 91.0**	**$ (22.1)**	**$ 68.9**
Land rights	**45.7**	**(0.7)**	**45.0**
Other	**2.5**	**(1.3)**	**1.2**
Assets under construction	**1.5**	**-**	**1.5**
	$ 140.7	**$ (24.1)**	**$116.6**

2010			
	Cost	Accumulated depreciation	Net book value
Software	$ 57.3	$ (27.0)	$ 30.3
Land rights	45.3	(0.7)	44.6
Other	2.5	(1.2)	1.3
Assets under construction	18.7	-	18.7
	$ 123.8	$ (28.9)	$ 94.9

There was no impairment of intangible assets for the years ended December 31, 2011 and 2010.

The land rights are not subject to amortization but were amortized historically until it was determined that the useful life of the land rights was indefinite at which time amortization ceased and the land rights are tested for impairment annually.

During the year ended December 31, 2011, $28.6 million (2010 - $5.3 million) of intangible assets subject to amortization were acquired and $0.8 million (2010 - $0.7 million) were developed.

During the year ended December 31, 2011, $0.5 million (2010 - $14.5) of intangible assets not subject to amortization were acquired and nil (2010 – nil) were developed.

During the year ended December 31, 2011, $13.0 million (2010 - $9.3 million) of fully amortized software assets were retired.

Amortization of intangible assets for the year ended December 31, 2011 totalled $8.1 million (2010 - $8.2 million).

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

4. INTANGIBLE ASSETS (CONTINUED)

Amortization of software is recorded on a straight-line basis using an average amortization rate of 8.8 per cent. Amortization of other intangible assets is recorded on a straight-line basis using an amortization rate of 2.9 per cent. Amortization rates for regulated intangible assets are approved by the BCUC, and for non-regulated intangible assets require the use of management estimates of the useful lives of assets.

5. RATE STABILIZATION ACCOUNTS

	2011	2010
Current Assets		
CCRA	**$ 73.1**	$ 99.2
MCRA	**-**	3.5
Gross up of current rate stabilization accounts for future income taxes	**(4.6)**	(6.4)
	68.5	96.3
Current Liabilities		
RSAM	**(8.4)**	(2.6)
MCRA	**(5.6)**	-
Gross up of current rate stabilization accounts for future income taxes	**(4.7)**	(1.0)
	(18.7)	(3.6)
Long-Term Liabilities		
RSAM	**(16.8)**	(5.3)
Gross up of long-term rate stabilization accounts for future income taxes	**(5.6)**	(1.8)
	(22.4)	(7.1)
Net rate stabilization accounts	**$ 27.4**	$ 85.6

The current portion of the rate stabilization accounts represents the amounts expected to be recovered or refunded in rates over the next year. Actual recoveries (refunds) will vary depending on actual natural gas consumption and recovery amounts approved by the BCUC.

The RSAM account is anticipated to be refunded in rates over three years. Refund of the RSAM balance is dependent upon annually approved rates and actual gas consumption volumes. The MCRA and CCRA accounts are anticipated to be fully recovered or paid within the next fiscal year.

The mark-to-market on the natural gas derivatives included in the CCRA account is $86.8 million (2010 - $120.4 million).

The future income taxes on rate stabilization accounts resulted from the Canadian Accounting Standards Board (AcSB) amendment to Section 3465, *Income Taxes* requiring the recognition of future income tax liabilities and assets as well as offsetting amounts included in the rate stabilization accounts. The mark-to-market on the natural gas derivatives offsets the CCRA account resulting in a net receivable position. There are no timing differences for tax purposes on the mark-to-market on the natural gas derivatives.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

5. RATE STABILIZATION ACCOUNTS (CONTINUED)

In the absence of rate regulation, the costs in the rate stabilization accounts above would have been expensed as incurred. The impact on the consolidated statements of earnings and comprehensive earnings would have been as follows:

	2011	2010
Increase in natural gas transmission and distribution revenue	**$ 305.0**	$ 317.8
Increase in cost of natural gas	**(279.6)**	(350.2)
Decrease (increase) in income tax expense	**1.1**	(0.2)
Increase (decrease) in other comprehensive income related to gas derivatives	**33.5**	(19.3)

6. OTHER ASSETS

	2011	2010
Deferred charges		
Subject to rate regulation and approved for recovery in rates		
Deferred losses on disposal of utility capital assets	**$ 21.0**	$ 14.8
Energy Efficiency and Conservation Program	**20.7**	10.6
Income taxes recoverable on post-employment benefits	**18.3**	18.3
Gross up of regulated other assets for future income taxes	**16.4**	6.8
Customer care enhancement	**11.2**	-
Pension cost variance	**9.6**	1.6
Alternative energy projects	**8.5**	4.0
Deferred removal costs	**4.7**	1.4
Tilbury land purchase	**0.6**	3.3
Olympic security costs	**0.4**	1.2
Other items approved for recovery in rates	**6.8**	5.4
	118.2	67.4
Regulated asset for future income taxes	**282.6**	263.5
Pension assets (note 10)	**24.9**	25.9
Long-term receivables	**8.9**	8.9
	$ 434.6	$ 365.7

Amortization of these deferred charges in rates for the year ended December 31, 2011 totalled $4.0 million (2010 - $1.8 million).

The deferred losses on disposal of utility capital assets is a regulatory deferral account that was approved by the BCUC in the 2010/2011 NSA and accumulates gains and losses on the sale or removal of utility capital assets. FEI has applied for recovery of this account over 20 years.

The deferral account for the Energy Efficiency and Conservation Program relates to costs incurred in relation to a program approved by the BCUC that provides energy efficient incentives to residential and commercial customers. The BCUC has approved the recovery of these costs in rates over a ten-year period.

6. OTHER ASSETS (CONTINUED)

The deferral account for income taxes on post-employment benefits relates to income tax amounts on post-employment benefit expense. The BCUC allows post-employment benefits to be collected from customers through rates calculated on the accrual basis, rather than a cash paid basis, which produces a timing difference for income tax purposes similar to a future income tax asset. However, due to prior regulatory decisions this is presented as a regulatory other asset. In years prior to 2009 the Corporation accounted for income taxes using the taxes payable basis of accounting, thus the tax effect of this timing difference is included in other assets, and will be reduced as cash payments for post-employment benefits exceed required accruals and amounts collected from customers in rates.

The deferral account for future income taxes on regulated other assets and the regulated asset for future income taxes resulted from the AcSB's amendment to Section 3465, *Income Taxes,* requiring the recognition of future income tax liabilities and assets as well as offsetting regulated assets or liabilities.

The Customer Care Enhancement (CCE) deferral captures all incremental costs associated with the project that were incurred prior to the project implementation date of January 1, 2012, for the purpose of permitting cost recovery, as well as any amounts related to the timing of when the CCE project is available for use and when it is actually added into rate base. These costs will be transferred to rate base and amortized through delivery rates commencing January 1, 2012 over a three year period.

The pension cost variance account accumulates differences between pension expense and other post-employment benefit expense that is approved for recovery in rates and actuarial pension expense. Amounts are recovered in rates over a three year period.

The alternative energy projects deferral account captures the costs and revenue associated with the investment in alternative energy solutions. The recovery of this account will be determined at a future period.

The deferred removal costs account is a regulatory deferral account that was approved by the BCUC in the 2010/2011 NSA and accumulates actual removal costs incurred in excess of or below the approved amount. These costs will be recovered from, or refunded to, customers in future rates beginning in 2012.

The Tilbury land purchase deferral account captures the cost of the land that FEI will be seeking to subdivide and sell. A portion of the land was sold in the fourth quarter of 2011 and the proceeds were credited against this deferral account. If the remaining parcel of land is not sold by January 1, 2014, the amount will be reclassed to property, plant and equipment and will be included in rate base.

The Olympic security costs deferral account captures the security costs incurred related to the 2010 Olympic and Paralympics games. These costs will be recovered in rates over a three year period beginning in 2011.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

6. OTHER ASSETS (CONTINUED)

Deferred charges that have been aggregated in the table above and in the table in "Other Long-term Liabilities and Deferred Credits" in note 8 as other items approved for recovery (refund) in rates relate to more than 36 deferral accounts, none of which exceed $1.5 million individually. All of these accounts have been approved by regulators in prior annual rate approvals or orders and are being amortized over various periods depending on the nature of the costs.

In the absence of rate regulation, the deferred charges in the above table that were incurred in the period would have been recorded in income, except for the costs related to the pension asset, Tilbury land purchase, deferred capital costs associated with the alternative energy projects and long-term receivables. The impact on the consolidated statements of earnings and comprehensive earnings would have been as follows:

	2011	2010
Increase (decrease) in natural gas transmission and distribution revenue	**$ 8.0**	$ (3.9)
Increase in cost of natural gas	**(0.5)**	(0.1)
Increase in operation and maintenance costs	**(63.7)**	(19.0)
Decrease in depreciation and amortization	**4.0**	1.8
Increase in financing costs	**(2.3)**	(0.6)
Increase in income tax expense	**(16.6)**	(6.1)
Net decrease in earnings	**$ (71.1)**	$ (27.9)

7. LONG-TERM DEBT

	2011	2010
(a) Purchase Money Mortgages:		
11.80% Series A, due September 30, 2015	**$ 74.9**	$ 74.9
10.30% Series B, due September 30, 2016	**200.0**	200.0
(b) Debentures and Medium-Term Note Debentures:		
6.95% Series 11, due September 21, 2029	**150.0**	150.0
6.50% Series 18, due May 1, 2034	**150.0**	150.0
5.90% Series 19, due February 26, 2035	**150.0**	150.0
5.55% Series 21, due September 25, 2036	**120.0**	120.0
6.00% Series 22, due October 2, 2037	**250.0**	250.0
5.80% Series 23, due May 13, 2038	**250.0**	250.0
6.55% Series 24, due February 24, 2039	**100.0**	100.0
4.25% Series 25, due December 9, 2041	**100.0**	-
Obligations under capital leases, at 3.98% (2010 – 2.85%)	**14.5**	13.0
Total long-term debt	**1,559.4**	1,457.9
Less: current portion of long-term debt	**2.9**	2.6
Less: long-term debt issue costs	**14.0**	13.2
	$ 1,542.5	$ 1,442.1

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

7. LONG-TERM DEBT (CONTINUED)

a) Purchase Money Mortgages:

The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on the Corporation's Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425 million.

b) Debentures and Medium-Term Note Debentures:

The Corporation's debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

On December 9, 2011, FEI issued $100.0 million of Medium-Term Note Debentures at a coupon interest rate of 4.25 per cent. The debentures mature on December 9, 2041 and are unsecured and subject to the restrictions of the Trust Indenture. The net proceeds were used to repay credit-facility borrowings incurred in support of working capital requirements and capital expenditures.

Long-term debt issue costs are amortized using the effective interest rate method.

The Corporation's Series B Purchase Money Mortgages, and Series 11, Series 18, Series 19, Series 21, Series 22, Series 23, Series 24 and Series 25 Medium-Term Note Debentures are redeemable in whole or in part at the option of the Corporation at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond. The Corporation's Series A Purchase Money Mortgages are not redeemable.

Required principal repayments over the next five years and thereafter are as follows:

	2011
2012	**$ 2.9**
2013	**2.9**
2014	**2.9**
2015	**77.8**
2016	**202.9**
Thereafter	**1,270.0**
	$ 1,559.4

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

8. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS

	2011	2010
Pension and other post-employment benefit liabilities (note 10)	**$ 65.4**	$ 60.7
Deferred gains on sale of natural gas transmission and distribution assets	**34.1**	38.1
Deferred credits		
Subject to rate regulation and approved for recovery in rates		
Income tax variance	**11.9**	3.2
Gross up of regulated deferred credits for future income taxes	**8.6**	10.0
Southern Crossing Pipeline (SCP) mitigation revenues	**8.5**	5.4
Deferred interest mechanism	**7.6**	5.1
IFRS transitional adjustments	**6.3**	7.8
Property tax variance	**2.5**	1.1
Deferred interest on MCRA	**2.2**	2.1
Insurance cost variance	**1.1**	0.7
2010 revenue surplus	**-**	6.5
Earnings sharing and capital incentive mechanism	**-**	5.2
Other items approved for refund in rates	**2.5**	2.1
Other deferred credits		
Ministry of Energy, Mines and Petroleum Resources funds	**4.2**	4.2
Other	**0.1**	1.0
	155.0	153.2
Less: current portion of other long-term liabilities and deferred credits	**-**	11.7
	$ 155.0	$ 141.5

The deferred gains on sale of natural gas transmission and distribution assets occurred upon the sale and leaseback of FEI's pipeline assets to certain municipalities in 2001, 2002, 2004 and 2005. The pre-tax gains of $70.5 million on combined cash proceeds of $141.1 million are being amortized over the 17-year terms of the operating leases that commenced at the time of the sale transactions. These operating lease commitments are included in the table in note 16.

The income tax variance account captures the impact on tax expense due to changes in tax laws or accepted accessing practices, audit reassessments, accounting policy changes and tax rate changes. Amounts are recovered in rates over three years.

The future income taxes on regulated deferred credits resulted from the AcSB's amendment to Section 3465, *Income Taxes* requiring the recognition of future income tax liabilities and assets as well as offsetting regulated assets or liabilities.

The SCP mitigation revenues deferral account relates to revenue received from third parties for the use of the SCP transportation capacity that has not been utilized by the firm transportation agreement customers and revenue received from third parties for the use of the SCP west to east transmission system. This account is used to record differences between actual revenues from SCP mitigation and what has been approved in the current revenue requirement. Amounts are being amortized to income over three years.

8. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS (CONTINUED)

The Corporation has a deferred interest mechanism which has been approved by the BCUC that requires that variances due to differences in long-term borrowings and long-term and short-term interest rates from those that have been approved in rates be returned to customers in future rates. The impact of this mechanism was to increase financing costs for the year ended December 31, 2011 by $4.3 million (2010 – $0.9 million) from what otherwise would be reported. The balance of the deferred interest account is being amortized on a straight-line basis over three years.

The IFRS transitional adjustments deferral account contains a one-time transfer of the existing gain from the general plant accumulated amortization balance as part of the conversion to IFRS. The balance will be recovered from customers over a yet to be determined period.

The property tax variance account accumulates differences between property tax that is approved for recovery in rates and actual property tax. Amounts are returned to customers in rates over three years.

The deferred interest on MCRA is the interest calculated on the difference between the actual and forecasted average balance of the MCRA account multiplied by the composite interest rate. Amounts are returned to customers in rates in the following year.

The insurance cost variance account accumulates differences between insurance expense that is approved for recovery in rates and actual insurance expense. Amounts are returned to customers in rates in the following year.

The 2010 revenue surplus deferral account captured the FEI forecast 2010 revenue surplus resulting from the BCUC approved rate freeze for FEI for 2010. The surplus was fully applied to reduce rates in 2011.

The earnings sharing and capital incentive mechanism includes the earnings sharing which is a mechanism agreed to in FEI's multi-year agreement that expired at the end of 2009 to share, on a 50/50 basis, amounts earned by FEI on its regulated activities that exceeded or were less than amounts allowed by the BCUC in the cost-of-service allowed return calculations. Also, included in this deferral account is the capital incentive mechanism which allowed sharing on a 50/50 basis of capital spend that was less than the formula capital calculated for the 2003-2009 performance-based rate-setting period. These amounts are shared on an after-tax basis, and are being returned to customers over a two year period which began in 2010.

The Ministry of Energy, Mines and Petroleum Resources funds are funds the Corporation received from the Ministry of Energy, Mines and Petroleum Resources of the Province of BC in advance of expenditures. The funds received are in support of LiveSmart BC's energy conservation and efficiency goals and are focused on the Efficiency Incentive Program for low-income households. The Corporation will use the funds to reduce the consumption of natural gas by low-income residences served by FEI.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

8. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS (CONTINUED)

Other deferred credits include an unfunded defined contribution pension liability. The unfunded defined contribution pension liability relates to a supplementary employee retirement plan for which benefits are based upon employee earnings.

Amortization of these deferred credits in rates for the year ended December 31, 2011 totalled $9.1 million (2010 - $4.3 million).

In the absence of rate regulation, the current period impact of other long-term liabilities and deferred credits in the above table would have been recorded in income, aside for the pension and other post-employment benefit liabilities, the deferred gains on sale of natural gas transmission and distribution assets and the other deferred credits.

The impact on the consolidated statements of earnings and comprehensive earnings would have been as follows:

	2011	2010
(Decrease) increase in natural gas transmission and distribution revenue	**$ (15.7)**	$ 1.9
Increase in cost of natural gas	**-**	(0.4)
Decrease in operation and maintenance costs	**14.7**	0.1
Decrease in property and other taxes	**2.2**	0.6
Increase in depreciation and amortization	**(9.1)**	(4.3)
Decrease in financing costs	**6.4**	1.0
Decrease (increase) in income tax expense	**3.0**	(1.5)
Net increase (decrease) in earnings	**$ 1.5**	$ (2.6)

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

AUTHORIZED SHARE CAPITAL

The Corporation is authorized to issue 500,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value. Changes in the issued and outstanding common shares are as follows:

	2011		2010	
	Number	**Amount**	Number	Amount
Outstanding, beginning of year	**63,010,782**	**$ 719.0**	59,591,732	$ 594.0
Issued	**-**	**-**	3,419,050	125.0
Outstanding, end of year	**63,010,782**	**$ 719.0**	63,010,782	$ 719.0

In January 2010, the Corporation issued 3,419,050 common shares for total proceeds of $125.0 million. The issuance was a result of the BCUC increasing the Corporation's common equity component in capital structure allowed for rate making purposes from 35.01 per cent to 40.00 per cent.

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (CONTINUED)

CONTRIBUTED SURPLUS

Income tax benefits in the amount of $10.1 million (2010 – $7.7) relating to transactions with entities under common control were recorded as a credit to contributed surplus in 2011.

DIVIDEND POLICY

As part of its approval of the acquisition of FortisBC Holdings Inc. (the Corporation's parent) by Fortis Inc., the BCUC imposed a number of conditions intended to ring-fence FEI from FortisBC Holdings Inc. These restrictions included a prohibition on the payment of dividends unless the Corporation has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. The Corporation must maintain a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for rate-making purposes. Dividends from the Corporation will not be allowed by the regulator if the requisite equity is not in place. The Corporation's dividend policy is intended to ensure that it maintains at least as much common equity as that deemed by the BCUC for rate-making purposes.

10. EMPLOYEE BENEFIT PLANS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, which provide pension benefits in excess of statutory limits, and defined contributory plans. The Corporation also provides post-employment benefits other than pensions for retired employees. The following is a summary of each type of plan:

DEFINED BENEFIT PLANS

Retirement benefits for unionized employees under the defined benefit plans are based on employees' years of credited service and remuneration. Corporation contributions to the plan are based upon independent actuarial valuations. The most recent actuarial valuation of the defined benefit pension plans for funding purposes was at December 31, 2010 and the next required valuation is as of December 31, 2013. The expected weighted average remaining service life of employees covered by the defined benefit pension plans is 9.7 years (2010 – 9.2 years).

Effective in 2007, all employees became participants in a defined benefit pension plan in which costs are split evenly between the employees and employer. The current employees were grandfathered in their respective defined contribution and defined benefit plans and those plans were closed to all new members. The most recent actuarial valuation of this defined benefit pension plan for funding purposes was December 31, 2009 and the date of the next required valuation is December 31, 2012. The expected weighted average remaining service life of employees covered by this defined benefit pension plan is 10.9 years (2010 – 10.9 years).

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

DEFINED CONTRIBUTION PLAN

Effective in 2000, all new non-union employees became members of defined contribution pension plans. Corporation contributions to the plan are based upon employee age and pensionable earnings for employees. Effective in 2007, all new employees of the Corporation became members of the defined benefit plan described above.

SUPPLEMENTAL PLANS

Certain employees are eligible to receive supplemental benefits under both the defined benefit and defined contribution plans. The supplemental plans provide pension benefits in excess of statutory limits. The supplemental plans are unfunded and certain plans are secured by letters of credit.

OTHER POST-EMPLOYMENT BENEFITS

The Corporation provides certain retired employees with other post-employment benefits that include, depending on circumstances, supplemental health, dental and life insurance coverage. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation. The most recent actuarial valuation was completed as at December 31, 2010 and the next required valuation is as of December 31, 2013. The expected weighted average remaining service life of employees covered by these benefit plans is 12.9 years (2010 – 12.9 years).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The financial positions of the employee defined benefit pension plans and other benefit plans are presented in aggregate in the tables below:

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

	Defined benefit pension plans		Other benefit plans	
	2011	2010	**2011**	2010
Plan assets				
Fair value, beginning of year	**$ 261.9**	$ 236.9	**$ -**	$ -
Actual return on plan assets	**20.1**	21.6	**-**	-
Corporation contributions	**11.6**	8.4	**1.5**	1.4
Contributions by members	**8.6**	6.9	**-**	-
Benefit payments	**(13.2)**	(11.6)	**(1.5)**	(1.4)
Other	**(0.1)**	(0.3)	**-**	-
Fair value, end of year	**288.9**	261.9	**-**	-
Accrued benefit obligation				
Obligation, beginning of year	**314.9**	264.4	**69.2**	57.8
Current service cost	**8.9**	6.7	**1.5**	1.4
Interest cost	**16.7**	15.9	**3.6**	3.5
Contributions by members	**8.6**	6.9	**-**	-
Benefit payments	**(13.2)**	(11.6)	**(1.5)**	(1.4)
Plan amendments	**-**	(4.8)	**-**	-
Actuarial loss	**38.2**	37.4	**20.5**	7.9
Balance, end of year	**374.1**	314.9	**93.3**	69.2
Plan deficiency	**(85.2)**	(53.0)	**(93.3)**	(69.2)
Unamortized transitional benefit	**(1.9)**	(3.4)	**-**	-
Unamortized actuarial loss	**110.8**	82.9	**44.4**	25.4
Unamortized past service costs	**(3.3)**	(3.5)	**(12.0)**	(14.1)
Accrued benefit asset (liability)	**$ 20.4**	$ 23.0	**$ (60.9)**	$ (57.9)
Represented by				
Pension assets	**$ 24.9**	$ 25.9	**$ -**	$ -
Accrued benefit liability	**(4.5)**	(2.9)	**(60.9)**	(57.9)
	$ 20.4	$ 23.0	**$ (60.9)**	$ (57.9)

The net accrued benefit liability is included in other long-term liabilities and deferred credits (note 8) and the pension asset is included in other assets (note 6).

Included in the accrued benefit obligation and fair value of the plan assets at year-end are the following amounts in respect of plans with accrued benefit obligations in excess of fair value of assets:

	Defined benefit pension plans		Other benefit plans	
	2011	2010	**2011**	2010
Accrued benefit obligations:				
Unfunded plans	**$ 11.6**	$ 9.9	**$ 93.3**	$ 69.2
Funded plans	**362.5**	305.0	**-**	-
	374.1	314.9	**93.3**	$ 69.2
Fair value of plan assets	**288.9**	261.9	**-**	-
Funded status deficit	**$ (85.2)**	$ (53.0)	**$ (93.3)**	$ (69.2)

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The accrued benefit obligations for certain unfunded pension benefit plans are secured by letters of credit.

The net benefit plan expense is as follows:

	Defined benefit pension plans		Other benefit plans	
	2011	2010	**2011**	2010
Current service cost	**$ 8.9**	$ 6.7	**$ 1.5**	$ 1.4
Interest cost on projected benefit obligations	**16.7**	15.9	**3.6**	3.5
Actual (return) loss on plan assets	**(20.1)**	(21.6)	**-**	-
Net actuarial losses	**38.2**	37.4	**20.5**	7.9
Plan amendments	**-**	(4.8)	**-**	
Other	**0.1**	0.3	**-**	-
Net benefit plan expense before adjustments	**43.8**	33.9	**25.6**	12.8
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual and expected loss (return) on plan assets	**3.2**	4.5	**-**	-
Difference between actual and recognized actuarial gains in year	**(31.1)**	(34.3)	**(19.0)**	(7.0)
Difference between actual and recognized past service costs in year	**(0.2)**	5.3	**(2.1)**	(2.2)
Amortization of transitional benefit	**(1.5)**	(1.8)	**-**	-
Net benefit plan expense	**$ 14.2**	$ 7.6	**$ 4.5**	$ 3.6

BENEFIT PLAN ASSETS

The weighted-average asset allocation by asset category of the Corporation's defined benefit pension plans and other funded benefit plans is as follows:

	Defined benefit pension plans	
	2011	2010
Equity securities	**47%**	47%
Fixed income securities	**42%**	42%
Other assets	**11%**	11%
Total assets	**100%**	100%

The pension plans do not directly hold any shares of the Corporation's parent or affiliated companies.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

SIGNIFICANT ASSUMPTIONS

The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on Corporate AA bonds. The expected rate of return on plan assets assumption is reviewed annually by management, in conjunction with actuaries. The assumption is based on the expected returns for the various asset classes, weighted by the portfolio allocation.

The weighted average significant actuarial assumptions used to determine the accrued benefit obligation and the benefit plan expense are as follows:

	Defined benefit pension plans		**Other benefit plans**	
	2011	2010	**2011**	2010
Accrued benefit obligation				
Discount rate at December 31, based on AA Corporate bonds	**4.25%**	5.25%	**4.25%**	5.25%
Rate of compensation increase	**2.89%**	3.35%	**-**	-
Net benefit plan expense				
Discount rate at January 1, based on AA Corporate bonds	**5.25%**	6.00%	**5.25%**	6.00%
Expected rate of return on plan assets	**6.75%**	7.00%	**-**	-

The assumed health-care cost trend rates for other post-employment benefit plans are as follows:

	2011	2010
Extended health benefits		
Initial health-care cost trend rate	**8.0%**	8.0%
Annual rate of decline in trend rate	**0.5%**	0.5%
Ultimate health-care cost trend rate	**5.0%**	5.0%
Year the rate reaches the ultimate trend rate	**2017**	2017
Medical Services Plan Benefits Premium trend rate	**6.0%**	6.0%

A one percentage-point change in assumed health-care cost trend rates would have the following effects:

2011	**One percentage-point increase**	**One percentage-point decrease**
Effect on the total of the service cost and interest cost components of the benefit plan expense	**$ 0.5**	**$ 0.4**
Effect on accrued benefit obligation	**7.8**	**7.2**

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

10. EMPLOYEE BENEFIT PLANS (CONTINUED)

CASH FLOWS

Total cash contributions for employee benefit plans consist of:

	Employee benefit plans	
	2011	2010
Funded plans	**$ 10.9**	$ 7.7
Beneficiaries of unfunded plans	**2.2**	2.1
Total	**$ 13.1**	$ 9.8

See note 16 for the 2012 contributions for the defined pension benefit plans and other benefit plans.

IMPACT OF RATE REGULATION

As required by the regulator, the Corporation is required under its approved cost of service model to defer the amounts of pension benefit expense that exceed or are less than the amounts approved by the regulator to be recovered in rates each year. During the year ended December 31, 2011, the Corporation has deferred pension expense of $8.0 million that was greater than (2010 – $1.6 million greater than) the amount approved by the regulator to be recovered in rates in 2011.

11. FINANCING COSTS

	2011	2010
Interest and expense on long-term debt	**$ 105.1**	$ 102.9
Interest on short-term debt	**2.5**	1.2
Interest capitalized	**(3.3)**	(1.6)
Total	**$ 104.3**	$ 102.5

As allowed by the regulator, during the year ended December 31, 2011, the Corporation capitalized interest for borrowing requirements for construction of assets that have not been included in rate base of $3.3 million (2010 - $1.6 million).

12. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	2011	2010
Supplemental cash flow information		
Interest paid in the period	**$ 103.8**	$ 102.5
Income taxes paid in the period	**3.4**	22.0

13. INCOME TAXES

PROVISION FOR INCOME TAXES

	2011	2010
Current income tax expense	**$ 28.2**	$ 30.4
Future income taxes	**17.9**	6.9
Regulatory adjustment	**(19.1)**	(7.5)
	(1.2)	(0.6)
Income tax expense	**$ 27.0**	$ 29.8

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

13. INCOME TAXES (CONTINUED)

VARIATION IN EFFECTIVE INCOME TAX RATE

Consolidated income taxes vary from the amount that would be computed by applying the Canadian Federal and British Columbia combined statutory income tax rate of 26.5 per cent (2010 – 28.5 per cent) to earnings before income taxes as shown in the following table:

	2011	2010
Earnings before income taxes	**$ 128.9**	$ 123.0
Combined statutory income tax rate	**26.5%**	28.5%
Combined income taxes at statutory rate	**$ 34.2**	$ 35.1
Items capitalized for accounting purposes but expensed for income tax purposes	**(5.4)**	(4.6)
Difference between capital cost allowance and amounts claimed for accounting purposes	**(1.6)**	(0.8)
Pension costs	**(0.9)**	(0.2)
Other regulated temporary differences	**(0.3)**	(0.7)
Non deductible expenses and non taxable income	**(1.1)**	(0.5)
Other	**2.1**	1.5
Actual consolidated income taxes	**$ 27.0**	$ 29.8
Effective income tax rate	**20.95%**	24.23%

FUTURE INCOME TAXES

Future income taxes are provided for temporary differences. Future income tax assets and liabilities are comprised of the following:

	2011	2010
Future income tax liability (asset)		
Property, plant and equipment	**$ 271.0**	$ 268.7
Intangible assets	**17.7**	7.7
Other assets	**26.9**	14.0
Other long-term liabilities and deferred credits	**(28.3)**	(25.9)
Employee future benefits	**4.3**	5.9
Share issue and debt financing costs	**2.1**	1.9
Net future income tax liability	**$ 293.7**	$ 272.3
Current future income tax asset	**$ (10.1)**	$ (8.6)
Current future income tax liability	**-**	1.3
Long-term future income tax liability	**303.8**	279.6
Net future income tax liability	**$ 293.7**	$ 272.3

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

14. FINANCIAL INSTRUMENTS

FAIR VALUE ESTIMATES

	December 31, 2011		December 31, 2010	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Held for trading				
Cash and cash equivalents [1]	**$ 17.2**	**$ 17.2**	$ 15.2	$ 15.2
Loans and receivables				
Accounts receivable [1,2]	**238.4**	**238.4**	298.1	298.1
Long-term receivables[1,2]	**8.9**	**8.9**	8.9	8.9
Other financial liabilities				
Short-term notes [1,2]	**65.0**	**65.0**	178.0	178.0
Accounts payable and accrued liabilities [1,2]	**303.7**	**303.7**	357.9	357.9
Long-term debt, including current portion [3,4,5]	**1,545.4**	**2,026.1**	1,444.7	1,735.8

1 Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.
2 Carrying value approximates amortized cost.
3 Carrying value is measured at amortized cost using the effective interest rate method.
4 Carrying value at December 31, 2011 is net of unamortized deferred financing costs of $14.0 million (2010 - $13.2 million). The majority of the Corporation's long-term debt relates to regulated operations which enables the Corporation to recover the existing financing charges through rates or tolls.
5 Fair value is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2011 and 2010, or by using available quoted market prices.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Interest expense associated with the Corporation's short-term borrowings and long-term debt is disclosed in note 11 to these consolidated financial statements.

DERIVATIVE INSTRUMENTS

The Corporation hedges its exposure to fluctuations in natural gas prices and foreign exchange rates through the use of derivative instruments. FEI's price risk management strategy aims to (i) improve the likelihood that natural gas prices remain competitive with electricity rates, (ii) dampen price volatility on customer rates and (iii) reduce the risk of regional price disconnects. In July 2010, the BCUC ordered the suspension of all commodity hedging activity and directed FEI to undertake a review of the primary objectives of the Price Risk Management Plan (PRMP). In January 2011, FEI filed a review report and submitted a revised 2011-2014 PRMP, based on recommendations arising from the review report. On July 12, 2011, the BCUC issued its decision on the review report and determined that commodity hedging in the current environment was not a cost effective means to meet the objectives of competitiveness and rate stability. The BCUC concurrently denied FEI's 2011-2014 PRMP with the exception of certain elements to address the risk of regional price disconnects. As a result, FEI has suspended all commodity hedging activity with the exception of basis swaps to reduce the risk of Sumas market price disconnects.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

14. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVE INSTRUMENTS (CONTINUED)

The existing hedging contracts continue in effect through to their maturity and FEI's ability to fully recover the commodity cost of gas in customer rates remains unchanged.

The table below indicates the valuation of the derivative instruments as at December 31, 2011 and 2010.

Asset (Liability)			December 31, 2011		December 31, 2010	
	Number of contracts	**Term to maturity (years)**	**Carrying value**	**Fair value**	Carrying value	Fair value
Foreign exchange forward	**1**	**0.3**	**$ (0.1)**	**$ (0.1)**	$ (0.2)	$ (0.2)
Natural Gas Commodity swaps and options and gas purchase contract premiums	**168**	**Up to 2.8**	**(86.8)**	**(86.8)**	(120.4)	(120.4)

The following tables summarize the fair value measurements of natural gas derivative contracts and foreign exchange forward contract as of December 31, 2011 and 2010, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value.

Asset (Liability)	**December 31, 2011**			
	Total fair value	**Level 1 – Quoted prices in active markets for identical assets**	**Level 2 – Significant other observable inputs**	**Level 3 – Significant unobservable inputs**
Foreign exchange forward	**$(0.1)**	**-**	**$ (0.1)**	**-**
Natural gas commodity swaps and options and gas purchase contract premiums	**(86.8)**	**-**	**(86.8)**	**-**

Asset (Liability)	December 31, 2010			
	Total fair value	Level 1 – Quoted prices in active markets for identical assets	Level 2 – Significant other observable inputs	Level 3 – Significant unobservable inputs
Foreign exchange forward	$ (0.2)	$ -	$ (0.2)	$ -
Natural gas commodity swaps and options and gas purchase contract premiums	(120.4)	-	(120.4)	-

The natural gas derivatives' fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Corporation would receive or (pay) to terminate the contracts at the stated dates. The natural gas derivatives' fair values have been determined using published market prices for

14. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVE INSTRUMENTS (CONTINUED)

natural gas commodities while the foreign exchange forward contract uses the market foreign exchange rate in effect at the period end.

The derivatives entered into by the Corporation relate to regulated operations and any resulting gains or losses are recorded in rate stabilization accounts or deferral accounts, subject to regulatory approval, and are passed through to customers in future rates.

RISK MANAGEMENT

Exposure to credit risk, liquidity risk, market risk, and natural gas commodity price risk arises in the normal course of the Corporation's business.

CREDIT RISK

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents, derivative assets, accounts receivable, and other receivables due from customers, the Corporation's credit risk is limited to the carrying value on the balance sheet. The Corporation generally has a large and diversified customer base, which minimizes the concentration of credit risk.

The Corporation is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments, including natural gas commodity swaps and options. Because the Corporation deals with high credit-quality institutions, in accordance with established credit-approval practices, the Corporation does not expect any counterparties to fail to meet their obligations. Counter-party credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The counter-parties with which the Corporation has significant transactions are A-rated entities or better. The Corporation uses netting arrangements to reduce credit risk and net settles payments with counter-parties where net settlement provisions exist.

In the case of commercial and industrial customers credit risk is managed by checking a corporation's creditworthiness and financial strength both before commencing and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing commodity delivery by an appropriate mix of internal and external information to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis. The Corporation manages its exposure to credit risk associated with all customers by monitoring an aging of receivables and by monitoring groupings of customers according to method of payment or profile.

Receivables from customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. The contractual due date is generally 22 days. The aging analysis of the Corporation's consolidated accounts receivable, net of an allowance for doubtful accounts of $5.4 million as at December 31, 2011 (2010 - $4.8 million), is as follows:

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

14. FINANCIAL INSTRUMENTS (CONTINUED)

CREDIT RISK (CONTINUED)

	December 31, 2011	December 31, 2010
Not past due	$ 227.4	$ 281.9
Past due 0-30 days	10.4	15.1
Past due 31-60 days	0.6	1.0
Past due 61-90 days	-	-
Past due over 91 days	-	0.1
Total	$ 238.4	$ 298.1

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate this risk, the Corporation had consolidated authorized lines of credit of $500.0 million (2010 - $500.0 million) as at December 31, 2011, of which $386.8 million (2010 - $277.3 million) was unused. The $500 million syndicated credit facility expires in August 2013. The facility is unsecured and is used for general corporate purposes. The Corporation targets to have, on average, sufficient liquidity to allow it not to access the capital markets for a period of twelve months.

The following summary outlines the Corporation's credit facility.

Credit Facilities	December 31, 2011	December 31, 2010
Total credit facility	$ 500.0	$ 500.0
Credit facility utilized		
Short-term borrowings	(65.0)	(178.0)
Letters of credit outstanding	(48.2)	(44.7)
Credit facility available	$ 386.8	$ 277.3

The Corporation targets a strong investment-grade credit rating to maintain capital market access at reasonable interest rates. As at December 31, 2010, the Corporation's credit ratings were as follows:

Credit Ratings	DBRS	Moody's
Commercial paper	R-1 (Low)	-
Secured long-term debt	A	A1
Unsecured long-term debt	A	A3

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

14. FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK (CONTINUED)

A downward change in the credit ratings of the Corporation by one notch on January 1, 2011 would decrease earnings for the year ended December 31, 2011 by $0.2 million (2010 - $0.2 million). The Corporation has existing regulatory deferrals that would absorb the impact of interest rate change as a result of a change in the Corporation's credit ratings.

The following is an analysis of the contractual maturities of the Corporation's financial liabilities as at December 31, 2011.

Financial Liabilities	**≤ 1 year**	**>1-3 years**	**4-5 years**	**>5 years**	**Total**
Short-term notes	$ 65.0	$ -	$ -	$ -	$ 65.0
Accounts payable and accrued liabilities	303.7	-	-	-	303.7
Long-term debt, including current portion[1]	2.9	5.8	280.7	1,270.0	1,559.4
Interest obligations on long-term debt	105.4	210.9	202.0	1,483.5	2,001.8
	$ 477.0	$ 216.7	$ 482.7	$2,753.5	$ 3,929.9
Derivatives Financial Assets (Liabilities)					
Commodity Contracts	$ (69.5)	$ (12.6)	$ -	$ -	$ (82.1)
Foreign exchange forwards	(4.4)	-	-	-	(4.4)

[1] *Excluding deferred financing costs of $14.0 million.*

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates or market interest rates.

The Corporation's earnings are not exposed to changes in the US dollar-to-Canadian dollar exchange rate.

FEI's US dollar payments under a contract for the construction of a Customer Information System are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. FEI has entered into a foreign exchange forward contract to hedge this exposure. As at December 31, 2011, a five percent appreciation of the US dollar-to-Canadian dollar exchange rate, as it impacts the measurement of the fair value of the foreign exchange forward contract, in the absence of rate regulation and with all other variables constant, would have increased earnings by $0.2 million for the year ended December 31, 2011 and a five percent depreciation of the US dollar-to-Canadian dollar exchange rate would have decreased earnings by $0.2 million for the year ended December 31, 2011.

FEI has regulatory approval to defer any increase or decrease in the fair value of the foreign exchange forward contract for recovery from, or refund to, customers in future rates. Therefore, any change in fair value would have impacted regulatory assets or liabilities rather than earnings.

14. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK (CONTINUED)

The Corporation's natural gas derivatives are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The following sensitivity analysis estimates the impact on the fair value of natural gas commodity swaps and options of a five per cent appreciation and depreciation of the US dollar-to-Canadian dollar exchange rate, with all other variables remaining constant, for the year ended December 31, 2011. A five per cent appreciation of the US dollar-to-Canadian dollar exchange rate would change the fair value of natural gas commodity swaps and options by moving the fair value further out of the money by $0.1 million (2010 - $0.1 million) for the year ended December 31, 2011. This would result in an increase in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts." A five per cent depreciation of the US dollar-to-Canadian dollar exchange rate would change the fair value of natural gas commodity swaps and options by reducing the Corporation's out of the money position by $0.1 million (2010 - $0.1 million) for the year ended December 31, 2011. This would result in a decrease in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts."

The Corporation is exposed to interest rate risk associated with short-term borrowings and floating rate debt. The Corporation may enter into interest rate swaps to help reduce this risk. Approximately 100 per cent of the Corporation's operating facility is subject to interest rate risk while none of its long-term debt is subject to interest rate risk. A 100 basis point increase in interest rates would decrease earnings for the year ended December 31, 2011 by $1.0 million (2010 - $1.0 million) if not for the fact that the Corporation has existing regulatory deferrals that would absorb the impact of such interest rate changes.

NATURAL GAS COMMODITY PRICE RISK

The Corporation is exposed to risks associated with changes in the market price of natural gas as a result of the natural gas derivatives. The Corporation's price risk management strategy covers a term of 36 months and aims to (i) improve the likelihood that natural gas prices remain competitive with electricity rates, (ii) dampen price volatility on customer rates and (iii) reduce the risk of regional price disconnects.

In the accompanying Balance Sheet at December 31, 2011, the balance of $68.5 million (2010 - $96.3 million) captioned as "Current Assets: Current portion of rate stabilization accounts" includes a $86.8 million (2010 - $120.4 million) mark-to-market adjustment representing unrealized losses on hedges that are recoverable from customers through rates.

The Corporation's exposure to market risk includes forward-looking statements and represents an estimate of possible changes in fair value that would occur assuming hypothetical future movements in commodity prices. The Corporation's views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based on actual fluctuations in interest rates or commodity prices and the timing of transactions.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

14. FINANCIAL INSTRUMENTS (CONTINUED)

NATURAL GAS COMMODITY PRICE RISK (CONTINUED)

The following sensitivity analysis estimates the impact on the fair value of natural gas commodity swaps and options of a one dollar change in the value of the underlying price of natural gas, with all other variables remaining constant, for the year ended December 31, 2011. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation. If the price of natural gas decreased by one dollar per GJ, the change in the fair value of natural gas commodity swaps and options would be to move further out of the money by $45.6 million (2010 - $44.0 million) for the year ended December 31, 2011. This would result in an increase in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts." If the price of natural gas increased by one dollar per GJ, the change in the fair value of natural gas commodity swaps and options would be to reduce the Corporation's out of the money position by $45.6 million (2010 - $45.2 million) for the year ended December 31, 2011. This would result in a decrease in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts."

CAPITAL MANAGEMENT

The Corporation's principal business of regulated gas distribution requires ongoing access to capital in order to allow it to fund the maintenance and expansion of infrastructure. The Corporation has secured a multi-year committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. The committed credit facility is available for general corporate purposes.

The Corporation maintains a capital structure in line with the deemed capital structure approved by the BCUC which up to December 31, 2009 was 35.01 per cent equity financing of rate base. Effective January 1, 2010, the deemed capital structure approved by the BCUC is 40 per cent equity financing of rate base for the Corporation.

The consolidated capital structure of the Corporation is presented in the following table.

	December 31, 2011	**(%)**	December 31, 2010	(%)
Total debt and capital lease obligations[1]	**$ 1,593.2**	**60.3**	$ 1,607.5	61.1
Shareholders' equity	**1,049.5**	**39.7**	1,022.5	38.9
Total	**$ 2,642.7**	**100.0**	$ 2,630.0	100.0

1 Includes long term debt, including current portion, and short term borrowings, net of cash and cash equivalents

Certain of the Corporation's long-term debt obligations have issuance tests that prevent the Corporation from incurring additional long term debt unless the interest coverage is at least two times available net earnings. In addition, the Corporation's credit agreement requires maintenance of certain financial covenants such as a maximum percentage of debt to equity. As at December 31, 2011 and 2010, the Corporation was in compliance with these covenants.

The Corporation's credit ratings and credit facilities are disclosed under "Liquidity Risk".

15. RELATED PARTY TRANSACTIONS

a) The Corporation received $3.5 million in 2011 (2010 – $3.5 million) from FortisBC Energy (Vancouver Island) Inc. (FEVI), a subsidiary of FortisBC Holdings Inc. (FortisBC Holdings), for transporting gas through the Corporation's pipeline system. This income is included in natural gas transmission and distribution revenues on the consolidated statements of earnings and comprehensive earnings.

b) The Corporation paid approximately $49.4 million (2010 - $48.1 million) during the year ended December 31, 2011 for customer care and billing services to a limited partnership in which FortisBC Holdings owns a 30 per cent interest. These costs are included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

c) The Corporation reimbursed its parent, FortisBC Holdings for management services under a shared-services agreement totalling $9.6 million (2010 – $9.6 million) for the year ended December 31, 2011. The management services fee is included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

d) The Corporation charged $9.4 million (2010 – $9.6 million) to affiliated companies for management services during the year ended December 31, 2011. The management services fee is included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

e) The Corporation's indirect parent, Fortis Inc., grants stock options to certain employees of the Corporation under its stock option plans. For the year ended December 31, 2011, the Corporation was charged, and recorded an expense of $0.7 million (2010 - $0.7 million) for the fair value of the stock compensation granted by Fortis Inc. The stock option expense is included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

f) Included in accounts receivable is $1.4 million (2010 - $3.0 million) owed to the Corporation by affiliated companies. The amounts are unsecured and non-interest bearing.

g) The Corporation was charged $12.0 million for the year ended December 31, 2011 by FEVI for storing gas at the Mt. Hayes LNG storage facility which became operational in April 2011. This cost is included in Current Liabilities: Current portion of rate stabilization accounts on the consolidated balance sheet.

h) For the year ended December 31, 2011 the Corporation was charged $1.9 million (2010 - $1.2 million) by FortisBC Inc. (an indirect subsidiary of Fortis Inc.) for electricity purchases and corporate management services. For the year ended December 31, 2011 the Corporation charged $1.2 million (2010 - $0.5 million) to FortisBC Inc. for rent and labour charges. These charges are included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

Related party transactions are recorded at the exchange amount.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

16. COMMITMENTS AND CONTINGENCIES

The Corporation has entered into operating leases for certain building space and natural gas transmission and distribution assets. In addition, the Corporation enters into gas purchase contracts that represent future purchase obligations.

The following table sets forth the Corporation's operating leases, gas purchase obligations and employee benefit plan contributions due in the years indicated:

	Operating leases	Purchase obligations	Employee benefit plans	Total
2012	$ 16.4	$ 157.8	$ 11.8	$ 186.0
2013	16.0	73.9	9.2	99.1
2014	15.6	45.5	-	61.1
2015	15.3	-	-	15.3
2016	15.1	-	-	15.1
Thereafter	59.5	-	-	59.5
	$ 137.9	$ 277.2	$ 21.0	$ 436.1

Gas purchase contract commitments are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at December 31, 2011. The employee benefit plan contributions have been estimated up to the date of the next actuarial valuation for each plan unless the valuation falls in the next twelve months then the Corporation has provided for an estimate of the contributions. Employee benefit plan contributions beyond the date of the next actuarial valuation cannot be accurately estimated.

In addition to the items in the table above, the Corporation has issued commitment letters to customers to provide Energy Efficiency and Conservation (EEC) funding under the EEC Program approved by the BCUC. As at December 31, 2011, the Corporation had issued $3.8 million of commitment letters to customers.

FortisBC Energy Inc.
An indirect subsidiary of Fortis Inc.

Annual Information Form
For the Year Ended December 31, 2011
dated March 22, 2012

TABLE OF CONTENTS

All figures are expressed in Canadian dollars unless otherwise noted.

Except as otherwise stated, the information in this Annual Information Form is given as of December 31, 2011.

FORWARD-LOOKING INFORMATION

Certain statements contained in this Annual Information Form contain forward-looking information within the meaning of applicable securities laws in Canada (forward-looking information). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in the 2011 Annual Information Form and the information incorporated herein by reference includes, but is not limited to, statements regarding: the Corporation's expected level of capital expenditures; and the Corporation's expectation that compliance with environmental laws and regulations will not have a material effect on the Corporation's capital expenditures, earnings or competitive position.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; the expected impact of the transition to new accounting standards including US generally accepted accounting principles (US GAAP); the ability to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2014; absence of equipment breakdown; absence of environmental damage; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefits costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; no significant decline in interest rates; continued energy demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit ratings agencies; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply and the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to regulatory approval and rate orders risk; transition to new accounting standards risk; equipment breakdown, operating and maintenance risk; environmental matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; interest rate risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competiveness and commodity price risk; counterparty credit risk; natural gas supply risk and the other risks described in this Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Risk Factors" in this Annual Information Form, the section entitled "Commitments, Events, Risks and Uncertainties" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2011 and the other continuous disclosure materials filed from time to time on SEDAR at www.sedar.com, and which are incorporated herein by reference.

All forward-looking information in this Annual Information Form and the information incorporated herein by reference is qualified in its entirety by this cautionary statement and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

GLOSSARY

Except as otherwise defined, or unless the context otherwise requires, the following terms have the meaning set forth below.

"ARO" means asset retirement obligation;

"BC Hydro" means British Columbia Hydro and Power Authority, a British Columbia Crown corporation and electric utility serving the majority of British Columbia residents;

"BCUC" or "Commission" means the British Columbia Utilities Commission;

"Board" means the Board of Directors of FEI;

"CCRA" means Commodity Cost Reconciliation Account;

"COPE" means Canadian Office and Professional Employees Union Local 378;

"Corporation" or **"FEI"** means FortisBC Energy Inc. (formerly Terasen Gas Inc.);

"DBRS" means DBRS Limited;

"FBC" means FortisBC Inc.;

"FHI" means FortisBC Holdings Inc. (formerly Terasen Inc.);

"**FEVI**" means FortisBC Energy (Vancouver Island) Inc. (formerly Terasen Gas (Vancouver Island) Inc.);

"**FEW**" means FortisBC Energy (Whistler) Inc. (formerly Terasen Gas (Whistler) Inc.);

"Fortis" means Fortis Inc.;

"**GJ**" means gigajoule and is equal to one billion joules;

"IBEW" means International Brotherhood of Electrical Workers Union, Local 213;

"LNG" means liquefied natural gas;

"**MCRA**" means Midstream Cost Reconciliation Account;

"**Moody's**" means Moody's Investors Service, Inc.;

"**NEB**" means the National Energy Board;

"**Northwest Pipeline"** means Northwest Pipeline Corporation;

"**PJ**" means petajoule;

"Rate Base Assets" means all transmission, distribution and other utility assets that are used or required to be used to provide service to utility customers, which are included in the calculation of the Corporation's revenue requirement for the applicable year and are subject to a regulated rate of return;

"**ROE**" means return on deemed equity, as approved by the BCUC;

"**RSAM**" means Revenue Stabilization Adjustment Mechanism;

"**Spectra**" means Westcoast Energy Inc. doing business as Spectra Energy Transmission;

"TransCanada" means TransCanada Pipelines Limited; and

"UCA" or the "**Act**" means the *Utilities Commission Act* (British Columbia), as amended.

1.0 CORPORATE STRUCTURE

1.1 NAME AND INCORPORATION

FEI was formed by the amalgamation on July 1, 1989 under the *Company Act (*British Columbia) a predecessor to the *Business Corporations Act (*British Columbia), of Inland Natural Gas Co. Ltd. (Inland), B.C. Gas Inc., Columbia Natural Gas Limited and Fort Nelson Gas Ltd. The Corporation's name was changed to "BC Gas Utility Ltd." on July 1, 1993 (pursuant to an arrangement between FEI and a subsidiary) and then to "Terasen Gas Inc." on April 25, 2003. On January 1, 2007 the Corporation and one of its subsidiaries, Terasen Gas (Squamish) Inc. were amalgamated. Most recently, on March 1, 2011 the Corporation changed its name to "FortisBC Energy Inc.".

FEI's head office and registered office is located at #1000 - 1111 West Georgia Street, Vancouver, British Columbia, V6E 4M3.

1.2 INTER-CORPORATE RELATIONSHIPS

The Corporation is an indirect wholly-owned subsidiary of Fortis, a diversified, international distribution utility holding corporation having investments in distribution, transmission and generation utilities, as well as commercial real estate and hotel operations.

FEI has one wholly owned corporate subsidiary named, Inland Energy Corp. which is organized pursuant to the laws of the Province of British Columbia.

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 THREE-YEAR HISTORY

Over the past three years the Corporation's Rate Base Assets have grown by approximately 5 per cent. This growth reflects the Corporation's capital expenditures necessary to ensure the ability to provide service, public and employee safety and reliability of supply of natural gas to the Corporation's growing customer base.

2.2 OUTLOOK

Anticipated capital expenditures by the Corporation for 2012 before contributions in aid of construction are expected to be approximately $197.9 million. These capital expenditures are subject to BCUC approval. Planned capital expenditures are based on detailed forecasts of energy demand, weather and cost of labour and materials, as well as other factors including economic conditions, which could change and cause actual expenditures to differ from forecasts.

3.0 THE BUSINESS OF FORTISBC ENERGY INC.

3.1 GENERAL

FEI provides natural gas transmission and distribution service to over 100 communities in British Columbia with a service territory that has an estimated population of approximately four million. The Corporation is one of the largest natural gas distribution companies in Canada. As at December 31, 2011 FEI transported and distributed natural gas to approximately 852,000 residential, commercial and industrial customers. FEI's service area extends from Vancouver to the Fraser Valley and the interior of British Columbia. The transmission and distribution business is carried on under statutes and franchises or operating agreements granting the right to operate in the municipalities or areas served. FEI is rate regulated by the BCUC.

FEI currently holds operating agreements with most of the incorporated municipalities in which it distributes gas in the Greater Vancouver and Fraser Valley service areas. The operating agreements are in force so long as the distribution lines of FEI are operative and do not contain any provision entitling the municipality to purchase the distribution system. No fees are payable by FEI under these operating agreements.

FEI currently holds franchise or operating agreements with most of the incorporated municipalities in which it distributes gas in the interior of British Columbia. The terms of these franchise agreements range from 10 to 21 years. While such franchise or operating agreements are in effect, the municipalities receive franchise fees of three per cent of the gross revenue from customers in the municipality. Historically, approximately one-quarter of these franchise agreements contained a provision to the effect that at the end of the term the municipality could purchase the distribution system within the municipality as a going concern and at a price equal to the fair value of the business undertaking. If the municipality did not exercise the right to purchase or grant a new franchise or operating agreement, gas utilities would be required under the Act to continue to provide service in the municipality unless the BCUC ordered otherwise. FEI no longer has any franchise agreements that contain right to purchase provisions. Some of those franchise agreements have expired and in some other cases, an arrangement was developed to enable the transfer of economic risks and rewards of ownership to the municipality, while allowing FEI to continue to operate within the municipality.

The Corporation has leasing arrangements with certain municipalities within the interior of British Columbia that allow FEI to continue to operate the gas distribution assets by effectively selling the assets to the municipality and leasing them back for an initial 17-year period. After 17 years, FEI has an option to repurchase the assets at depreciated value. At December 31, 2011, FEI had entered into transactions involving a total value of $153 million with the net book value of these assets being $60.1 million. In addition, the municipalities participating in the leasing transactions have the right each year to acquire any new asset additions within their boundaries at cost, subject to the same repurchase option at the end of the initial 17-year lease term. These transactions were entered into between 2001 and 2005.

The following table compares 2011 and 2010 natural gas revenue, sales and customers by customer class:

	Natural Gas Revenue				Natural Gas Sales Volumes				Customers at Year end			
	2011		2010		2011		2010		2011		2010	
	$M	%	$M	%	PJs	%	PJs	%	#	%	#	%
Residential	799.1	59.8	809.6	59.7	73.8	35.8	65.2	33.5	767,508	90.1	762,496	90.1
Commercial	415.4	31.0	421.4	31.0	43.7	21.1	38.6	19.8	81,783	9.7	81,366	9.7
Industrial	22.2	1.7	23.9	1.8	3.0	1.5	2.9	1.5	253	0.0	261	0.0
Total Natural Gas Sales Revenue	1,236.7	92.5	1,254.9	92.5	120.5	58.4	106.7	54.8	849,544	99.8	844,123	99.8
Transportation	69.2	5.2	67.4	5.0	62.2	30.2	55.1	28.3	2,116	0.2	2,109	0.2
Other	30.9	2.3	33.6	2.5	23.6	11.4	32.8	16.9	2	0.0	2	0.0
Total Natural Gas Revenue	1,336.8	100.0	1,355.9	100.0	206.3	100.0	194.6	100.0	851,662	100.0	846,234	100.0

Note: The revenues in the above table are for natural gas sales to customers and do not include other miscellaneous revenues.

3.2 GAS PURCHASE, STORAGE AND OFF-SALES AGREEMENTS

(a) Gas Purchase Agreements

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, FEI purchases supply from a select list of producers, aggregators, and marketers while adhering to strict standards of counterparty creditworthiness, and contract execution/management policies. FEI contracts for approximately 111 PJ of baseload and seasonal supply, of which 100 PJ is sourced in north east British Columbia and transported to FEI’s system on Spectra Energy’s Westcoast Pipeline system (Spectra), and 11 PJ is comprised of Alberta sourced supply transported into British Columbia via TransCanada’s Alberta and British Columbia systems. The majority of supply contracts in the current portfolio are seasonal for either the summer (April to October) period or winter (November to March) period with a few contracts one year or longer in length.

Core market customers rely upon FEI to procure and deliver gas supply on their behalf while transportation-only customers are responsible for procuring and delivering their own gas supply directly to FEI's system which will then be delivered to their operating premises by FEI. FEI contracts for capacity on third party pipelines, such as Spectra and TransCanada, which are regulated by the NEB, for transportation of gas supply from various market hubs and locations to FEI's system. FEI pays both fixed and variable charges for the use of capacity on these pipelines, which are recovered through rates paid by FEI's core market customers. FEI contracts for firm capacity in order to ensure it is able to meet its obligation to supply customers within its broad operating region under all reasonable demand scenarios.

(b) Gas Storage and Peak Shaving Arrangements

FEI incorporates peak shaving and gas storage facilities into its portfolio to:

1. Supplement baseload supply in the winter months while injecting excess baseload supply to refill storage in the summer months.
2. Eliminate the risk of supply shortages during cooler weather and a peak day.
3. Effectively manage the cost of gas during winter months.
4. Balance daily supply and demand on the distribution system.

FEI's holds approximately 29 PJs of total storage capacity consisting of off-system capacity contracted with third parties as well as on-system peak shaving LNG facilities (owned by both FEI and FEVI). The completion of the FEVI-owned Mt Hayes LNG facility in 2011 has provided FEI with an additional 1.4 PJ of storage capacity, and 0.14 PJ of deliverability available for storage withdrawals beginning in the winter 2011/2012. FEI also contracts for storage capacity from external parties at various locations which includes British Columbia, Alberta and the Pacific Northwest of the United States. These storage facilities combined with supply from other peak shaving supply contracts have the ability to deliver up to 0.7 PJ per day during the coldest days of the winter months which are likely to occur over the period of December and February.

(c) Off System Sales

FEI engages in off-system sales activities which allow for the recovery or mitigation of costs on any unutilized supply and/or pipeline capacity that is available once customers' daily load requirements are met. In the gas contract year ending November 30, 2011, FEI marketed approximately 22 PJ of surplus gas and 62 PJ of unutilized pipeline capacity for a net pre-tax recovery of approximately $105 million. FEI can earn an incentive payment for its mitigation activities through the Gas Supply Mitigation Incentive Plan (GSMIP) which is approved by the BCUC from time to time. Historically, FEI has been earned approximately $1 million annually through GSMIP while the remaining savings are credited back to customers through reduced rates.

Following a review in 2011, the Commission approved a new framework for the GSMIP program that will establish the revenue sharing between the customers and shareholders for the two year period of November 1, 2011 to October 31, 2013 based on performance.

(d) Price Risk Management Plan

In the past FEI has engaged in hedging activities to limit the exposure to fluctuations in natural gas prices through the use of derivative instruments and pursuant to a BCUC approved Price Risk Management Plan (PRMP). The primary objectives of the hedging strategy incorporated in the PRMP were to reduce price volatility and ensure, to the extent possible, that natural gas commodity costs remain competitive against electric rates. In July 2010, the BCUC ordered a review of FEI's PRMP hedging strategy in the context of the Clean Energy Act (British Columbia) and the expectation of increased domestic natural gas supply. In July 2011, following an extensive review process, the BCUC determined that the hedging strategy was no longer in the best interests of customers and directed FEI to suspend the majority of its gas commodity hedging activities. FEI currently has hedges in place through the end of October 2012 from previously approved PRMP, but has limited hedging in place beyond this period.

The existing hedging contracts continue in effect through to their maturity and FEI's ability to fully recover the commodity cost of gas in customer rates remains unchanged. FEI is currently assessing alternatives to hedging to mitigate market price volatility and provide value for customers.

(e) Unbundling

The FEI Customer Choice program allows eligible commercial and residential customers a choice to buy their natural gas commodity supply from FEI or directly from third-party marketers. FEI continues to provide delivery of the natural gas to all its customers.

The program has been in place since November 2004 for commercial customers and November 2007 for residential customers. Of the approximately 81,000 eligible commercial and 764,200 eligible residential customers as of December 31, 2011, approximately 13,500 commercial and 101,200 residential customers were participating in the program by purchasing their commodity supply from alternate providers.

3.3 OPERATIONS

Operations are comprised of two main functional groups, Transmission and Distribution.

(a) Transmission

The Transmission group is responsible for ensuring the transmission system delivers natural gas from interconnecting pipelines, or company owned LNG facility, to the distribution network and for operating and maintaining the mainline pipelines, compressor stations and LNG plant in a safe, reliable and cost effective manner.

Transmission operates and maintains a range of critical assets, falling into three main categories: pipelines, compressor stations, and LNG plants. The assets operated by the group include the interior transmission system mainline, the Southern Crossing Pipeline, the coastal transmission system, a number of transmission pressure lateral pipelines and marine loops, mainline compressor stations, and the LNG plant at Tilbury.

(b) Distribution

The Distribution group is responsible for providing safe, reliable and cost effective service directly to gas customers.

The activities within Distribution are organized into four main functions: Emergency Management, Installation and Renewal, Operations and Maintenance, and Account Services. The functional areas are described in greater detail below.

Emergency Management

Emergency Management includes providing first and rapid response in order to ensure public, asset and employee safety. The activities include first response to system damage, gas odours, fire and carbon monoxide calls, emergency prevention through public education, and maintaining stand-by resources. Emergency response personnel and resources are mustered throughout the Corporation's service area to provide timely response to emergencies.

Installation and Renewal

Installations include new mains, services, meters, stations and projects required to add customers and improve system reliability, integrity and capacity. Renewals are essentially replacements of the gas system components generally due to age, technology and obsolescence. Although employees routinely perform these activities, a significant portion of installation and renewal activity is performed by external contractors, particularly during periods of high customer additions activities.

Operations and Maintenance

Operations and Maintenance includes scheduled and unscheduled operating and maintenance activities dedicated to mitigating operating risks and ensuring the safety and reliability of the distribution system. Activities include system inspection, leak survey, preventive and corrective maintenance of equipment, valves, stations and meter sets. The level of activity required is influenced by code and standard requirements (i.e. Canadian Standards Association), regulatory requirements, operating and asset conditions.

Account Services

Account Services work performed by Distribution employees includes premise calls, meter lock-offs, unlocks and reactivations, meter exchanges/renewals and other customer inquiries requiring a field workforce response.

3.4 OTHER OPERATIONS, ASSETS AND ACTIVITIES

(a) Other Operations

FEI provides utility operating services to FEVI and FEW through a shared services agreement.

Centralized support services, located in the Corporation's main operations centre in Surrey, British Columbia, are responsible for planning, resource management, and dispatching. There are two centralized Distribution support groups located primarily in Surrey: Process Support and the Operations Centre. The support groups provide the necessary expertise to assess work priorities, plan and design work to be completed, establish and maintain processes to be followed, and coordinate who, when and how the work gets completed. They also monitor costs and operational metrics to ensure commitments made to customers, regulators and other stakeholders are met.

(b) Other Assets

Other assets of the Corporation include those supporting the ongoing maintenance and operation of the system, such as office and service buildings, transport and work equipment and other office and information technology assets.

(c) Other Activities

The Corporation's other activities are relatively small in comparison to its regulated gas operations but provide an opportunity to leverage the utilization of the Corporation's utility operation, maintenance and management resources under service contracts to third parties. These activities include the provision of gas and electric measurement services ranging from meter repair to asset management which are provided to the Corporation and other utilities.

3.5 OTHER MATERIAL CORPORATE ISSUES

(a) Insurance

The Corporation, through Fortis, maintains insurance coverage including liability, all risk property, boiler and machinery, and directors' and officers' liability insurance for the benefit of the Corporation. The Corporation also maintains insurance coverage that is required by provincial statute, which covers automobile liability, firefighting expense and non-owned aircraft liability. Management believes that the coverage, amounts and terms of the Corporation’s insurance agreements are consistent with industry practices.

(b) Employees

The Corporation employed approximately 1655 full-time equivalent employees as at December 31, 2011. The organized employees of FEI are represented by the IBEW and COPE unions. The IBEW collective agreement expired on March 31, 2011 and the Corporation is currently in negotiations with the IBEW.

There are two collective agreements between the Corporation and COPE, the first which expires on March 31, 2012. The second COPE collective agreement came into effect on January 1, 2011 and is in respect of those employees in the new customer service centres. This agreement expires on March 31, 2014.

(c) Specialized Skills and Knowledge

The skills and knowledge needed to operate and maintain natural gas distribution systems are key to the Corporation’s success. These skills are currently available, and the Corporation has placed considerable focus in succession planning on ensuring that these skills are preserved as the Corporation’s workforce ages and retires.

(d) Intellectual Property

Fortis owns the trademark “FortisBC”, which it has licensed the Corporation to use.

(e) Real Property

Certain of the Corporation’s transmission and distribution facilities cross over land that is owned by the governments of Canada or British Columbia. The Corporation believes it has obtained appropriate access rights from the relevant governments through Crown leases, statutory rights of way, land use permits, licences of occupation and low voltage permits. Where transmission or distribution lines extend over or under waterways, various provincial and federal government bodies must approve the installation of those lines. Agreements and permits in this respect have been obtained from the appropriate government body.

The Corporation’s transmission and distribution lines at times also cross over or run parallel to lands owned by various railway companies. In these circumstances, appropriate access rights, generally referred to as crossing agreements, have been obtained from the relevant railway company. Some of the Corporation’s transmission and distribution lines are located on lands owned by other persons, including local governments, corporations, First Nations and individuals. The Corporation believes it has obtained or is in the process of obtaining the rights to use these lands through working with the property owner to come to an agreement (such as statutory rights of way) permitting land usage.

If the Corporation becomes aware of a situation in which it has not acquired the requisite usage rights, it will attempt to come to an agreement to secure usage rights with the landowner. The Corporation has the power to expropriate land if necessary.

(f) Seasonality

Due to natural gas consumption patterns, the natural gas transmission and distribution operations of FEI normally generate higher net earnings in the first and fourth quarters and lower net earnings in the second quarter, which are offset by net losses in the third quarter.

As a result of the gas distribution segment seasonality, interim earnings statements are not indicative of earnings on an annual basis.

4.0 REGULATION

4.1 OVERVIEW

Public utilities in British Columbia., such as FEI, are subject to the regulatory jurisdiction of the BCUC. The UCA is the legislation that defines the scope of the BCUC's jurisdiction regarding the regulation of public utilities and the responsibilities of those public utilities. The BCUC's primary responsibility is to establish just and reasonable utility rates, which include an opportunity for the utilities to earn a fair return on the investments they have already made and will make in the future to provide customers with safe and reliable service.

4.2 REVENUE REQUIREMENT

The rate setting process generally has three essential elements: revenue requirements, allocation of cost of service, and rate design. Currently, revenue requirements for FEI are determined based on cost-of-service regulation, compared to the performance based regulation that was applied to FEI until the end of 2009.

The utility's revenue requirements represent the total revenues that are necessary for the utility to recover prudent costs for providing the utility services, to recover prudent investment, and to earn a fair return on its investment. The cost of service includes energy costs, operating and maintenance expenses, depreciation expenses, taxes, and financing costs and a return on equity. Rate base is the book value of utility plant in service (plant less accumulated depreciation and customer contributions in aid of construction), plus gas in storage and utility deferred charges, plus an allowance for working capital invested in the business, and is the investment base to which a rate of return is applied to arrive at the revenue requirements. The return on rate base is established by determining the cost of individual components of the capital structure, including equity, and weighting such costs to determine an aggregate return on rate base. Both the capital structure and rate of return on equity are determined by the BCUC as further discussed below.

The BCUC usually uses a future test year methodology in the establishment of revenue requirements for a utility. Pursuant to this method, the Corporation forecasts the volume of gas that will be delivered during normal weather, together with all of the other costs of providing service (including the return on rate base) that FEI forecasts to incur in the test year(s). Variances between the forecast costs and the actual costs incurred, and variances in the actual volume of gas delivered from what has been forecast, normally result in variances in FEI's return, except for variances that are captured by deferral accounts for future recovery or refund.

FEI currently employs deferral accounts to address uncontrollable or non-routine items and to match costs incurred to the periods that they benefit. Two primary deferral mechanisms currently in place decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the significant impacts of weather and other changes on use rates. The first mechanism relates to the recovery of all gas supply costs through deferral accounts that capture variances (overages and shortfalls) from forecasts in costs incurred. Balances are either refunded to or recovered from customers via quarterly review and application to the BCUC. Currently under this mechanism, there are two separate deferral accounts - CCRA and MCRA. The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use rate throughout the year. This mechanism is RSAM.

Other deferral accounts currently in place include an interest rate deferral account to absorb interest rate fluctuations and deferral accounts related to energy efficiency and conservation expenditures and certain operating expenses, such as property taxes, insurance, factors affecting income taxes, pension expenses, gains and losses on asset disposals, and other items.

After revenue requirements have been established, costs are allocated among different classes of energy users/customers and rates are designed to reflect of the cost of providing services to each rate class. Before any rate can be put into effect, it must be filed with and approved by the BCUC. In British Columbia, the regulatory process for determining the revenue requirements involves participation from customer representatives, other public groups or private individuals.

4.3 RECENT REGULATORY DECISIONS AND OUTLOOK

Important regulatory information, pertaining to recent decisions made by the BCUC with respect to FEI, is summarized in the following table, followed by discussions on certain regulatory decisions or pending proceedings that affect FEI's operation currently and in the near future.

($ millions)	2012[1]	2011	2010	2009	2008	2007
Rate Base Assets	$2,760	$2,636	$2,540	$2,547	$ 2,510	$ 2,484
Deemed common equity component of total capital structure	40.00%	40.00%	40.00%	35.01%	35.01%	35.01%
Allowed rate of return on common equity	9.50%	9.50%	9.50%	8.99%[2]	8.62%	8.37%

Notes:

1. The figures for 2012 are on a forecast basis only and are based on the most recent filings with the BCUC.
2. 8.99% represents the average of 8.47%, which was the allowed rate of return on equity for the first six months, and 9.50%, the increased rate effective July 1, 2009.

Cost of Capital and ROE

The BCUC previously used an annual automatic adjustment formula to determine the allowed return on common equity for a low-risk benchmark utility which was based on long term Canada bond yields. Following determination of the rate of return on common equity for the low-risk benchmark utility, an additional risk premium particular to each utility relative to the low-risk benchmark was also incorporated. FEI was designated as the low-risk benchmark utility in British Columbia.

In May 2009, FEI, FEVI and FEW filed an application with the BCUC for a review of the return on equity of the companies and the capital structure of FEI. In this application, the companies asked for an increase in the common equity component from 35.01 per cent to 40.00 per cent for FEI, a benchmark allowed return on equity of 11.00 per cent, and the discontinuance of the automatic adjustment mechanism for determining the allowed return on equity. In its December 2009 decision, the BCUC ordered that the automatic adjustment mechanism be discontinued, but that FEI continue to serve as the benchmark utility, with an approved ROE of 9.5 per cent effective July 1, 2009 until amended by the BCUC. Additionally, the FEI common equity component in capital structure allowed for rate-making purposes increased to 40.00 per cent from 35.01 per cent effective January 1, 2010.

In December 2010, FEI, together with FEVI and FEW, filed a report with the BCUC, pursuant to Commission order, which included a study by an external consultant engaged by the utilities, of alternative formulaic ROE automatic adjustment mechanisms used in North America, but did not propose at that time to adopt an automatic adjustment mechanism.

In November 2011, the BCUC issued a notice to the public utilities subject to its regulation that it will initiate a cost of capital proceeding in early 2012 to consider three issues: (1) setting the appropriate cost of capital for a benchmark low-risk utility; (2) establishing a return on equity automatic adjustment mechanism; and (3) establishing a deemed capital structure and deemed cost of capital methodology particularly for those utilities without third-party debt.

2010-2011 Revenue Requirement and Rates

In late 2009, FEI reached a negotiated settlement agreement that established rates for 2010 and 2011. The negotiated settlement agreement was approved by the BCUC.

Pursuant to the approved negotiated settlement agreement, delivery rates were frozen for 2010 and increased by 2.2 per cent for 2011 and reflected an allowed ROE of 9.5 per cent and an equity component of the capital structure at 40 per cent. The settlement agreement provided for continued funding of Energy Efficiency and Conservation programs.

2012-2013 Revenue Requirement and Rates

In May 2011, FEI filed its 2012-2013 Revenue Requirement and Rates Application to set delivery rates for 2012 and 2013. The rates applied for result in an effective delivery rate increase of 5.6 per cent in 2012 and an additional effective delivery rate increase of 6.3 per cent in 2013, and reflected an allowed ROE of 9.5 per cent and an equity component of the capital structure at 40 per cent. Further, FEI applied for a continuation of a number of the deferral accounts discussed above and an increase to funding for Energy Efficiency and Conservation programs.

FEI expects to receive a decision in the spring of 2012.

Alternative Energy Solutions Inquiry

FEI provides "alternative energy services', including providing refueling services for natural gas vehicles, owning and operating district energy systems and various forms of geo-exchange systems, and owning facilities that upgrade raw biogas into biomethane for the purposes of sale to customers. In May 2011, the BCUC initiated a public process to inquire into whether FEI should be able to provide "alternative energy services" as regulated utility services and the guidelines that would apply to the provision of these services. The inquiry proceeding is ongoing.

Amalgamation and Rate Design Phase "A" Application

In November 2011, FEI, together with FEI and FEW, applied to the BCUC for the necessary approvals to amalgamate and implement postage stamp rates across the amalgamated entity for 2013. Subsequently the Corporation has suspended the application in order to provide the BCUC with additional information and will refile the application in the first half of 2012. No regulatory process has been established for this application.

5.0 SAFETY AND ENVIRONMENTAL PROTECTION

5.1 GENERAL

Canadian federal, provincial and municipal governments share jurisdiction over matters affecting safety and the environment. As a result, the Corporation is subject to provincial occupational health and safety legislation as well as federal, provincial and municipal regulations relating to the protection of the environment including, but not limited to, wildlife, water and land protection and the proper storage, transportation, disposal and release of hazardous and non-hazardous substances. In addition, both the provincial and federal governments have environmental assessment legislation, which is designed to foster better land-use planning through the identification and mitigation of potential environmental impacts of projects or undertakings prior to and after commencement.

5.2 ENVIRONMENTAL MANAGEMENT SYSTEM

The environmental risks associated with the Corporation's activities and operations are managed under the framework of an environmental management system (EMS). FEI has an EMS in place to manage the impacts of its activities on the environment and the design of the EMS is consistent with the guidelines of ISO 14001, an internationally recognized standard for environmental management systems.

The Corporation's EMS includes an environmental policy, a summary of the environmental risks associated with the Corporation's business and operations, a summary of relevant environmental legislation, and an internal reporting process. The EMS also includes environmental training requirements for employees and contractors and environmental guidelines that serve to minimize the environmental impacts of FEI operations, and ensure compliance with applicable environmental legislation. FEI has external audits of its EMS conducted on a regular cycle to ensure continued compliance with ISO 14001 standards.

5.3 PERMITS, LICENCES AND APPROVALS

Various federal and provincial statutes require the Corporation to obtain and maintain specific permits, licenses and approvals in the course of its operations.

5.4 ENVIRONMENTAL EXPENDITURES

The Corporation incurred environmental compliance and environmental management system related capital expenditures in connection with capital projects and in connection with ongoing operation and maintenance activities that are not reasonably quantifiable. The Corporation's cost of compliance with environmental laws and regulations did not have a material effect on the operating costs, capital expenditures, earnings or competitive position of the Corporation in 2011 and, based on current laws, facts and circumstances, is not expected to have a material effect on such matters in the future. Operating and capital costs associated with complying with environmental laws and regulations are generally recoverable by the Corporation through rates.

5.5 RELEASES

Federal, provincial and municipal environmental legislation regulate the release of substances into the environment through the regulation of discharges that have an adverse effect or a potentially adverse effect on the environment. FEI believes that the potential for spills, and resulting enforcement actions under existing environmental legislation, is reduced through implementation of spill prevention, material handling, emergency response programs and spill response guidelines in conjunction with appropriate training. The potential for an adverse effect resulting from a spill is further reduced by the Corporation through the tracking of all incidents and potential incidents in an incident reporting database in order to facilitate continual learning and improvement.

5.6 HAZARDOUS SUBSTANCES

The Corporation manages hazardous substances used in its operations such as herbicides. The Corporation has environmental management programs in place to deal with the hazardous substances including programs to deal with herbicides:

Herbicides - The Corporation uses herbicides primarily for the control of incompatible vegetation on rights-of-way, along transmission and distribution lines and on station sites. The Corporation uses an integrated approach toward vegetation management using manual and mechanical cutting, natural competition from compatible vegetation, together with the selective use of herbicides. Patrols occur to monitor vegetation growth and assess appropriate maintenance activities. Site-specific conditions, including tree species, tree density, height, terrain, prevailing wind directions, and adjacent land uses, are considered by the Corporation in determining the appropriate overall vegetation management plan. Herbicides are applied in accordance with applicable federal and provincial legislation, which governs application, notification and reporting. In addition some facilities and products used in operational activities contain substances that are designated for special treatment under occupational health and safety legislation, such as asbestos, lead and mercury. The Corporation has exposure control plans in place to address situations when these kinds of substances are encountered or utilized.

5.7 SITE INVESTIGATION AND REMEDIATION

Spills and leaks of substances may occur in the normal course of the Corporation's operations and may result in future clean-up costs being incurred in connection with these releases. The Corporation has from time to time, investigated sites for potential contamination and remediated sites where appropriate. It is possible that remediation costs could be incurred in future due to contamination at sites and the Corporation expects that costs incurred for site remediation would be recovered through rates.

5.8 AIR EMISSIONS MANAGEMENT AND POLICY

British Columbia government policy direction with respect to air emissions management regulation continues to unfold, but it remains to be determined to what extent a greenhouse gas emissions cap will impact FEI. To mitigate this uncertainty, FEI has actively participated in sectoral and industry groups involved in the development of the emerging regulation. FEI was an active participant in Canada's Voluntary Climate Change Challenge and Registry and its successor, the Canadian Greenhouse Gas Challenge Registry. In addition, British Columbia is a participant in the Western Climate Initiative. This group, consisting of several states and provinces, plans to implement a cap-and-trade program to reduce greenhouse gas emissions. The cap and trade program was expected to begin on January 1, 2012 but the government has delayed the development of this regulatory initiative. The specific details regarding the cap and trade program will be defined in regulation once it is developed. If implemented the cap and trade program is expected to have a declining cap on emissions that all covered facilities must meet, either by reducing emissions internally or by purchasing allowances from other facilities for releases over the capped amount. In 2011 the Corporation began reporting its greenhouse gas emissions pursuant to the provincial greenhouse gas reporting regulation. In addition, the Corporation continues to report its greenhouse gas emissions under Environment Canada's Greenhouse Gas Reporting program.

British Columbia's energy plan and greenhouse gas reduction targets continue to present risks and opportunities for FEI. The Greenhouse Gas Reduction Targets Act required that all of British Columbia's public sector be carbon neutral by 2010 and mandates province-wide reductions in greenhouse gases of 33 per cent over 2007 levels by 2020. This is coupled with mandates for all new electricity generation to be net carbon neutral, and for British Columbia to be electrically self-sufficient by 2016.

These requirements place pressure on natural gas consumption because its direct use in space and water-heating contributes to greenhouse gas emissions. Further, electricity that is produced from hydro sources has been given increased emphasis over natural gas for thermal applications. However, FEI continues to work with the provincial government to emphasize that efficient use of natural gas for thermal applications reduces strain on electrical grids, allowing for more efficient electricity use domestically, resulting in increased opportunity to export less emissions-intensive electricity to other jurisdictions.

Energy and emissions policy in British Columbia also presents opportunities for FEI by creating support for incentives to expand the use of renewable energy (such as biogas), and to expand our Energy Efficiency and Conservation program. The Carbon Tax Act improves the position of natural gas relative to other fossil energy, as the tax is based on the amount of carbon dioxide equivalent emitted per unit energy.

5.9 ASSET RETIREMENT OBLIGATIONS

The Corporation does not currently have any identified AROs and as such no amounts have been recorded as at December 31, 2011 and 2010. The nature, amount and timing of costs associated with land and environmental remediation and/or removal of assets cannot be reasonably estimated due to the nature of their operation; applicable licences, permits and laws are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of service to customers. In the event that environmental issues are identified, or the applicable licences, permits, laws or agreements are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

5.10 EMERGENCY PREPAREDNESS AND SAFETY

FEI has detailed emergency preparedness plans in place to respond to natural disasters, accidents and emergencies, and regularly tests these plans in simulations involving employees and other emergency response organizations.

The Corporation is committed to monitoring and assessing its safety management system regularly. FEI incorporates safety performance measures into its employee compensation system, sets challenge levels and objectives for performance, and conducts safety and environmental audits regularly.

6.0 RISK FACTORS

For more information with respect to risks and uncertainties to which the Corporation is subject, see the section entitled "Commitments, Events, Risks and Uncertainties" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2011, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference.

7.0 CAPITAL STRUCTURE

FEI's business requires the Corporation to have ongoing access to capital to allow it to build and maintain the gas systems in its service territory. In order to ensure that this access to capital is maintained and in accordance with BCUC requirements, the Corporation targets a long-term capital structure that includes 40 per cent equity and 60 per cent debt.

7.1 SHARE CAPITAL

The Corporation is authorized to issue 500,000,000 common shares without par value, 100,000,000 first preference shares without par value of which 3,000,000 have been designated as 8.625 per cent cumulative redeemable retractable first preference shares without par value, 50 have been designated as cumulative redeemable perpetual first preference shares without par value, 40 have been designated as cumulative redeemable non-convertible perpetual first preference shares without par value, 3,000,000 have been designated as 7.10 per cent cumulative redeemable retractable first preference shares without par value and 3,000,000 have been designated as 6.32 per cent cumulative redeemable first preference shares without par value, none of which are issued and 100,000,000 second preference shares without par value. As at December 31, 2011, 63,010,782 common shares were issued and outstanding. Fortis indirectly owns all of the issued common shares through its wholly-owned subsidiary, FHI.

Holders of common shares of the Corporation are entitled to receive, out of monies lawfully available for dividends, dividends as and when declared by the Board and are entitled to one vote per share on all matters to be voted on at all meetings of shareholders except those meetings at which only the holders of shares of another class or of a particular series are entitled to vote. Upon the liquidation, dissolution or winding-up of the Corporation, the holders of common shares are entitled to receive, after payment of any amounts payable on the First Preference shares or the Second Preference shares, the remaining assets available for distribution, after payment of liabilities. The common shares do not have exchange, conversion, redemption or retraction rights.

The First Preference shares may be issued from time to time in one or more series, each series comprising of the number of shares, designation, rights and restrictions determined by the Board. The First Preference shares are entitled to priority over the common shares and the Second Preference shares with respect to the payment of dividends and distributions of assets in the event of the liquidation, dissolution or winding-up of the Corporation. Except in respect of a meeting of holders of the First Preference shares or of a particular series of the First Preference shares, or except as may otherwise be provided in the rights attached to any series of First Preference shares, holders of the First Preference shares will not be entitled to vote at any meetings of shareholders.

The Second Preference shares may be issued from time to time in one or more series, each series comprising of the number of shares, designation, rights and restrictions determined by the Board. The Second Preference shares are entitled to priority over the common shares with respect to the payment of dividends and distributions of assets in the event of the liquidation, dissolution or winding-up of the Corporation. Except in respect of a meeting of holders of the Second Preference shares or of a particular series of the Second Preference shares, or except as may otherwise be provided in the rights attached to any series of Second Preference shares, holders of the Second Preference shares will not be entitled to vote at any meetings of shareholders.

7.2 DIVIDEND POLICY

The declaration and payment of dividends is at the discretion of the Board and will be influenced by ongoing capital structure management.

In 2011, FEI paid $85 million in dividends, compared with $84.0 million in 2010 and $66.5 million in 2009.

As part of its approval of the acquisition of Terasen Inc. by Fortis, the BCUC imposed a number of conditions intended to ring-fence FEI from its parent Corporation. These restrictions include a prohibition on the payment of dividends unless FEI has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. FEI's dividend policy is intended to ensure that FEI maintains at least as much common equity as that deemed by the BCUC for rate-making purposes.

8.0 CREDIT RATINGS

The following table discloses the Corporation's debenture ratings as of December 31, 2011:

Credit Ratings	DBRS	Moody's
Commercial paper	R-1 (Low)	-
Unsecured long-term debt	A	A3
Secured long-term debt	A	A1

Ratings are not recommendations to purchase, hold, or sell debentures because ratings do not comment as to market price or suitability for a particular investor. The Corporation understands that ratings are based on, among other things, information furnished to the rating agencies by the Corporation and information obtained by the rating agencies from public sources. Ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, that information.

Securities issued by FEI are rated by DBRS and Moody's. The ratings assigned to securities issued by FEI are reviewed by these agencies on an ongoing basis. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. DBRS rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D which represents the lowest quality of securities rated. Moody's rates debt instruments by rating categories ranging from Aaa which represents the highest quality of securities to C which represents the lowest quality of securities.

According to the Moody's rating system, debt securities rated A are considered to possess many favourable investment attributes and are to be considered as upper medium grade obligations. Factors giving support to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future. Moody's applies numerical modifiers (1, 2 and 3) in each rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of its rating category.

According to the DBRS rating system, debt securities rated A are of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than with AA related entities. While a respectable rating, entities in the A category are considered to be more susceptible to economic conditions and have greater cyclical tendencies than higher rated companies. For short term debt a rating of R-1 is of prime credit quality. Any qualifying negative factors which exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. “High” or “Low” are used to indicate the relative standing of a credit within a particular rating category. The lack of one of these designations indicates a rating which is essentially in the middle of the category.

9.0 MARKET FOR SECURITIES

None of the issued and outstanding shares of the Corporation or any of its debentures are listed on any exchange.

On December 9, 2011, the Corporation issued $100.0 million of 30-year medium term note debentures at an interest rate of 4.25 per cent.

10.0 DIRECTORS AND OFFICERS

10.1 DIRECTORS

The following table sets forth as at December 31, 2011 the name, province and country of residence of each director of the Corporation, his or her respective position and office with the Corporation, his or her principal occupation during the five preceding years, and the period during which each director has served as a director of the Corporation and when his or her term expires:

NAME AND RESIDENCE	TERM AS A DIRECTOR (4)	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
Harold G. Calla(1) British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Chair of the First Nation Financial Management Board.
Beth D. Campbell(2) British Columbia, Canada	Commencing 2010. Term expires at the next annual general meeting.	President, Best in the West Motor Inn Ltd.
Brenda Eaton(1) British Columbia, Canada	Commencing 2009. Term expires at the next annual general meeting.	Board Chair, BC Housing Management Commission.
Ida J. Goodreau(2) British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Corporate Director; additionally Adjunct Professor, Sauder School of Business, UBC; prior thereto President and CEO of Lifelabs from March 2009 to November 2009; prior thereto President and Chief Executive Officer of Vancouver Coastal Health Authority.
H. Stanley Marshall(2)(3) Newfoundland and Labrador, Canada	Commencing 2007. Term expires at the next annual general meeting.	President & Chief Executive Officer of Fortis Inc.
Roger M. Mayer(1) British Columbia, Canada	Commencing 2010. Term expires at the next annual general meeting.	Vice Chair of the BC Agricultural Land Commission since 2008; and additionally Director of the Okanagan Similkameen Regional District.

NAME AND RESIDENCE	TERM AS A DIRECTOR [4]	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
Harry McWatters[2] British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	President, Vintage Consulting Group since May 2008; additionally President, Sundial Vineyard prior thereto President & CEO of Sumac Ridge Estate Wine Group.
Barry V. Perry[1] Newfoundland and Labrador, Canada	Commencing 2007. Term expires at the next annual general meeting.	Vice President, Finance and Chief Financial Officer of Fortis Inc.
Linda S. Petch[2] British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Principal, Linda S. Petch Governance Services.
David R. Podmore[1] British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Chairman and Chief Executive Officer, Concert Properties Ltd. since June, 2009; prior thereto President & Chief Executive Officer of Concert Properties Ltd.
Karl W. Smith[2] Alberta, Canada	Commencing 2011. Term expires at the next annual general meeting.	President & CEO of FortisAlberta Inc. since May 2007; prior thereto President & CEO of Newfoundland Power Inc.
John C. Walker British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	President & CEO of the Corporation and of FortisBC Holdings Inc. since July 2010; and additionally President & CEO of FortisBC Inc.

Notes:

1. Member of the Audit & Risk Committee.
2. Member of the Governance Committee.
3. Chair of the Board.
4. The Articles of the Corporation provide that if Corporation does not hold an annual general meeting in accordance with the *Business Corporations Act*, the Directors then in office shall be deemed to have been elected or appointed as Directors on the last day on which the annual general meeting could have been held pursuant to the *Business Corporations Act* (British Columbia), and they may hold office until other Directors are appointed or elected or until the day on which the next annual general meeting is held.

10.2 OFFICERS

The following table sets forth the name, province and country of residence of each executive officer of the Corporation, their respective position and office with the Corporation and his or her principal occupation during the five preceding years as at the date of filing of this Annual Information Form:

NAME AND RESIDENCE	OFFICE HELD	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
John C. Walker British Columbia, Canada	President and CEO	President & CEO of the Corporation and of FortisBC Holdings Inc. since July 2010; and additionally President & CEO of FortisBC Inc.
Michael A. Mulcahy British Columbia, Canada	Executive Vice President, Human Resources, Customer & Corporate Services	Executive Vice President, Human Resources, Customer & Corporate Services of the Corporation and of FortisBC Inc. since November 2011; prior thereto Executive Vice President, Customer & Corporate Services of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Customer and Corporate Services of FortisBC Inc.
Dwain A. Bell British Columbia, Canada	Vice President, Operations	Vice President, Operations of the Corporation since February 2011 and additionally of FortisBC Inc. since November 2011; prior thereto Vice President, Distribution of the Corporation.
David C. Bennett British Columbia, Canada	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel and Corporate Secretary of the Corporation and of FortisBC Holdings Inc. since May 2007; and additionally Vice President, General Counsel and Corporate Secretary of FortisBC Inc. since July 2010; prior thereto Vice President, Regulatory Affairs, General Counsel and Corporate Secretary of FortisBC Inc. since February 2007; prior thereto General Counsel and Corporate Secretary of FortisBC Inc.
Roger A. Dall'Antonia British Columbia, Canada	Vice President, Strategic Planning, Corporate Development & Regulatory Affairs	Vice President, Strategic Planning, Corporate Development & Regulatory Affairs of the Corporation and CFO and Treasurer of FortisBC Holdings Inc. since January 1, 2012; prior thereto Vice President, Finance and CFO; Treasurer of the Corporation and additionally Vice President, Finance and Treasurer of FortisBC Holdings Inc. since July 2010; prior thereto Vice President, Corporate Development and Treasurer of the Corporation since November 2007; prior thereto Vice President, Treasury and Investor Relations of Versacold Income Fund July 2006 to November 2007; prior thereto Vice President, Treasurer of the Corporation.

NAME AND RESIDENCE	OFFICE HELD	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
Cynthia Des Brisay British Columbia, Canada	Vice President, Energy Supply & Resource Development	Vice President, Energy Supply & Resource Development of the Corporation and of FortisBC Inc. since February 2011; prior thereto Vice President, Energy Supply & Gas Transmission of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Gas Supply & Transmission of the Corporation since May, 2008; prior thereto Director, Business Development & Resource Planning of the Corporation.
Michele I. Leeners British Columbia, Canada	Vice President, Finance & CFO	Vice President, Finance & CFO of the Corporation since January 1, 2012 and additionally and prior thereto Vice President, Finance & CFO of FortisBC Inc.
Thomas A. Loski British Columbia, Canada	Vice President, Customer Service	Vice President, Customer Service of the Corporation and additionally of FortisBC Inc. since October 2010; prior thereto Chief Regulatory Officer of the Corporation since April, 2008; prior thereto Director Regulatory Affairs of the Corporation.
Doyle Sam, British Columbia, Canada	Vice President, Engineering & Generation	Vice President, Engineering & Generation of the Corporation and of FortisBC Inc. since November, 2011; prior thereto Vice President, Engineering & Operations of FortisBC Inc. since February 2008; prior thereto Vice President, Transmission & Distribution of FortisBC Inc.
Robert M. Samels British Columbia, Canada	Vice President, Business Planning	Vice President, Business Planning of the Corporation since July 2010 and additionally of FortisBC Inc. since February 2011; prior thereto Vice President, Business Services & Technology of the Corporation since April 2009; prior thereto, Vice President, Business Services and CIO of the Corporation.
Douglas L. Stout British Columbia, Canada	Vice President, Energy Solutions & External Relations	Vice President, Energy Solutions & External Relations of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Marketing & Business Development of the Corporation.
Debra G. Nelson British Columbia, Canada	Assistant Corporate Secretary	Assistant Corporate Secretary and Manager, Corporate Compliance and Secretariat of the Corporation and of FortisBC Holdings Inc.; additionally since July 2010, Assistant Corporate Secretary of FortisBC Inc.

Note: Scott A. Thomson was the Executive Vice President, Finance, Regulatory & Energy Supply from July of 2010 until December 31, 2011.

10.3 CONFLICTS OF INTEREST

Other than as disclosed herein, to the knowledge of management of the Corporation, there are no existing or potential material conflicts of interest among the Corporation or a subsidiary of the Corporation and any director or officer of the Corporation or such subsidiary.

11.0 EXECUTIVE COMPENSATION

The Corporation's Statement of Executive Compensation is attached as Schedule "A".

12.0 SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Corporation does not have a compensation plan under which securities of the Corporation are authorized for issuance. See "Executive Compensation – 2006 Stock Option Plan" in Schedule "A" of this Annual Information Form for a description of the Fortis 2006 Stock Option Plan.

13.0 INDEBTEDNESS OF EXECUTIVE OFFICERS, DIRECTORS, AND EMPLOYEES

The following table sets forth details of the aggregate indebtedness of all executive officers, directors, and employees and former executive officers, directors and employees outstanding as of the date of this Annual Information Form to the Corporation or any of its subsidiaries in connection with (i) the purchase of securities and (ii) all other indebtedness, other than routine indebtedness.

Aggregate Indebtedness ($)		
Purpose	**To the Corporation or its Subsidiaries**	**To Another Entity**
Share purchases	Nil	Nil
Other	Nil	Nil

14.0 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Corporation, or person or Corporation that beneficially owns, or controls or directs, directly or indirectly, more than 10 per cent of any class or series of the Corporation's outstanding voting securities, nor any associate of the foregoing persons, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years of the Corporation or during the current financial year of the Corporation that has materially affected or is reasonably expected by the Corporation to materially affect the Corporation.

For more information with respect to the Corporation's material transactions with related parties, see the section entitled "Transactions with Related Parties" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2011, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference.

15.0 MATERIAL CONTRACTS

The Corporation has not entered into any material contracts subsequent to January 1, 2002 that are outside the ordinary course of business.

16.0 LEGAL PROCEEDINGS

The Corporation is not involved in any material litigation.

17.0 TRANSFER AGENTS AND REGISTRARS

CIBC Mellon Trust Corporation is the registrar and transfer agent and trustee for the Corporation's unsecured debentures and purchase money mortgages. Transfers of these securities may be effected at CIBC Mellon Trust Corporation's offices in the cities of Vancouver, Toronto or Montreal.

18.0 INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants is the auditor of the Corporation and was appointed effective as at July 26, 2007 and each year thereafter. The Corporation's auditor, Ernst & Young LLP, has prepared the audit report attached to the audited consolidated financial statements for the Corporation's financial year ended December 31, 2011. Ernst & Young LLP remains independent with respect of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

19.0 ADDITIONAL INFORMATION

Additional financial information is also provided in the Corporation's financial statements for the financial year ended December 31, 2011, and management's discussion and analysis of such financial results. A copy of such documents and additional information relating the Corporation is contained on SEDAR at www.sedar.com.

SCHEDULE "A" - EXECUTIVE COMPENSATION

A. COMPENSATION DISCUSSION AND ANALYSIS

It is the responsibility of the Governance Committee to review, recommend and administer the compensation policies in respect of the Corporation's executive officers. The Governance Committee's recommendations as to base salary and short term incentives are submitted to the Board of the Corporation for approval. Proposed grants to the Corporation's executive officers under the Fortis Stock Option Plan are submitted by the Corporation's Board to the Human Resources Committee of the Fortis Board of Directors for approval.

The Corporation's executive compensation program is designed to provide competitive levels of compensation, a significant portion of which is dependent upon individual and corporate performance. The Governance Committee recognizes the need to provide a total compensation package that will attract and retain qualified and experienced executives as well as align the compensation level of each executive to that executive's level of responsibility. The objectives of base salary are to recognize market pay, and acknowledge competencies and skills of individuals. The objectives of the annual incentive plan are to reward achievement of short-term financial and operating performance and focus on key activities and achievements critical to the ongoing success of FEI. Long-term incentive plans focus executives on sustained shareholder value creation.

The Corporation has a policy of compensating executive officers at approximately the median (50th percentile) of comparable Canadian commercial industrial companies. For clarity, this reference group does not include organizations in the financial service and broader public sectors. It includes organizations from the energy, mining and manufacturing sectors. Annually, the Governance Committee uses the compensation data from this reference group to compare each executive officer to corresponding positions within the reference group. This framework serves as a guide for the Governance Committee's deliberations. The actual total compensation and/or amount of each compensation component for an individual executive officer may be more or less than the median amount.

Total annual compensation for the executive officers is composed primarily of four main components:

- annual base salary;
- short-term incentive in the form of an annual cash bonus;
- long-term incentive in the form of options to purchase Fortis Shares; and
- pension arrangements.

REPORT ON CORPORATE GOVERNANCE

Governance Committee

The Governance Committee provides assistance to the Board by overseeing the Corporation's policy and performance in matters of corporate governance, including the nomination of Directors; matters of natural environment and safety and specifically, matters of human resource management, including the Corporation's pension plans and compensation of senior officers.

Specifically with regards to executive compensation matters, the responsibilities of the Governance Committee include:

1. Reviewing and making recommendations to the Board with respect to the adequacy and form of the compensation of directors;
2. Reviewing and recommending to the Board the appointment and compensation of senior officers;

3. Reviewing and recommending to the Board the development of policy for orderly succession to senior positions and targets used by the Corporation to measure performance for compensation purposes, and reviewing and reporting to the Board on the overall effectiveness of the senior management team including the CEO. The Corporation recognizes the importance of appointing knowledgeable and experienced individuals to the Governance Committee. The Governance Committee composition includes members that have the necessary background and skills to provide effective oversight of corporate governance and executive compensation, including adherence with sound risk management principles.

All Governance Committee members have significant senior leadership and/or governance experience. More specifically four of the six members of the Governance Committee have direct operational or functional experience overseeing compensation policies and practices at large organizations similar in complexity to FEI.

In fulfilling its duties and responsibilities with respect to executive compensation, the Governance Committee seeks periodic input, advice, and recommendations from various sources, including the Board, executive officers, and external independent consultants. The Governance Committee retains discretion in its executive compensation decisions and is not bound by the input, advice, and/or recommendations received from the external independent consultant.

The Governance Committee believes that the Corporation's compensation regime appropriately takes into account the performance of the Corporation and the contribution of the President and Chief Executive Officer and other executive officers of the Corporation toward that performance.

The members of the Governance Committee are Beth D. Campbell, Ida J. Goodreau, Harry McWatters, H. Stanley Marshall, Linda S. Petch and Karl W. Smith. These directors are independent directors with the exception of Messrs. Marshall, President & Chief Executive Officer of Fortis Inc. and Smith, President & CEO of FortisAlberta Inc. since May 2007; prior thereto President & CEO of Newfoundland Power Inc.

Compensation Review Framework

Annual Review

FEI monitors, reviews, and evaluates its executive compensation program annually to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective.

As part of the annual review process, Fortis engages Hay Group Limited ("Hay Group"), its primary compensation consultant, to provide comparative analyses of market compensation data reflecting the pay levels and practices of Canadian Commercial Industrial companies. Using this data, a detailed review is prepared to analyze the Corporation's competitive compensation positioning against its peer group. Hay Group provides Fortis and its subsidiaries preliminary recommendations to management on the basis of pay competitiveness, emerging market trends and best practices. In addition, the Corporation may from time to time engage Hay Group to provide specific analysis of its executive compensation components.

Management then takes into account the corporate performance against pre-determined objectives and together with the CEO recommends a set of new performance objectives for the following year. Individual performance reviews, incentive award payouts, and compensation adjustments, if any, are also determined at this stage. The CEO does not make recommendations to the Governance Committee with respect to his own compensation.

In the final step, the Governance Committee reviews the recommendations set forward by management and the compensation consultant prior to seeking approval from the Board regarding current year's compensation payouts and next year's performance objectives. The Governance Committee and the Board may exercise discretion when making compensation decisions in appropriate circumstances and make deviations from the prescribed incentive award formulas, if necessary.

Competitive Positioning

FEI does not measure performance against a particular reference group. However, as a general policy, FEI establishes base and incentive compensation targets so as to compensate executives and in particular, each person who served as the Chief Executive Officer or Chief Financial Officer during the most recently completed financial year and the three most highly compensated executive officers of the Corporation during the most recently completed financial year (the “Named Executive Officers” or “NEOs”), at a level generally equivalent to the median of practice among a broad reference group of approximately 200 Canadian commercial industrial companies. This reference group, (The Commercial Industrial Comparator Group) is compiled by Hay Group. For clarity, this reference group does not include organizations in the financial service and broader public sectors. It does include organizations from the energy, mining and manufacturing sectors. This reference group is formally reviewed as part of the Fortis triennial review of executive compensation policy.

Compensation Risk Considerations

Risk is considered throughout the Corporation’s annual compensation review processes to ensure that effective control systems are in place to mitigate the perceived risks inherent in the compensation structure. The Governance Committee has identified the following external and internal risk controls within the Corporation’s executive compensation program:

External Compensation Risk Mitigating Controls

With respect to the regulatory environment, there are extensive regulatory frameworks, as well as reporting and approval mechanisms. FEI’s ongoing compliance with existing regulatory requirements and emerging best practices ensure that risks within its compensation program are being continually monitored and controlled.

Internal Compensation Risk Mitigating Controls

The compensation program is designed such that risk is taken into consideration throughout the compensation review process:

Annual Salary	• Annual salaries are targeted approximately at market median levels and as such do not encourage excessive risk-taking.
Short-Term Incentives	• ***Board Discretion*****:** The Governance Committee retains the discretion to make upwards or downwards adjustments to the prescribed incentive payout formulas and actual payouts based on its assessment of the risk assumed to generate financial results, circumstances that may have influenced individual performance, as well as external factors that may have impacted the Corporation's financial performance. • ***Award Cap****:* Short-term incentives awarded to executives are capped at 150 per cent of Annual Salary; however, the Governance Committee retains the discretion to award up to a maximum of 200 per cent of Annual Salary in recognition of individual response to exceptional challenges or opportunities and may make deviations in appropriate circumstances.
Long-Term Compensation	• ***Stock Option Grants linked directly to Stock Ownership Requirements***: Share ownership for executives, including the NEOs, is encouraged through Fortis' Executive Compensation Policy, whereby the options granted each year to any executive are limited to the lesser of the number of options prescribed to that particular position and the minimum number of shares actually owned by the individual since the beginning of the previous calendar year. While minimum share holdings are not formally prescribed by policy tying the number of stock options grants to the executive's share holdings has achieved high levels of executive ownership. • ***Anti-Hedging Policy*****:** The Corporation's executive officers are not permitted to hedge against declines in the market value of equity securities received as compensation.

Compensation Consultants

As noted above, Fortis engages Hay Group as its primary compensation consultant.

Hay Group has served as the primary external independent advisor on matters relating to executive compensation since 2007. In addition to matters related to executive compensation, Hay Group also provides the Corporation with general market compensation data from its national database.

The Corporation also engages Towers Watson and Mercer (Canada) Limited to consult on certain pension and benefit components and to perform certain administrative and actuarial functions related to the Corporation's pension programs.

In regards to non-union pension matters, the Governance Committee appoints the pension plans' Actuary, Custodians and Investment manager, and Auditors for Financial Statements. The Board approves employer/employee contribution rates, establishes or terminates pension plans, is the fiduciary and administrator for plans, approves the governance structure, major plan design changes, and approves the mandate of the Governance Committee.

The following table sets forth information concerning fees paid by the Corporation to compensation consultants in 2010 and 2011.

Type of Fee by Consultant	2011 Consultant Fees ($)	2010 Consultant Fees ($)
Executive Compensation Consulting (1)	1,570	2,530
All other Fees (2)	116,700	87,065

Notes:

1. Fees paid to Hay Group related to executive compensation.
2. Fees paid to Towers Watson and Morneau Shepell related to pension, benefits and market data.

Performance Graph

None of the Corporation's equity securities (as defined in applicable securities laws) are publicly traded. There is, therefore, no performance graph.

Elements of Total Compensation

Total annual compensation for the executive officers involves a significant proportion that is at risk due to the use of short-term and long-term incentive components. For 2011, approximately 50 per cent of the President & Chief Executive Officer's total annual compensation was designed to be at risk. Approximately 40 per cent of the other NEO's total annual compensation was designed to be at risk. Total annual compensation includes both the cash compensation paid to the executive officers in the year and the estimated compensation for the long-term incentive components. The estimated value of the long-term incentive components is determined using the Black-Scholes pricing model at the date of grant of options.

The executive compensation regime is structured in a manner that recognizes the greater ability of the President & Chief Executive Officer to affect corporate performance by making a greater portion of that individual's compensation dependent upon corporate performance.

The elements of compensation of the NEOs and their respective compensation objectives are set out below:

Compensation Element *(Eligibility)*	Description	Compensation Objectives
Annual Base Salary and Annual Incentive		
Annual Base Salary *(all NEOs)*	Salary is a market-competitive, fixed level of compensation.	Attract and retain highly qualified executives. Motivate strong business performance.
Annual Incentive *(all NEOs)*	Combined with salary, the target level of annual incentive is intended to provide executives with a market-competitive total cash opportunity. Annual incentive payout depends on individual and corporate performance.	Attract and retain highly qualified executives. Motivate strong business performance. Compensation dependent on individual and corporate performance. Simple to communicate and administer.

Compensation Element *(Eligibility)*	Description	Compensation Objectives
Long-term Equity Based Incentive		
Stock Options *(all NEOs)*	Annual equity grants are made in the form of stock options. The amount of annual grant will be dependent on the level of the executive and their current share ownership levels. Planned grant value is converted to the number of shares granted by dividing the planned value by the pre-determined, formulaic planning price derived using the Black-Scholes Option Pricing Model. Options vest over a 4 year period.	Align executive and shareholder interests. Attract and retain highly qualified executives. Encourage strong long-term business performance. Balance compensation for short and long-term strategic results. Simple to communicate and administer.
Pension Plans		
Defined Benefit Pension Plan (*certain NEOs)*	Payout upon retirement based on the number of years of credited service and actual pensionable earnings.	Attract and retain highly qualified executives. Simple to communicate and administer.
RRSP *(certain NEOs)*	Contribution to a registered retirement savings plan equal to 6.5 per cent of a member's base salary which is matched by the member up to the maximum annual contribution limit allowed by the Canada Revenue Agency.	Attract and retain highly qualified executives. Simple to communicate and administer.
Defined Contribution: Supplemental Employee Retirement Plan (SRP or SERP) *(all NEOs)*	Accrual of 13 per cent of base salary and annual incentive in excess of the Canada Revenue Agency annual limit. At time of retirement, paid in one lump sum or in equal payments up to 15 years.	Attract and retain highly qualified executives. Simple to communicate and administer.

Annual Base Salary

Annual base salaries paid to the Corporation's NEOs are determined by the Board upon recommendation by the Governance Committee and are established annually by reference to the range of salaries paid at approximately the median of the salaries paid to executives in comparably rated positions of comparable Canadian commercial industrial companies.

Annual Incentive

NEOs participate in an annual incentive plan that provides for annual cash bonuses which are determined by way of an annual assessment of corporate and individual performance in relation to targets approved by the Board of Directors upon recommendation by the Governance Committee. The Corporation's annual earnings must reach a minimum threshold level before any payments are made. The objectives of the annual incentive plan are to reward achievement of short-term financial and operating performance and focus on key activities and achievements critical to the ongoing success of the Corporation.

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect to financial, safety, customer satisfaction, integrated energy services offerings and regulatory performance. There were 5 targets in 2011 which included (i) net earnings (30.0 per cent weighting); (ii) recordable injuries which measures how safely the Corporation operates (15.0 per cent weighting); (iii) customer satisfaction of which measures a customer survey score (12.5 per cent weighting); (iv) integrated energy services offerings (12.5 per cent weighting); and (v) regulatory performance (30 per cent weighting). Net earnings takes into account earnings from Gas Sales and Transportation Margin, Other Revenue (FEVI Wheeling Charges, Southern Crossing Pipeline Third Party Revenues, Late Payment Charges, Gas System Mitigation Incentives Plan), Operating and Maintenance Expense, Depreciation, Amortization, Property Taxes, Interest Expense and Income Taxes generated by all companies within the FortisBC Energy Group; FEI, FEVI FEW, and Huntingdon International Pipeline Corporation.

Individual performance is determined with reference to individual contribution to corporate objectives, elements of which are subjective. For the Chief Executive Officer, 80 per cent of the annual cash bonus is based on corporate targets and 20 per cent is based upon personal targets. For each of the other NEOs, 50 per cent of the annual cash bonus is based upon corporate targets and 50 per cent is based upon personal targets. At the discretion of the Board of Directors, executives may be awarded up to an additional 50 per cent of target incentive pay in recognition of exceptional performance contributions.

Stock Option Plan

The 2006 Stock Option Plan was approved by the shareholders of Fortis on May 2, 2006 for the purposes of granting options in the common shares of Fortis to certain eligible persons, which includes the Corporation's NEOs (the "Eligible Persons") in order to encourage increased share ownership by key employees as an incentive to maximize shareholder value. The directors of Fortis or any of its subsidiaries are not eligible to participate in the 2006 Stock Option Plan. No options may be granted under the 2006 Stock Option Plan if, together with any other security based compensation arrangement established or maintained by Fortis, such granting of options could result, at any time, in (a) the number of common shares issuable to insiders of Fortis, at any time, exceeding 10 per cent of the issued and outstanding common shares and, (b) the number of common shares issued to insiders of Fortis, within any one year period, exceeding 10 per cent of the issued and outstanding common shares.

The 2006 Stock Option Plan is administered by Fortis. Pursuant to the 2006 Stock Option Plan, the determination of the exercise price of options is made by the Human Resources Committee of Fortis at a price not less than the volume weighted average trading price of the common shares of Fortis determined by dividing the total value of the common shares traded on the TSX during the last 5 trading days immediately preceding the date by the total volume of the common shares traded on the TSX during such 5 trading days. Options may not be amended to reduce the option price. The Human Resources Committee of Fortis determines: (i) which Eligible Persons are granted options; (ii) the number of common shares covered by each option grant based on the salary level of an Eligible Person; (iii) the price per share at which common shares may be purchased; (iv) the time when the options will be granted; (v) the time when the options will vest; and (vi) the time at which the options will be exercisable (up to 7 years from the date of grant). Options granted under the 2006 Stock Option Plan are personal to the Eligible Person and not assignable, other than by testate succession or the laws of decent and distribution. In the event that a person ceases to be an Eligible Person, the 2006 Stock Option Plan will no longer be available to such person. The grant of options does not confer any right upon an Eligible Person to continue employment or to continue to provide services to FEI.

Options granted pursuant to the 2006 Stock Option Plan have a maximum term of 7 years from the date of grant and the options will vest over a period of not less than 4 years from the date of grant, provided that no option will vest immediately upon being granted. Options granted pursuant to the 2006 Stock Option Plan will expire no later than 3 years after the termination, death or retirement of an Eligible Person.

Eligible Persons are granted stock options based on salary levels. In 2011, the President and Chief Executive Officer of the Corporation was granted an option entitling him to purchase that number of common shares of Fortis having a market value at the time of grant equal to 300 per cent of his base salary. Each of the other NEOs were granted an option entitling each NEO to purchase that number of common shares having a market value at the time of grant equal to 150 per cent of such NEO's base salary, however, where a NEO has been granted options for 5 or more prior years, the maximum number of shares for which options will be granted in any calendar year will not exceed the minimum number of shares held by the NEO since the beginning of the previous year.

The 2006 Stock Option Plan provides that notwithstanding provisions in the plan to the contrary, no option maybe amended to reduce the option price below the option price as of the date the option is granted.

Pension Plans – see "Executive Compensation – Pension Plan Benefit"

B. SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the annual and long-term compensation earned for services rendered in respect of each of the individuals who were, at December 31, 2011, the President & Chief Executive Officer, the Chief Financial Officer and the Corporation's three most highly paid executive officers (the "Named Executive Officers", each an "Executive").

Name and principal position	Year	Salary ($)	Option-based awards ($)(1)	Annual incentive plans(2)	MTIP Payouts ($)(3)	Pension value ($)(4)	All other compensation ($)(5) (6)	Total compensation ($) (7)(8)(9)
John C. Walker President & CEO FortisBC Energy Inc.	2011	500,000	277,399	425,000	-	102,157	56,195	1,360,751
	2010	453,192	186,173	310,000	-	80,698	94,442	1,124,505
	2009	385,000	212,462	231,000	-	60,669	64,983	954,114
Roger A. Dall'Antonia Vice President, Finance and CFO; Treasurer FortisBC Energy Inc.	2011	234,904	48,899	150,000	-	36,875	16,254(6)	486,932
	2010	222,327	51,985	135,000	-	31,000	25,237	465,549
	2009	215,000	59,319	108,000	-	31,000	61,156	474,475
Scott Thomson Executive Vice President, Finance, Regulatory & Energy Supply FortisBC Energy Inc.	2011	306,473	63,797	-	-	70,883	1,461,505	1,902,658
	2010	292,327	68,919	150,000	-	52,000	33,433	596,679
	2009	285,000	78,638	200,000	434,455	49,000	17,229	1,064,322
Douglas L. Stout Vice President, Energy Solutions and External Relations FortisBC Energy Inc.	2011	267,590	55,699	170,000	-	39,566	16,993	549,848
	2010	262,000	63,345	123,000	-	42,000	18,231	508,575
	2009	262,000	72,291	145,000	136,543	42,000	16,322	674,156
Cynthia Des Brisay Vice President Energy Supply and Resource Development FortisBC Energy Inc.	2011	250,827	52,256	150,000	-	34,665	8,605	496,353
	2010	241,661	58,512	102,000	-	33,000	28,043	463,216
	2009	219,769	60,713	100,000	99,304	34,000	12,935	526,721

Notes:

1. Represents the fair value of options granted by Fortis to acquire common shares of Fortis. The fair values of \$4.57 per option were determined at the date of grant using the Black-Scholes Option Pricing Model and the following assumptions: Dividend yield (%) 3.68
   Expected volatility (%) 23.1
   Risk-free interest rate (%) 2.00
   Weighted average expected life (years) 4.5

2. Represents amounts earned under the Corporation's short-term non-equity incentive program in recognition of performance for the reported year and paid in the following year.
3. A payout that was instituted by former owners as a Medium Term Incentive Plan to retain key personnel upon acquisition. It was paid out after 3 years from the date of grant if the employee was still in the employ of the Corporation. These employees are now under the Fortis compensation structure.
4. Represents all compensation related to defined benefit, defined contribution, RRSP and SRP.
5. Includes, where applicable the aggregate of amounts paid by FEI, FBC or FHI for payment in lieu of vacation, employees' savings plan, insurance premiums, employee share purchase dividend and flexible benefit plan taxable cash. Only includes perquisites, including property or other personal benefits provided to a NEO that are not generally available to all employees, and that are in the aggregate worth of $50,000 or more, or are worth 10 per cent or more of a NEO's salary.
6. Mr. Thomson's employment ended December 31, 2011 and he was paid a lump sum in accordance with his negotiated agreement.
7. Amounts reported represent amounts paid by FBC for Mr. Walker's services to FBC, FHI and FEI. FEI proportionately reimburses FBC for Mr. Walker's services.
8. Amounts reported represent amounts paid by FHI for Mr. Dall'Antonia's services to FHI and FEI. FEI proportionately reimburses FHI for Mr. Dall'Antonia's service.
9. Mr. Thomson, Mr. Stout and Ms. Des Brisay provide services to FBC and FHI for which FEI is proportionately reimbursed by FBC and FHI.

There are written employment contracts between the Corporation and Mr. Thomson, Mr. Stout and Ms. Des Brisay, which contain the basic provisions of employment including, among other things, base salary, short-term incentive bonus, vacation and benefits. Mr. Dall'Antonia has a written employment contract with FHI which includes similar basic provisions. Mr. Walker does not have a written employment contract with the Corporation, FBC or FHI.

C. INCENTIVE PLAN AWARDS

The following table sets details of all outstanding unexercised options held by each NEO. The aggregate value is based on the difference between the Fortis share price at December 31, 2011 of $33.37 and the exercise price of the options. The table below includes stock option information that is a reflected on a post-split basis.

Option-based awards				
Name	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**
John C. Walker	22,496	15.28	10-Mar-14	406,952.64
	39,392	18.405	1-Mar-15	589,501.28
	34,329	22.94	28-Feb-16	358,051.47
	36,184	28.19	7-May-14	187,433.12
	38,204	28.27	26-Feb-15	194,840.40
	51,820	22.29	11-Mar-16	574,165.60
	42,216	27.36	1-Mar-17	253,718.16
	60,700	32.95	2-Mar-18	25,494.00
	325,341			**2,590,156.67**
Roger A. Dall'Antonia	10,612	28.27	26-Feb-15	54,121.20
	14,468	22.29	11-Mar-16	160,305.44
	11,788	27.36	1-Mar-17	70,845.88
	10,700	32.95	2-Mar-18	4,494.00
	47,568			**289,766.52**
Douglas L. Stout	14,556	25.76	16-Aug-14	110,771.16
	13,480	28.27	26-Feb-15	68,748.00
	17,632	22.29	11-Mar-16	195,362.56
	14,364	27.36	1-Mar-17	86,327.64
	12,188	32.95	2-Mar-18	5,118.96
	72,220			**466,328.32**
Cynthia L. Des Brisay	1,500	25.76	16-Aug-14	11,415.00
	10,084	28.27	26-Feb-15	51,428.40
	11,106	22.29	11-Mar-16	123,054.48
	13,268	27.36	1-Mar-17	79,740.68
	11,428	32.95	2-Mar-18	4,799.76
	47,386			**270,438.32**

Note: Mr. Thomson held no outstanding unexercised options as at December 31, 2011.

The following table sets forth the value of option based awards and non-equity incentive plan compensation vested or earned by the NEO during the most recently completed financial year. The aggregate value of the option based awards vested during the year is based on the difference between the Fortis share price on the vesting date of any options that vested during 2011 and the exercise price of the options.

Name	Option based awards value vested during 2011 ($)	Non-equity incentive plan compensation-value earned during 2011 ($)
John C. Walker	251,528	425,000
Roger A Dall'Antonia	54,898	150,000
Scott A. Thomson	97,124	-
Douglas L. Stout	54,728	170,000
Cynthia Des Brisay	61,340	150,000

D. PENSION PLAN BENEFITS

The following table sets forth the details of the defined benefit pension ("DB") plans for following NEOs.

Name	Number of years credited service (#)	Annual benefits payable ($)		Opening present value of DB obligation ($)	Compensatory change ($)	Non-compensatory change ($)	Closing present value of DB obligation ($)
		At year end	At age 65				
John C. Walker	28.66	95,299	116,371	797,592	20,535	131,528	949,655
Scott A. Thomson	0.42	2,000	2,000	13,000	-	3,000	16,000
Douglas L. Stout	0.42	2,000	2,000	21,000	-	4,000	25,000
Cynthia Des Brisay	1.33	6,000	6,000	49,000	-	14,000	63,000

Note: Mr. Thomson, Mr. Stout and Ms. Des Brisay ceased to accrue further service under the M&E Plan and the M&E SRP effective December 31, 2006.

The information shown in the defined benefit pension plan table above has been calculated using the valuation method and actuarial assumptions described in the pension note in the Corporation's annual financial statements for 2011.

Mr. Walker participates in the Fortis Inc. Retirement Income Plan (the "DB RPP"). The DB RPP provides for an annual accrual of 1.33 per cent up to final average years maximum pensionable earnings ("YMPE") as defined under the Canada Pension Plan and 2 per cent in excess of the final average YMPE (limited to $182,000 per year) up to the NEO's best average earnings. The best average earnings are based on the 36 consecutive months of service during which earnings were highest. The final average YMPE is based on the final 36 months of service. The DB RPP provides a payout upon retirement based on the number of years of credited service and actual pensionable earnings and has a maximum accrual period of 35 years.

Mr. Walker also participates in the Fortis Inc. Pension Uniformity Plan (the "DB PUP"). The DB PUP provides the portion of the calculated pension that cannot be provided under the DB RPP due to limits prescribed by the Income Tax Act. For the purposes of the DB PUP, the recognized earnings are limited to the base earnings rate that was in effect at December 31, 1999.

Effective January 1, 2007, Mr. Thomson, Mr. Stout and Ms. Des Brisay became members of the Pension Plan for Employees of FHI (the "FHI Plan") – a contributory defined benefit plan. The FHI Plan provides a pension benefit equal to 2 per cent of final average earnings (limited to $250,000 per year), integrated with the Canada Pension Plan (CPP). Members can retire with an unreduced pension at age 60 or when age plus continuous service equal 90 years. Pension benefits are otherwise reduced by 3 per cent per year. Members are required to contribute 50 per cent of the total required contributions to the FHI Plan.

The following table sets forth the details of the defined contribution amounts and supplemental employee retirement plan for the respective NEOs.

Name	**Accumulated value at start of year ($)** [1]	**Compensatory ($)**	**Accumulated value at year end ($)** [2]
John C. Walker	834,343	81,640	965,225
Roger A. Dall'Antonia	55,000	25,650	83,000
Scott A. Thomson	349,000	59,658	408,000
Douglas L. Stout	342,000	28,341	379,000
Cynthia Des Brisay	165,000	23,440	190,000

Notes:

1. Adjustments were made to the value at 2010 year end after the 2010 Annual Information Form filing to remove RRSP employer contribution. These amounts were disclosed in the Summary Compensation Table.
2. Includes non-compensatory amount, including regular investment earnings on contributions, which are not included as a separate column in the table above.

In addition, Mr. Walker participates in a defined contribution supplemental employee retirement plan (the "DC SERP"). The DC SERP provides for the accrual by FBC of an amount equal to 13 per cent of the annual base salary of a participant and an annual cash incentive in excess of the allowed Canada Revenue Agency limit to a notional account which accrues interest equal to the rate of a 10-year Government of Canada Bond plus a premium of 0 per cent to 3 per cent dependent upon years of service. At the time of retirement, the notional amounts accumulated under the DC SERP may be paid to the participant in one lump sum or in equal payments up to 15 years.

Mr. Thomson, Mr. Stout and Ms. Des Brisay participate in the FEI Retirement Plan for Management and Exempt Employees (the "M&E Plan"), a non-contributory pension plan. The M&E Plan has both a defined contribution (DC) provision and a defined benefit (DB) provision. Mr. Thomson participates in the DC provision of the M&E Plan. The DC component of the M&E Plan and SRP was frozen effective December 31, 2006.

In addition, Mr. Thomson and Mr. Stout participate in the M&E Plan's corresponding non-registered supplemental plan, the FEI Supplemental Retirement Plan (the "M&E SRP"). The M&E SRP provides the portion of the Corporation's pension promise that cannot be paid from the M&E Plan because of limits imposed by the Income Tax Act. Mr. Thomson ceased to accrue further service under the M&E Plan and the M&E SRP effective December 31, 2006.

Mr. Thomson, Mr. Stout and Ms. Des Brisay also participate in the FHI Plan's corresponding non-registered supplemental plan, the Supplemental Pension Plan for Employees of FHI (the "FHI SRP"). The FHI SRP is designed to provide the executive officers of the Corporation with the portion of the Corporation's pension promise which cannot be paid from the FHI Plan because of limits imposed by the Income Tax Act. As the executive officers are members of the FHI Plan, they are automatically members of the FHI SRP. Mr. Thomson ceased to accrue further service under the FHI Plan and the FHI SRP effective May 31, 2007.

Lastly, Mr. Dall'Antonia, Mr. Thomson, Mr. Stout and Ms. Des Brisay participate in a RRSP and its corresponding supplemental plan, the Supplemental Executive Retirement Plan of FHI (the "Executive SRP") sponsored by the Corporation. The RRSP directs a total contribution of 13 per cent of earnings to an RRSP (6.5 per cent each from employer and employee). The Executive SRP directs notional employer contributions equal to 13 per cent of a member's earnings in excess of the Income Tax Act RRSP limit to a notional account.

E. TERMINATION AND CHANGE OF CONTROL BENEFITS

The discussion below sets out the terms of the employment contracts that trigger benefits arising from termination and/or change of control as of December 31, 2010 for all NEOs with the exception of Mr. Walker.

There are no contracts, agreements, plans or arrangements that provide for payments to Mr. Walker at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Corporation or a change in a NEO's responsibilities (excluding perquisites and other personal benefits if the aggregate of this compensation is less than $50,000).

Executive Employment Contracts – NEOs

1. Termination without Cause

In the event the Corporation terminates the executive without cause the Corporation will pay all amounts owed by the Corporation under the specific employment agreement as of the date of termination, the following payments in lieu of notice of termination:

(a) an amount in lieu of any entitlement to short term incentive plan payment for the calendar year in which the executive is terminated equivalent to the average amount of short term incentive plan payment paid to the executive respecting the previous two calendar years prorated from the beginning of the calendar year in which the executive is terminated to the date of written notice of termination;

Executive	Amount
Roger A. Dall'Antonia	$121,500
Douglas L. Stout	$134,000
Cynthia L. Des Brisay	$101,000

(b) an amount in lieu of any entitlement to Annual Base Salary and short term incentive plan payments equivalent to two times the executive's Annual Base Salary at the date of termination plus two times the average amount of short term incentive plan payment paid or payable to the executive under the employment agreement respecting the previous two full calendar years prior to the calendar year in which the executive is terminated;

Executive	Salary	Incentive
Roger A. Dall'Antonia	$470,000	$243,000
Douglas L. Stout	$535,400	$268,000
Cynthia L. Des Brisay	$502,000	$202,000

(c) an amount in lieu of all registered pension plan, supplemental pension plan contributions and all other benefit contributions ordinarily paid by the Corporation for insured benefits equivalent to a per cent of the total amount paid to the executive by the Corporation; and

Executive	Pension & Benefits	Per cent
Roger A. Dall'Antonia	$213,900	30%
Douglas L. Stout	$241,020	30%
Cynthia L. Des Brisay	$211,200	30%

(d) an amount in respect of outplacement counseling up to 10 per cent of the executive's Annual Base Salary to be paid directly to an outplacement counseling agency as chosen by the Corporation.

Executive	Amount
Roger A. Dall'Antonia	$23,500
Douglas L. Stout	$26,770
Cynthia L. Des Brisay	$25,100

The executive's entitlement to any long-term incentive compensation at the date of termination shall be solely determined in accordance with the terms of any long-term incentive plan and any long-term incentive agreement in force as at the date of termination of the employment agreement.

2. Termination by Executive for Good Reason

In the event the executive terminates the employment agreement and resigns as an executive for "good reason", the executive shall be entitled to payments equal to the payments for termination without cause, set out above, provided that the executive must invoke his/her right to resign for good reason within 90 days of the occurrence of any events which cause there to be good reason.

Good reason is defined as one or more of the following events, occurring without the executive's written consent:

(a) a material diminution or adverse change to the executive's position, nature of responsibilities, or authority within the FHI companies that is not contemplated by the employment agreement;

(b) a decrease in the executive's Annual Base Salary as provided in the employment agreement (or as such amounts may be increased from time to time) excluding any amounts accrued by or paid to the executive relating to incentive compensation amounts and any decrease that may occur in the value of the executive's benefits under the Corporation's benefit plans resulting from a restructuring of any or all benefit plans at the discretion of the Corporation;

(c) any other failure by the Corporation to perform any material obligation under, or breach by the Corporation of any material provision of the employment agreement;

(d) a relocation of the executive's current primary work location to a location greater than 83 kilometers from its current location; or

(e) any failure to secure the agreement of any successor entity to the Corporation to fully assume the Corporation's obligations under the employment agreement,

but does not include any financial transaction that may occur between Fortis, FHI, the Corporation or, as applicable, any Corporation related to Fortis, FHI or the Corporation.

F. DIRECTOR COMPENSATION

Directors of FEI also serve on the respective boards of FBC and FHI, and the companies share the total board compensation costs proportionately. Directors (other than directors who are officers or employees of FEI, FHI or FBC) are paid an annual director retainer of $35,000. Meeting fees of $1,250 are paid for each Board meeting and for each committee meeting attended. In lieu of a director's retainer, the Chair of the Board receives an annual retainer of $67,500. The Chair of the Audit & Risk Committee and the Chair of the Governance Committee receive an additional annual retainer of $8,000 and $4,000 respectively. The directors were reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors and each director that attended a group of meetings outside of their regional area of residence was paid an additional $1,000 for travel.

The following table sets forth the aggregate amounts of individual director compensation which were proportionately paid by FEI, FHI and FBC in 2011.

Name	**Fees earned ($)**	**All other compensation(4) ($)**	**Total ($)**
Harold G. Calla (1)	58,000	2,000	60,000
Brenda Eaton	50,000	4,000	54,000
Harry McWatters	46,250	4,000	50,250
Roger M. Mayer	50,000	5,000	55,000
Linda S. Petch	48,750	4,000	52,750
Beth D. Campbell (2)	47,750	1,000	48,750
Ida J. Goodreau	48,750	5,000	53,750
H. Stanley Marshall (3)	83,750	4,000	87,750
Barry V. Perry	48,750	4,000	52,750
David R. Podmore	50,000	2,000	52,000
Karl W. Smith	47,500	4,000	51,500

Notes:

1. Chair of the Audit & Risk Committee.
2. Chair of the Governance Committee.
3. Chair of the Board.
4. All other compensation includes $1,000 for travel time for each group of meetings attended in person outside the director's regional area of residence.

FORTISBC ENERGY INC.
Management's Discussion & Analysis
For the year ended December 31, 2011

Dated February 9, 2012

This discussion should be read in conjunction with the consolidated financial statements of the Corporation and related notes for the years ended December 31, 2011 and 2010. In this Management's Discussion and Analysis, we, us, our, the Corporation and FEI mean FortisBC Energy Inc. (formerly Terasen Gas Inc.), FEVI refers to FortisBC Energy (Vancouver Island) Inc. (formerly Terasen Gas (Vancouver Island) Inc.); FEW refers to FortisBC Energy (Whistler) Inc. (formerly Terasen Gas (Whistler) Inc.); FortisBC Holdings refers to FortisBC Holdings Inc. (formerly Terasen Inc.); FBC refers to FortisBC Inc.; and Fortis refers to Fortis Inc. The financial data included in this discussion has been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), and all dollar amounts are in Canadian dollars unless otherwise stated.

FORWARD LOOKING STATEMENT

Certain statements contained in this Management's Discussion and Analysis (MD&A) contain forward-looking information within the meaning of applicable securities laws in Canada (forward-looking information). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes, but is not limited to, statements regarding: the Corporation's expectation to generate sufficient cash from operations to meet its working capital needs; the Corporation's expected level of capital expenditures and the expectation to finance those expenditures with a combination of proceeds from shareholder equity injections, short and long-term borrowings and internally generated funds; the Corporation's expectation for pension expense in the future; the expected impact of the transition to US generally accepted accounting standards (US GAAP); the Corporation's belief that changes in consumption levels and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts; and the Corporation's expectation that it will not experience difficulty in servicing its debt obligations and paying common dividends.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; the expected impact of the transition to new accounting standards including US GAAP, the ability to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2014; absence of equipment breakdown; absence of environmental damage; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefits costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; no significant decline in interest rates; continued energy demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit ratings agencies; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; and the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to regulatory approval and rate orders risk; transition to new accounting standards risk; equipment breakdown, operating and maintenance risk; environmental matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; interest rate risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competiveness and commodity price risk; counterparty credit risk; natural gas supply risk and the other risks described in the Corporation's most recent Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Commitments, Events, Risks and Uncertainties" in this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

ABOUT FORTISBC ENERGY

FEI is the largest distributor of natural gas in British Columbia, serving approximately 852,000 customers in more than 100 communities. Major areas served by FEI are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province. FEI provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through the Corporation's Southern Crossing Pipeline, from Alberta.

NET EARNINGS

FEI reported earnings of $41.3 million for the three months ended December 31, 2011 compared to earnings of $36.4 million in the corresponding period of 2010. For the twelve months ended December 31, 2011, net earnings were $101.9 million compared to earnings of $93.2 million in the twelve months of 2010.

The higher earnings both quarter over quarter and on an annual basis, are largely related to higher rate base earnings and positive variances associated with expenditures on depreciation and amortization, interest and taxes compared to the expenditures that were approved by the British Columbia Utilities Commission (BCUC) as part of the Negotiated Settlement Agreement (NSA). Also contributing to the higher earnings are higher margin from industrial customers offset partially by lower margin due to lower customer additions and higher allowance for funds used during construction in the current-quarter and on an annual basis compared to the same period in 2010.

SELECTED ANNUAL INFORMATION

The following table sets forth audited financial information for the years ended December 31, 2011, 2010 and 2009. The financial information has been prepared in accordance with Canadian GAAP. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for companies not subject to rate regulation. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Years ended December 31 *(In millions of dollars)*	**2011**	2010	2009
Total revenues	**$ 1,354.8**	$ 1,362.1	$ 1,435.4
Net income	**101.9**	93.2	86.6
Common dividends paid	**85.0**	84.0	66.5
Total assets	**3,502.9**	3,483.9	3,369.5
Long-term debt[1]	**1,542.5**	1,442.1	1,440.3
Current portion of long-term debt	**2.9**	2.6	2.2

1 Excluding current portion of long-term debt.

STATEMENT OF EARNINGS

	Three months ended December 31		Twelve months ended December 31	
(In millions of dollars)	**2011**	2010	**2011**	2010
Revenues	**$413.6**	$ 422.5	**$ 1,354.8**	$ 1,362.1
Operating expenses				
Cost of natural gas	**235.8**	249.9	**763.3**	790.0
Operation and maintenance	**65.6**	63.6	**218.6**	206.2
Depreciation and amortization	**20.9**	20.9	**81.2**	82.9
Amortization of intangibles	**2.1**	1.9	**8.1**	8.2
Property and other taxes	**12.6**	12.3	**50.4**	49.3
	337.0	348.6	**1,121.6**	1,136.6
Operating income	**76.6**	73.9	**233.2**	225.5
Financing costs	**25.2**	26.0	**104.3**	102.5
Earnings before income taxes	**51.4**	47.9	**128.9**	123.0
Income tax expense	**10.1**	11.5	**27.0**	29.8
Net earnings	**$ 41.3**	$ 36.4	**$ 101.9**	$ 93.2

REVENUE AND COST OF NATURAL GAS

For the three and twelve months ended December 31, 2011, revenues from natural gas transmission and distribution decreased on a year-over-year basis, by $8.9 million and $7.3 million respectively. For the three months and twelve months ended December 31, 2011, cost of natural gas decreased on a year-over-year basis, by $14.1 million and $26.7 million respectively. Lower revenues and cost of natural gas for the three and twelve months reflect lower commodity costs partially offset by higher volumes from residential and industrial customers due to cooler weather compared to the same period in 2010. Also contributing to the higher margin for the three and twelve months ended December 31, 2011 compared to the comparative period in 2010 was a higher margin from industrial customers, mainly in the forestry and mining sectors, partially offset by lower than forecast customer additions. For both the three and twelve months ended December 31, 2011 there was a higher margin due to a higher rate base, higher forecast operations and maintenance and depreciation expense compared to the comparative periods in 2010. Additionally, equity portions of allowance for funds used during construction were higher in the current quarter and year to date. Changes in consumption levels and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts.

The allowed Return on Equity (ROE) for 2011 and 2010 for FEI has been set at 9.50 per cent. The deemed equity components for FEI were set at 40.00 per cent.

For the three months ended December 31, 2011, FEI net customer additions were 4,518 bringing the total number of utility customers to 851,662 at December 31, 2011. The net increase of 5,428 customers for the twelve months of 2011 is lower than the 6,949 net new customers reported in the same period of 2010. Net customer additions decreased period over period due to lower building activity in 2011 compared to 2010. Gross customer additions also decreased period over period due to lower building activity in the current year.

OPERATION AND MAINTENANCE EXPENSE

For the three and twelve months ended December 31, 2011, operation and maintenance expenses increased by $2.0 million and $12.4 million respectively, as compared with the corresponding periods of 2010. The increase in operating and maintenance expenses for the three and twelve months was due to a number of factors including higher labour and benefit costs, higher removal costs and higher bad debts compared to the prior year. Offsetting these increases were lower contractor and consulting costs and labour savings due to vacancies throughout the organization and higher capitalized overhead.

DEPRECIATION AND AMORTIZATION

On an annual basis, depreciation and amortization decreased by $1.8 million. The decrease was primarily a result of a number of factors including asset retirements at the end of 2010 and the amortization of the FEI Revenue Surplus collected in 2010.

FINANCING COSTS

For the three months ended December 31, 2011, financing costs decreased by $0.8 million while for the twelve months ended December 31, 2011, financing costs increased by $1.8 million respectively compared with the corresponding period of 2010. The lower financing costs for the three months were a result of the higher debt portion of allowance for funds used during construction while for the twelve months higher financing costs were a result of incrementally higher short term borrowings and a higher allowed short term interest rate versus the same period in the prior year offset partially by a higher debt portion of allowance for funds used during construction.

INCOME TAXES

For the three and twelve months ended December 31, 2011, income tax expense decreased by $1.4 million and $2.8 million respectively, as compared with the corresponding periods of 2010. Income tax expense for the three and twelve months was lower as a result of a lower statutory tax rate in 2011 compared to 2010, and an increase in deductible temporary differences offset partially by higher earnings before income taxes.

REGULATION

FEI's rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas, and interest rates. In order to manage the risk of forecast error associated with some of these estimates, a number of regulatory deferral accounts are in place.

There are two mechanisms to ameliorate unanticipated changes in certain forecast items that have been implemented specifically for FEI. The first, the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA) relate to the recovery of all gas supply costs through deferral accounts that capture variances (overages and shortfalls) from forecasts. Balances are either refunded to, or recovered from, customers via an annual or quarterly review and application to the BCUC.

The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (RSAM).

The RSAM and CCRA/MCRA accounts reduce FEI's earnings exposure to earnings volatility by deferring any variances between projected and actual gas consumption and gas supply costs, and refunding or recovering those variances in rates in subsequent periods. Variances in usage by large volume, industrial transportation and sales customers are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

In 2011, the net balances of the RSAM and CCRA/MCRA accounts decreased to a receivable of $42.3 million from a receivable of $94.8 million in 2010. Mark-to-market adjustments on commodity cost hedges, which are out of the money at December 31, 2011 and 2010, account for $33.6 million of the change.

An interest rate deferral account is also in place to absorb interest rate fluctuations. The interest rate deferral account effectively fixed the interest rate on short-term funds attributable to FEI's regulated assets at 4.50 per cent during 2011 and 2.25 per cent for 2010.

In addition, FEI has other deferral accounts related to certain other expenses, such as property taxes, factors affecting income taxes and other operating expenses.

In December 2010 FEI filed an application with the BCUC to provide fuelling services through FEI-owned and operated compressed natural gas and liquefied natural gas (LNG) fuelling stations. In July 2011, FEI received a decision from the BCUC that approved the fuelling station infrastructure along with a long term contract for the supply of compressed natural gas with one counterparty. The BCUC denied the Corporation's application for a general tariff for the provision of compressed natural gas and LNG for vehicles, unless certain contractual conditions are met. FEI re-filed an amended application for a general tariff and is awaiting a decision from the BCUC.

FEI is one of the first utility companies in Canada to include alternative energy solutions as part of its regulated energy service offerings. For example, FEI received approval on December 14, 2010 from the BCUC for a new renewable natural gas program, on a limited basis, for an initial two-year period ending in 2012. An equivalent of 10% of the subscribed customers' natural gas requirements will be sourced from local renewable energy projects feeding the gas supply network. As part of this program, FEI has received approval to activate two projects that upgrade raw biogas into biomethane, which are then added to FEI's distribution system. One of the projects is operational and has been injecting gas into FEI's distribution system since September 2010 while the other will be operational by the end of 2012.

FEI, FEVI and FEW filed an application with the BCUC for amalgamation of the three companies in November 2011. An amalgamation would require the approval of the BCUC and consent of the Government of British Columbia. In late 2011, the companies temporarily suspended their application while they provide the BCUC with additional information.

In August 2011, the companies received a decision from the BCUC on the use of Energy Efficiency and Conservation (EEC) funds as incentives for Natural Gas Vehicles (NGV). The companies had made these funds available to assist large customers to purchase NGV in lieu of vehicles fueled by diesel. The decision determined that it was not appropriate to use EEC funds for this purpose and the BCUC has requested that the companies provide further submissions to determine the prudency of the EEC incentives at a future time.

In May 2011, in response to a complaint, the BCUC initiated a public process to develop guidelines under which FEI should be able to provide "alternative energy services" as regulated utility services. The "alternative energy services" offered by FEI include providing refueling services for natural gas vehicles, owning and operating district energy systems and various forms of geo-exchange systems, and owning facilities that upgrade raw biogas into biomethane for the purpose of sale to customers.

On October 17, 2011, FEI filed an application for approval of expenditures of approximately $4.9 million on facilities required to provide the Thermal Energy Services to nineteen buildings in the Delta School District, located in the Greater Vancouver area. The application requests interim and final approval of the rates and rate design established by the nineteen Energy System Service Agreements and the Energy System Rate Development Agreement. The project will provide thermal energy upgrades to nineteen buildings over the next two years. When complete, FEI will own, operate and maintain the new thermal plants and charge Delta a single rate for thermal energy consumed. On November 28, 2011, FEI re-filed the application with amended contracts to allow more time for a public review process. A decision is expected by the end of the first quarter of 2012.

CUSTOMER RATES AND QUARTERLY GAS COST CHANGES

Customer rates include both the delivery charge and the commodity and midstream charges; the commodity cost of natural gas and midstream costs that are flowed through to customers without mark-up. In addition to annual delivery rate changes, FEI reviews natural gas and propane commodity prices every three months and midstream charges annually with the BCUC in order to ensure the rates charged to customers are sufficient to cover the cost of purchasing natural gas and contracting for midstream resources such as third party pipeline or storage capacity.

In order to ensure that the balances in the CCRA accounts are recovered on a timely basis, FEI prepares and files quarterly calculations with the BCUC to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas costs. These rate adjustments ignore the temporal effect of derivative valuation adjustments on the balance sheet and instead reflect the forward forecast of gas costs over the recovery period.

- Effective January 1, 2011, customer rates, including the commodity and midstream rates, for FEI residential customers compared to the immediately preceding quarter decreased by approximately 6 per cent for the Lower Mainland, Fraser Valley, Interior, North and the Kootenays, and Fort Nelson residential customer interim rates decreased by approximately 3 per cent. Due to increases in the cost of propane, residential customer rates in Revelstoke increased by approximately 3 per cent.
- Rates for all regions remained unchanged for April 1, 2011 and July 1, 2011.
- Effective October 1, 2011, customer rates, including the commodity rates, for FEI residential customers compared to the immediately preceding quarter decreased by approximately 5 per cent for the Lower Mainland, Fraser Valley, Interior, North and the Kootenays, and Fort Nelson residential customer commodity rates decreased by approximately 3 per cent. Due to increases in the cost of propane, residential customer commodity rates in Revelstoke increased by approximately 8 per cent.
- Effective January 1, 2012, interim customer rates, including the delivery and midstream rates, for FEI residential customers compared to the immediately preceding quarter increased by approximately 3 per cent for the Lower Mainland, Fraser Valley, Interior, North and the Kootenays. The commodity portion of rates remained unchanged compared to the last quarter.

In February 2011, the FEI, FEVI, FEW and FBC filed a joint application with the BCUC to adopt US GAAP for regulatory reporting purposes effective January 1, 2012. The companies received a decision in July 2011 whereby the BCUC approved the request for the period from January 1, 2012 to December 31, 2014. As outlined in the decision, by September 1, 2014, the companies are to apply to the BCUC for approval of the accounting standard to be used for regulatory reporting purposes effective January 1, 2015.

In September 2011, FEI filed an update to their 2012-2013 Revenue Requirements Application (2012/2013 RRA) and Delivery Rate Application which would cover the years 2012 and 2013. The updated application assumes a forecast average rate base for FEI of approximately $2,760 million and $2,820 million, respectively, for 2012 and 2013. The expected impact on FEI customer rates for 2012, as noted above is approximately 3 per cent, while the 2013 increase is approximately 3.1 per cent. The rate increases are due to higher rate base from the implementation of significant capital projects related to system integrity and reliability. Additionally, operations and maintenance expenditures are forecast to increase due to inflation, a heightened focus on safety and security of the natural gas system and increasing compliance requirements related to codes and regulations.

ALLOWED RETURN ON EQUITY (ROE) AND CAPITAL STRUCTURE

In May 2009, FEI, FEVI and FEW filed an application with the BCUC for a review of the return on equity of the companies and the capital structure of FEI. In this application, the companies asked for an increase in the common equity component from 35.01 per cent to 40.00 per cent for FEI, a benchmark allowed return on equity of 11.00 percent, and a discontinuance of the automatic adjustment mechanism that was previously used for determining the allowed return on equity. In its decision, the BCUC determined that the automatic adjustment mechanism will no longer apply, and a ROE of 9.50 per cent will be applied effective July 1, 2009 until amended by the BCUC.

Additionally, the FEI common equity component in capital structure allowed for rate-making purposes increased to 40.00 per cent from 35.01 per cent effective January 1, 2010.

In late 2011, the BCUC issued preliminary notification to public utilities subject to its regulation, including FEI, that it plans to initiate a generic cost of capital proceeding in early 2012. The BCUC intends to review setting the appropriate cost of capital for a benchmark low risk utility; establishing a return on equity automatic adjustment mechanism; and establishing a deemed capital structure and deemed cost of capital for those utilities without third party debt. The review by the BCUC may affect both the capital structure and the return on the equity of FEI.

MUNICIPAL LEASING TRANSACTIONS

The Corporation has leasing arrangements with certain Interior region municipalities that allow FEI to continue to operate the gas distribution assets by effectively selling the assets to the municipality and leasing them back for an initial 17-year period. After 17 years, FEI has an option to repurchase the assets at the depreciated value. At December 31, 2011, FEI had entered into transactions involving a total value of $153 million with the net book value of these assets being $60.1 million. In addition, the municipalities participating in the leasing transactions have the right each year to acquire any new asset additions within their boundaries at cost, subject to the same repurchase option at the end of the initial 17-year lease term. These transactions were entered into between 2001 and 2005.

COMMITMENTS, EVENTS, RISKS AND UNCERTAINTIES

The Corporation is subject to a variety of risks and uncertainties that may have material and adverse effects, financial or otherwise, on the results of the Corporation's operations.

REGULATORY APPROVAL AND RATE ORDERS

The regulated operations of FEI are subject to uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on and of rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return is impacted by achieving the forecasts established in the rate-setting process. The cost for upgrading existing facilities and adding new facilities requires the approval of the BCUC for inclusion in the rate base. There is no assurance that capital projects perceived as required by the management of FEI will be approved or that conditions to such approval will not be imposed. Capital cost overruns might not be recoverable in rates.

Through the regulatory process, the BCUC approves the return on equity that FEI is allowed to earn and the BCUC further approves the deemed capital structure. Fair regulatory treatment that allows FEI to earn a fair risk adjusted rate of return comparable to that available on alternative, similar risk investments is essential for maintaining service quality as well as on-going capital attraction and growth. There can be no assurance that the rate orders issued by the BCUC will permit FEI to recover all costs actually incurred and to earn the expected or fair rate of return or appropriate capitalization.

Rate applications that reflect cost of service and establish revenue requirements may be subject to negotiated settlement procedures in British Columbia. Failing a negotiated settlement, rate applications may be pursued through a public hearing process. BCUC approval of rates for 2012, and for future years, will be required. There can be no assurance that the rate orders issued will permit FEI to recover all costs actually incurred and to earn the expected rate of return.

A failure to obtain rates or appropriate return on equity and capital structure as applied for may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed upgrades or expansion projects, ratings assigned by rating agencies, the issue and sale of securities, and other matters which may, in turn, negatively impact the Corporation's results of operations or financial position.

TRANSITION TO NEW ACCOUNTING STANDARDS

The Corporation has adopted US GAAP, as opposed to International Financial Reporting Standards (IFRS), effective January 1, 2012. The transition to US GAAP is described in this MD&A under "Future Accounting Pronouncements".

On June 9, 2011 the Ontario Securities Commission (OSC) issued a decision granting the Corporation an Exemption (as defined in Future Accounting Pronouncements) to permit the Corporation to prepare their financial statements in accordance with US GAAP without qualifying as an US Securities and Exchange Commission Issuer (SEC Issuer) pursuant to Canadian securities laws. Further, in July of 2011 the BCUC approved the Corporation's request to adopt US GAAP for regulatory purposes for the period from January 1, 2012 to December 31, 2014. Accordingly, the Corporation will prepare financial statements in accordance with US GAAP beginning on January 1, 2012.

If the Corporation's Exemption from the OSC and subsequent approval by the BCUC do not continue past December 31, 2014 then the Corporation will be required to become an SEC Issuer or adopt IFRS effective January 1, 2015. If the Corporation does not qualify as an SEC Issuer or is otherwise required to adopt IFRS, then in the absence of an accounting standard for rate-regulated activities this could result in increased volatility in the Corporation's consolidated earnings from that otherwise recognized under US GAAP.

EQUIPMENT BREAKDOWN, OPERATING AND MAINTENANCE RISK

FEI's natural gas transmission and distribution systems require ongoing maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that must be made to maintain and replace the assets. FEI could experience service disruptions and increased costs if it is unable to maintain its asset base. The inability to recover, through approved rates, capital expenditures that the Corporation believes are necessary to maintain, improve, replace and remove its assets, the failure by the Corporation to properly implement or complete approved capital expenditure programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Corporation.

The Corporation continually updates its capital expenditure programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its business. Management's analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, which involve some degree of uncertainty. If actual costs exceed regulatory-approved capital expenditures, it is uncertain as to whether such additional costs will receive regulatory approval for recovery in future customer rates. The inability to recover these additional costs could have a material effect on the financial condition and results of operations of the Corporation.

ENVIRONMENTAL MATTERS

The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety, for which the Corporation incurs compliance costs. The process of obtaining environmental permits and approvals, including any necessary environmental assessment, can be lengthy, contentious and expensive. Potential environmental damage and costs could arise due to a variety of events, including severe weather and other natural disasters, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material effect on the business, results of operations, financial condition and prospects of the Corporation.

The Corporation is exposed to environmental risks that owners and operators of properties in British Columbia generally face. These risks include the responsibility of any current or previous owner or operator of a contaminated site for remediation of the site, whether or not such person actually caused the contamination. In addition, environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval. It is not possible to predict with absolute certainty the position that a regulatory authority will take regarding matters of non-compliance with environmental and safety laws. Changes in environmental, health and safety laws could also lead to significant increases in costs to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, and conducting environmental impact assessments and remediation. It is possible that other developments may lead to increasingly strict environmental and safety laws, regulations and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation. Any regulatory changes that impose additional environmental restrictions or requirements on the Corporation or its customers could adversely affect the Corporation through increased operating and capital costs.

The Corporation is exposed to various operational risks, such as pipeline leaks; accidental damage to mains and service lines; corrosion in pipes; pipeline or equipment failure; other issues that can lead to outages and/or leaks; and any other accidents involving natural gas, that could result in significant operational disruptions and/or environmental liability.

Natural gas transmission and distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's business, results of operations and prospects.

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by insurance. See "Underinsured and Uninsured Losses'" below.

WEATHER AND NATURAL DISASTERS

A major natural disaster, such as an earthquake, could severely damage FEI's natural gas transmission and distribution systems. In addition, the facilities of the Corporation could be exposed to the effects of severe weather conditions and other natural events. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. Furthermore, many of these facilities are located in remote areas which make it more difficult to perform maintenance and repairs if such assets are damaged by weather conditions or other natural events. The Corporation operates facilities in remote and mountainous terrain with a risk of loss or damage from forest fires, floods, washouts, landslides, avalanches and similar natural events. The Corporation has limited insurance against storm damage and other natural disasters. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application will be made to the BCUC for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the BCUC will approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute natural gas to them in accordance with the Corporation's contractual obligations. Thus, any major damage to the Corporation's facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, and could, therefore, have a material adverse effect on the Corporation.

PERMITS

The acquisition, ownership and operation of natural gas businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies or First Nations. The Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of natural gas could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

UNDERINSURED AND UNINSURED LOSSES

The Corporation maintains insurance coverage at all times with respect to potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers as is considered appropriate, taking into account all relevant factors, including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's business, results of operations, financial position and prospects.

In the event of an uninsured loss or liability, the Corporation would apply to the BCUC to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the BCUC would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have an adverse effect on the Corporation's business, results of operations, financial position and prospects.

FIRST NATIONS

FEI provides service to customers on First Nations lands and maintains gas distribution facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Government of British Columbia is underway, but the basis upon which settlements might be reached in the service areas of the Corporation is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of British Columbia has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as the Corporation. However, there can be no certainty that the settlement process will not adversely affect the business of the Corporation.

The Supreme Court of Canada decided in 2010 that before issuing approvals for the addition of new facilities, the BCUC must consider whether the Crown has a duty to consult First Nations and to accommodate, if necessary, and if so whether the consultation and accommodation by the Crown have been adequate. This may affect the timing, cost and likelihood of the BCUC's approval of certain of the Corporation's capital projects.

LABOUR RELATIONS

Approximately 72 per cent of the employees of the Corporation are members of labour unions that have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. There can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed.

The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have an adverse effect on the results of operations, cash flow and net income of the Corporation.

EMPLOYEE FUTURE BENEFITS

The Corporation maintains defined benefit pension plans and supplemental pension arrangements and there is no certainty that the plan assets will be able to earn the assumed rate of returns. Market driven changes impacting the performance of the plan assets may result in material variations in actual return on plan assets from the assumed return on the assets causing material changes in net benefit costs. Net benefit cost is impacted by, among other things, the discount rate, the amortization of experience and actuarial gains or losses, and expected return on plan assets. Market driven changes impacting other assumptions, including the assumed discount rate, may also result in future contributions to pension plans that differ significantly from current estimates as well as causing material changes in net benefit cost.

There is also measurement uncertainty associated with net benefit cost, future funding requirements, the net accrued benefit asset and accrued benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

Net benefit cost variances from forecast for rate-setting purposes were recovered through future rates using regulatory deferral accounts approved by the BCUC to the end of 2011. There can be no assurance that such net benefit cost recovery mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could materially affect the Corporation's results of operations, financial position and cash flows.

HUMAN RESOURCES RISK

The ability of FEI to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain skilled workforces. Like other utilities across Canada, the Corporation is faced with demographic challenges relating to such skilled workforces.

INFORMATION TECHNOLOGY INFRASTRUCTURE

The ability of the Corporation to operate effectively is dependent upon managing and maintaining information systems and infrastructure that support the operation of distribution and transmission facilities; provide customers with billing; and support the financial and general operating aspects of the business. System failures could have a material adverse effect on the Corporation.

INTEREST RATES

The Corporation is exposed to interest rate risks associated with floating rate debt. The regulated operations currently have a deferral mechanism that allows for rate differences between the forecast short term rates and those rates actually incurred. Additionally, the interest deferral mechanism also captures differences between the forecast long term debt interest rate and timing of issuance. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders.

While the current determination of the allowed ROE is set for the Corporation, future proceedings to determine its ROE may consider the general level of interest rates as a factor for setting the ROE. As interest rates decrease, so may the allowed ROE. A significant decline in interest rates could adversely affect the Corporation's ability to earn a reasonable ROE, which, in turn, could have a material adverse effect on the financial condition and results of operations of the Corporation.

IMPACT OF CHANGES IN ECONOMIC CONDITIONS

A general and extended decline in British Columbia's economy or in the Corporation's service area in particular, would be expected to have the effect of reducing demand for energy over time. Energy sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices, housing starts and customer growth. New customer additions at the Corporation are typically a result of population growth and new housing starts, which are affected by the state of the provincial economy. The Corporation is also affected by changes in trends in housing starts from single family dwellings to multi-family dwellings, for which natural gas has a lower penetration rate. The growth of new multi-family housing starts continues to significantly outpace that of new single-family housing starts. Natural gas and crude oil prices are closely correlated with natural gas and crude oil exploration and production activity in certain of the Corporation's service territories. The level of these activities can influence energy demand.

CAPITAL RESOURCES AND LIQUIDITY

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. Funds generated from operations after payment of expected expenses (including interest payments on any outstanding debt) will not be sufficient to fund the repayment of all outstanding liabilities when due as well as all anticipated capital expenditures. There can be no assurance that sufficient capital will continue to be available on acceptable terms to fund capital expenditures and to repay existing debt.

Generally, the Corporation is subject to financial risk associated with changes in the credit ratings assigned to them by credit rating agencies. Credit ratings impact the level of credit risk spreads on new long-term debt issues and on the Corporation's credit facilities. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges. Also, a significant downgrade in FEI's credit ratings could trigger margin calls and other cash requirements under FEI's natural gas purchase and natural gas derivative contracts. Past and current global financial crisis have placed scrutiny on rating agencies and rating agency criteria that may result in changes to credit rating practices and policies.

Volatility in the global financial and capital markets may increase the cost of and affect the timing of issuance of long-term capital by the Corporation

COMPETITIVENESS AND COMMODITY PRICE RISK

Prior to 2000, natural gas consistently enjoyed a substantial competitive advantage when compared with alternative sources of energy in British Columbia. However, since the majority of electricity prices in British Columbia were set based on the historical average cost (primarily hydroelectric dams) of production, rather than based on market forces, natural gas' competitive advantage was substantially eroded during the next decade. More recently, however, there is potential significant new investment occurring in the electric generation and transmission sector in British Columbia which may put upward pressure on electricity rates. Furthermore, the growth in natural gas supply due to the productivity and cost improvements associated with shale gas production and subsequent decline in market natural gas prices, has helped to improve natural gas competiveness on an operating basis. However, upfront capital cost differences between electricity heated homes and natural gas heated homes presents a challenge for the competiveness of natural gas on a fully costed basis.

Further, there are other competitive items that are impacting the penetration of natural gas into new housing stock such as green attributes of the energy source, government policy and type of housing stock being built. A reduction in natural gas supply due to low market prices and increased industrial and commercial demand due to stronger economic growth are factors that may lead to materially higher market gas prices and volatility.

In the past the Corporation employed tools to reduce the exposure of customers' commodity rates to natural gas price volatility. Prior to mid-2011, these tools included hedging strategies based on a combination of both physical and financial transactions. As ordered by the BCUC, FEI discontinued most hedging activities by mid-2011, with existing hedges being managed to expiry. The absence of hedging activities may cause an increase in price volatility.

In the future, if natural gas pricing becomes uncompetitive with electricity prices or the price of other forms of energy, the Corporation's ability to add new customers could be impaired, and existing customers could reduce their consumption of natural gas or eliminate its usage altogether as furnaces, water heaters and other appliances are replaced. This may result in higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the Corporation's cost of service in rates charged to customers.

In 2008 the Government of British Columbia introduced changes to energy policy including greenhouse gas emission reduction targets and a consumption tax on carbon-based fuels that impact the competitiveness of natural gas versus non-carbon based energy sources or alternate energy sources. It did not, however, introduce carbon tax on imported electricity generated through the combustion of carbon-based fuels. The impact of these changes in energy policy may have a material impact on the competitiveness of natural gas relative to other energy sources.

Additionally, the Government of British Columbia passed the Greenhouse Gas Reduction (Cap and Trade) Act. The Reporting Regulation, already in effect under this Act, requires the Corporation to report and have external verification on Green House Gas emissions generated by its facilities. As well, regulations are being developed under this Act that are expected to lead to an emission trading environment which may increase the cost and competitiveness of natural gas versus alternative fuels.

A severe and prolonged increase in commodity costs could materially affect the Corporation despite regulatory measures available for compensating for sharp changes in commodity costs. There can be no assurance that the current regulatory-approved flow through mechanisms in place allowing for the flow through of the cost, will continue to exist in the future. An inability of the Corporation to flow through the full cost of natural gas could materially affect the Corporation's results of operations, financial position and cash flows.

COUNTERPARTY CREDIT RISK

The Corporation is exposed to credit risk in the event of non-performance by counterparties to derivative instruments, including existing natural gas commodity swaps and options. The Corporation deals with high credit-quality institutions in accordance with established credit approval practices. To date the Corporation has not experienced any material counterparty defaults and does not expect any counterparties to fail to meet their obligations; however, the credit quality of counterparties, as recent events have indicated, can change rapidly.

NATURAL GAS SUPPLY

The Corporation is dependent on a limited selection of pipeline and storage providers, particularly in the Lower Mainland, Interior and Vancouver Island service areas where the majority of the Corporation’s natural gas distribution customers are located. Regional market prices, particularly at the Sumas market hub, have been higher from time to time than prices elsewhere in North America as a result of insufficient seasonal and peak storage and pipeline capacity to serve the increasing demand for natural gas in British Columbia and the US Pacific Northwest.

In addition, the Corporation is critically dependent on a single source transmission pipeline. In the event of a prolonged service disruption on the Spectra transmission system, the Corporation’s residential customers could experience outages, thereby affecting revenues and incurring costs to safely relight customers. However, the addition of the Mt. Hayes LNG Storage facility, located on Vancouver Island and available effective winter 2011/12, does help in this regard, as it provides short term on-system supply during cold weather spells or emergency situations.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation’s consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known. The Corporation’s critical accounting estimates are discussed below.

REGULATION

Generally, the accounting policies of the Corporation are subject to examination and approval by the respective regulatory authorities. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process at the regulated operations and have been recorded based on previous, existing or expected regulatory orders or decisions. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the regulatory authorities for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are reported in earnings in the period in which they become known. As at December 31, 2011, the Corporation recorded $469.3 million in current and long-term regulatory assets (December 31, 2010 - $426.9 million) and $92.3 million in current and long-term regulatory liabilities (December 31, 2010 - $59.9 million).

CAPITAL AND INTANGIBLE ASSET DEPRECIATION AND AMORTIZATION

Depreciation and amortization, by its nature, is an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2011, the Corporation's consolidated utility capital and intangible assets were $2,629.7 million, or approximately 75 per cent of total consolidated assets, compared to consolidated utility assets of $2,561.0 million, or approximately 74 per cent of total consolidated assets, as at December 31, 2010. Changes in depreciation and amortization rates can have a significant impact on the Corporation's depreciation and amortization expense.

As part of the customer rate setting process, appropriate depreciation and amortization rates are approved by the respective regulatory authorities for the Corporation's regulated operations.

The depreciation and amortization periods used and the associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, third-party depreciation studies are performed for the regulated operations. Based on the results of these depreciation studies, the impact of any over or under depreciation and amortization as a result of actual experience differing from that expected and provided for in previous depreciation and amortization rates is generally reflected in future depreciation and amortization rates and expense, and such differences are reflected in future customer rates.

CAPITALIZED OVERHEADS

As required by the BCUC, FEI capitalizes overhead costs that may not be directly attributable to specific capital assets, but which relate to the overall capital expenditure program. These General Expenses Capitalized (GEC) are allocated over constructed capital assets and amortized over their estimated service lives. The methodology for calculating and allocating these general expenses to utility capital assets is established by the respective regulators. In 2011, GEC totaled $30.2 million (2010 - $29.0 million). Any change in the methodology of calculating and allocating general overhead costs to utility capital assets could have a significant impact on the amount recorded as operating expenses and utility capital assets.

GOODWILL IMPAIRMENT ASSESSMENTS

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any write-down for impairment. The Corporation is required to perform an annual impairment test and at such time any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. Each year, the Corporation reviews for impairment of goodwill, which is based on current information and fair market value assessments of the reporting units being reviewed. Fair market value is determined using net present value financial models and management's assumption of future profitability of the reporting units. There was no impairment provision required on $0.5 million (2010 - $0.5 million) in goodwill recorded on the Corporation's balance sheet as at December 31, 2011.

EMPLOYEE FUTURE BENEFITS

The Corporation's defined benefit pension plans and Other Post Employment Benefits (OPEB) plans are subject to judgments utilized in the actuarial determination of the expense and related obligation. The main assumptions utilized by management in determining pension expense and obligation are the discount rate for the accrued benefit obligation and the expected long-term rate of return on plan assets.

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of estimating pension expense for 2011, was 6.75 per cent, down from the 7.00 per cent assumed long-term rate of return used for 2010.

The assumed discount rate, used to measure the Corporation's accrued pension benefit obligations on the applicable measurement date in 2011, and to determine pension expense for 2012 was 4.25 per cent, down from 5.25 per cent used in 2010. The long-term rate of return is based on the expected average return of the assets over a long period given the relative asset mix. The discount rate is determined with reference to the current market rate of interest on high quality debt instruments with cash flows that match the time and amount of expected benefit payments.

FEI expects consolidated pension expense for 2012 related to its defined benefit pension plans to be approximately $6.1 million higher than in 2011. The higher expense is due to the effect of the decrease in the discount rate and higher amortization of net actuarial losses from prior years.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on plan assets and discount rate on 2011 net benefit expense and the accrued benefit pension asset and liability recorded in the Corporation's consolidated financial statements, as well as the impact on the accrued pension benefit obligation.

Increase (decrease) (*In millions of dollars*)	Accrued benefit assets	Accrued benefit liability	Net benefit expense	Benefit obligation
1% increase in the expected rate of return	(3.3)	(0.1)	3.1	43.5
1% decrease in the expected rate of return	2.1	0.1	(2.0)	(35.2)
1% increase in the discount rate	5.0	(1.1)	(6.1)	(57.0)
1% decrease in the discount rate	(6.2)	1.5	7.7	71.6

The above table reflects the changes before the effect of the regulatory deferral account that would defer most of the effect on the expense.

Other assumptions applied in measuring defined benefit pension expense and/or the accrued pension benefit obligation were the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates.

The Corporation's OPEB plans are also subject to judgments utilized in the actuarial determination of the expense and related obligation. Except for the assumptions of the expected long-term rate of return on plan assets and average rate of compensation increase, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan expense and obligations.

FEI has regulatory-approved mechanisms to defer variations in pension expense from forecast pension expense, used to set customer rates, as a regulatory asset or a regulatory liability.

As at December 31, 2011, the Corporation had a consolidated accrued benefit asset of $288.9 million (December 31, 2010 - $261.9 million) and a consolidated accrued benefit liability of $467.4 million (December 31, 2010 - $384.1 million). During 2011, the Corporation recorded consolidated net benefit expense of $18.7 million (2010 - $11.2 million).

ASSET RETIREMENT OBLIGATIONS (AROS)

In measuring the fair value of AROs, the Corporation is required to make reasonable estimates concerning the method of settlement and settlement dates associated with the legally obligated asset-retirement costs. The Corporation does not currently have any identified AROs for which amounts have been recorded as at December 31, 2011 and 2010. The nature, amount and timing of costs associated with land and environmental remediation and/or removal of assets cannot be reasonably estimated due to the nature of their operation; and applicable licenses, permits and laws are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of service to customers. In the event that environmental issues are identified, or the applicable licenses, permits, laws or agreements are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

REVENUE RECOGNITION

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings that establish gas consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated gas sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs such as the current price of gas, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled gas consumption will result in adjustments to gas revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2011, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $114.4 million (2010 - $133.2 million) on annual consolidated operating revenues of $1,354.8 million (2010 - $1,362.1 million).

INCOME TAXES

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of future income taxes resulting from temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and their tax values. A future income tax asset or liability is determined for each temporary difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences. Future income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recorded and charged against earnings in the period that the allowance is created or revised. Estimates of the provision for income taxes, future income tax assets and liabilities and any related valuation allowance might vary from actual amounts incurred.

CONTINGENCIES

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations. Contingencies are described in Note 16 to the Corporation's annual financial statements.

QUARTERLY FINANCIAL INFORMATION

(In millions of dollars)	For the three months ended				
2011	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Total**
Revenues	$ 512.5	$ 272.6	$ 156.1	$ 413.6	$1,354.8
Net income (loss)	66.2	5.7	(11.3)	41.3	101.9
2010					
Revenues	$ 474.6	$ 292.9	$ 172.1	$ 422.5	$1,362.1
Net income (loss)	65.8	7.8	(16.8)	36.4	93.2

Because of natural gas consumption patterns, FEI normally generates higher net earnings in the first and fourth quarters and lower net earnings in the second quarter, which are offset partially by net losses in the third quarter. As a result, interim earnings statements are not indicative of earnings on an annual basis.

March 2011/2010 – Earnings have increased due to lower depreciation expense as a result of retirements at the end of 2010, higher rate base and a lower effective tax rate offset partially by higher operations and maintenance expense.

June 2011/2010 **-** Earnings have decreased due to a number of factors including higher operations and maintenance expenditures in the current quarter versus 2010 partially offset by higher margin from industrial customers.

September 2011/2010 –The lower loss is due to the timing and capitalization of the approved spending of operating and maintenance expenses in the current quarter, higher gas margin due to increased volumes from industrial customers and higher allowance for funds used during construction.

December 2011/2010 – Earnings have increased due to higher rate base and positive variances on interest and taxes compared to the expenditures that were approved by the BCUC as part of the NSA. Also contributing to the higher earnings are higher margin from industrial customers partially offset by lower margin due to lower customer additions and higher allowance for funds used during construction in the current quarter compared to the same period in 2010.

LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED CASH FLOW

Years ended December 31 *(In millions of dollars)*	**2011**	2010
Cash flow provided by (used for):		
Operating activities	**$ 285.5**	$ 162.3
Investing activities	**(186.1)**	(170.4)
Financing activities	**(97.4)**	17.2
Net increase in cash	**$ 2.0**	$ 9.1

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities, which includes the impact of changes in working capital, was $285.5 million in 2011 as compared with $162.3 million in the corresponding period of 2010. Cash from operations refers to cash generated before the impact of working capital.

Between December 31, 2011 and December 31, 2010, accounts receivable, inventories of gas in storage and supplies, current portion of rate stabilization accounts excluding the mark to market on gas derivatives, accounts payable and accrued liabilities, excluding the mark to market on gas derivatives, have decreased. Due to the greater impact of these changes in 2011 as compared to 2010, cash flow generated from operating activities has increased.

Cash from operations for the twelve months ended December 31, 2011 was $190.6 compared to $177.0 in 2010. The increase in cash from operations for the three and twelve months ended December 31, 2011 is mainly a result of higher net earnings.

INVESTING ACTIVITIES

Capital expenditures totaled, after contributions in aid of construction, $169.0 million in the twelve months ended December 31, 2011 compared with $157.0 million in the corresponding period in 2010. The increase in capital expenditures was primarily attributable to work on the Customer Care Enhancement Project.

FINANCING ACTIVITIES

On December 9, 2011, FEI issued $100.0 million 30-year Senior Unsecured Debentures at a coupon interest rate of 4.25 per cent. The proceeds were used to repay the current operating facility.

In January 2010, the Corporation issued 3,419,050 common shares for total proceeds of $125.0 million. The issuance was a result of the BCUC increasing the Corporation's common equity component in capital structure allowed for rate making purposes from 35.01 per cent to 40.00 per cent.

During the fourth quarter of 2011, FEI declared a dividend of $35 million bringing the year-to-date dividends declared to $85 million. During the fourth quarter of 2010, FortisBC declared a dividend of $32 million bringing the year-to-date dividends declared to $84 million.

CONTRACTUAL OBLIGATIONS

The Corporation has entered into operating leases for certain building space and natural gas transmission and distribution assets. In addition, the Corporation has entered into gas purchase contracts that represent future purchase obligations. The following table sets forth the Corporation's operating leases, gas purchase obligations and employee benefit plan contributions due in the years indicated:

(In millions of dollars)	Operating leases	Purchase obligations	Employee benefit plans	Total
2012	$ 16.4	$ 157.8	$ 11.8	$ 186.0
2013	16.0	73.9	9.2	99.1
2014	15.6	45.5	-	61.1
2015	15.3	-	-	15.3
2016	15.1	-	-	15.1
Thereafter	59.5	-	-	59.5
	$ 137.9	$ 277.2	$ 21.0	$ 436.1

Gas purchase contract commitments are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at December 31, 2011. The employee benefit plan contributions have been estimated up to the date of the next actuarial valuation for each plan unless the valuation falls in the next twelve months, then the Corporation has provided for an estimate of the contributions. Employee benefit plan contributions beyond the date of the next actuarial valuation cannot be accurately estimated.

In addition to the items in the table above, the Corporation has issued commitment letters to customers to provide Energy Efficiency and Conservation (EEC) funding under the EEC Program approved by the BCUC. As at December 31, 2011, the Corporation had issued $3.8 million of commitment letters to customers.

The Corporation's required principal and interest repayments on long-term debt over the next five years and thereafter are as follows:

(In millions of dollars)	Total
2012	$ 108.3
2013	108.3
2014	108.3
2015	183.3
2016	299.5
2017 and thereafter	2,753.5
	3,561.2
Interest payments	(2,001.8)
	$ 1,559.4

FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2011 compared to December 31, 2010.

Balance Sheet Item	Increase (Decrease) *(In millions of dollars)*	Explanation
Other assets	68.9	The increase in other assets is mainly due to the increase in the regulated asset related to recovering the future income tax liability from rate-payers in future periods. Additionally, the increase is due to pension costs in excess of approved amounts, deferred losses on disposal of utility capital assets, Customer Care Enhancement project operation and maintenance expenses, increase in costs related to the energy efficiency and conservation program as well as the deferred removal costs in excess of approved amounts included in operation and maintenance expenses.
Accounts payable and accrued liabilities	(54.2)	The decrease is mainly due to a decrease in the mark to market of the Corporation's natural gas derivatives and a decrease in the gas costs payable due to lower volumes purchased.
Rate stabilization accounts	(58.2)	The decrease is mainly due to the change in the mark to market adjustment included within the rate stabilization accounts. Additionally, the decrease is due to the increase in the rate stabilization deferral account due to the operating surplus for the twelve months of 2011.
Accounts receivable	(59.7)	The decrease in accounts receivable is due to lower price of natural gas in the fourth quarter of 2011 as compared to the same period in 2010.
Short-term notes	(113.0)	The decrease is due to the proceeds from the issuance of Senior Unsecured Debentures used to repay the short-term notes.

WORKING CAPITAL

The Corporation's working capital requirements fluctuate seasonally based on natural gas consumption. Given the relatively low-risk, regulated nature of its business, FEI is able to maintain negative working capital balances. FEI maintains adequate committed credit facilities and on an annual basis, generates sufficient cash flow to meet its working capital requirements.

CASH FLOW

It is expected that operating expenses and interest costs will generally be paid out of operating cash flows, with varying levels of residual cash flow available for capital expenditures and/or for dividend payments. Cash required to complete capital expenditure programs is also expected to be financed from a combination of borrowings under credit facilities, equity injections from FortisBC Holdings and long-term debt issues.

The Corporation's ability to service its debt obligations and pay dividends on its common shares is dependent on the financial results of the Corporation. Cash required to support capital expenditure programs is expected to be derived with borrowings from short-term borrowings. Depending on the timing of cash payments, borrowings under the Corporation's credit facility may be required from time to time to support the servicing of debt and payment of dividends.

In the absence of any adverse regulatory decisions affecting ROE or capital structure, the Corporation does not expect any significant decrease in operating cash flows in 2012 and, therefore, does not anticipate any difficulty in servicing its debt obligations and paying common dividends. Also, the Corporation expects to source the cash required to fund the 2012 capital expenditure programs.

DIVIDEND RESTRICTIONS

As part of its approval of the acquisition of FortisBC Holdings by Fortis, the BCUC imposed a number of conditions intended to ring-fence FEI from FortisBC Holdings. These restrictions included a prohibition on the payment of dividends unless FEI has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. As a result of this and the decision issued by the BCUC, FEI must maintain a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for rate-setting purposes. In 2011 and 2010, none of these restrictions constrained the distribution of subsidiary earnings not otherwise needed for reinvestment.

CREDIT RATINGS

Securities issued by FEI are rated by DBRS Inc. (DBRS) and Moody's Investors Service Inc. (Moody's). The ratings assigned to securities issued by FEI are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's various securities.

CREDIT RATINGS	DBRS	Moody's
Commercial paper	R-1 (Low)	-
Secured long-term debt	A	A1
Unsecured long-term debt	A	A3

A downgrade of FEI below investment grade by any of the major credit rating agencies could trigger margin calls and other cash requirements under FEI's gas purchase and commodity derivative contracts.

PROJECTED CAPITAL EXPENDITURES

FEI has estimated total 2012 consolidated capital expenditures before contributions in aid of construction of $197.9 million. Major capital expenditures include 2012 costs associated with the Customer Care Enhancement Project ($27.1 million, of which $8.2 million is capital and the remaining is deferred operations and maintenance expense) and the Fraser River South Bank South Arm Rehabilitation Project ($4.3 million).

OFF-BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

a) The Corporation received $3.5 million in 2011 (2010 – $3.5 million) from FEVI, a subsidiary of FortisBC Holdings for transporting gas through the Corporation's pipeline system. This income is included in natural gas transmission and distribution revenues on the consolidated statements of earnings and comprehensive earnings.

b) The Corporation paid approximately $49.4 million (2010 - $48.1 million) during the year ended December 31, 2011 for customer care and billing services to a limited partnership in which FortisBC Holdings owns a 30 per cent interest. The Corporation was committed to pay approximately $44.1 million as base contract fees for 2011. These costs are included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

c) The Corporation reimbursed its parent FortisBC Holdings for management services under a shared-services agreement totalling $9.6 million (2010 – $9.6 million) for the year ended December 31, 2011. The management services fee is included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

d) The Corporation charged $9.4 million (2010 – $9.6 million) to affiliated companies for management services during the year ended December 31, 2011. The management services fee is included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

e) The Corporation's indirect parent, Fortis grants stock options to certain employees of the Corporation under its stock option plans. For the year ended December 31, 2011, the Corporation was charged, and recorded an expense of $0.7 million (2010 - $0.7 million) for the fair value of the stock compensation granted by Fortis Inc. The stock option expense is included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

f) Included in accounts receivable is $1.4 million (2010 - $3.0 million) owed to the Corporation by affiliated companies. The amounts are unsecured and non-interest bearing.

g) The Corporation was charged $12.0 million for the year ended December 31, 2011 by FEVI for storing gas at the Mt. Hayes LNG storage facility which became operational in April 2011. This cost is included in Current Liabilities: Current portion of rate stabilization accounts on the consolidated balance sheet.

h) For the year ended December 31, 2011 the Corporation was charged $1.9 million (2010 - $1.2 million) by FortisBC Inc. (an indirect subsidiary of Fortis Inc.) for electricity purchases and corporate management services. For the year ended December 31, 2011 the Corporation charged $1.2 million (2010 - $0.5 million) to FortisBC Inc. for rent and labour charges. These charges are included in operation and maintenance expenses on the consolidated statements of earnings and comprehensive earnings.

Related party transactions are recorded at the exchange amount.

FUTURE ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards:

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, the Corporation in conjunction with Fortis, has evaluated the option of adopting US GAAP, as opposed to IFRS, and has decided to adopt US GAAP effective January 1, 2012.

Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a SEC Issuer. An SEC Issuer is defined under the Canadian rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the *US Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (ii) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is currently not an SEC Issuer. Therefore, on June 6, 2011 Fortis on behalf of its subsidiaries, including the Corporation filed an application with the OSC seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions,* to permit the Corporation to prepare its financial statements in accordance with US GAAP without qualifying as an SEC Issuer ("the Exemption"). On June 9, 2011 the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's application of Canadian GAAP currently relies primarily on US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Corporation's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. The Corporation believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Corporation's consolidated financial position and results of operations.

In the fourth quarter of 2010, the Corporation developed a three-phase plan to adopt US GAAP effective January 1, 2012. The following is an overview of the activities under each phase and their current status.

Phase I - Scoping and Diagnostics: Phase I consisted of project initiation and awareness; project planning and resourcing; and identification of high-level differences between US GAAP and Canadian GAAP in order to highlight areas where detailed analysis would be needed to determine and conclude as to the nature and extent of financial statement impacts. External accounting and legal advisors were engaged during this phase to assist the Corporation's internal US GAAP conversion team and to provide technical input and expertise as required. Phase I commenced in the fourth quarter of 2010 and was completed during 2011.

Phase II - Analysis and Development: Phase II consists of detailed diagnostics and evaluation of the financial statement impacts of adopting US GAAP based on the high-level assessment conducted under Phase I; initial staff training and audit committee orientation; identification and design of any new, or changes to, operational or financial business processes; and development of required solutions to address identified issues.

Phase II had included planned activities for the registration of securities as required to achieve SEC Issuer status and an assessment of ongoing requirements of the United States Sarbanes-Oxley Act ("US SOX"), including auditor attestation of internal controls over financial reporting, and a comparison of the requirements under US SOX to those required in Canada under National Instrument 52-109 *Certification of*

Disclosure in Issuers' Annual and Interim Filings. These activities are no longer required or applicable as a result of the Exemption granted by the OSC as discussed above.

Phase II of the plan commenced in January 2011 and was essentially completed during 2011. Based on the research and analysis completed to date, and the Corporation's continued ability to apply rate-regulated accounting policies under US GAAP, the differences between US GAAP and Canadian GAAP are not expected to have a material impact on consolidated earnings and are expected to be mostly limited to changes in balance sheet classifications and additional disclosure requirements. The impact on information systems and internal controls over financial reporting is expected to be minimal.

Phase III - Implementation and Review: Phase III is currently ongoing and has involved the implementation of financial reporting systems and internal control changes required by the Corporation to prepare and file its consolidated financial statements prepared in accordance with US GAAP beginning in 2012, and the communication of associated impacts.

The Corporation will prepare and file its audited Canadian GAAP consolidated financial statements for the year ending December 31, 2011 in the usual manner. The Corporation then intends to voluntarily prepare and file audited US GAAP consolidated financial statements for the year ending December 31, 2011, with 2010 comparatives. The Corporation's voluntary filing of audited US GAAP consolidated financial statements for the year ending December 31, 2011, subsequent to the filing of its audited Canadian GAAP consolidated financial statements for the year ending December 31, 2011, has been approved by the OSC and is expected to be completed prior to March 31, 2012. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements will be prepared and filed in accordance with US GAAP.

Phase III will conclude when the Corporation files its annual audited consolidated financial statements for the year ending December 31, 2012, prepared in accordance with US GAAP.

FINANCIAL STATEMENT IMPACTS – US GAAP: The areas identified to date where differences between US GAAP and Canadian GAAP are expected to have the most significant financial statement impacts are outlined below. The identified impacts are unaudited and are subject to change based on further analysis.

> *Employee future benefits:* Under Canadian GAAP, the accrued benefit asset or liability associated with defined benefit plans is recognized on the balance sheet with a reconciliation of the recognized asset or liability to the funded or unfunded status being disclosed in the notes to the financial statements. The accrued benefit asset or liability excludes unamortized balances related to past service costs, actuarial gains or losses and transitional obligations which have not yet been expensed.
>
> US GAAP requires recognition of the funded or unfunded status of defined benefit plans on the balance sheet. Unamortized balances related to past service costs, actuarial gains or losses and transitional obligations are separately recognized on the balance sheet as a component of accumulated other comprehensive income or, in the case of entities with activities subject to rate regulation, as regulatory assets or liabilities for recovery from, or refund to, customers in future rates. Subsequent changes to past service costs, actuarial gains and losses and transitional obligations would be recognized as part of net pension expense, where required by the regulator, or otherwise as a change in the regulatory asset or liability. Therefore, upon adoption of US GAAP the Corporation will recognize the funded or unfunded status of its defined benefit pension plans on the balance sheet with the unamortized balances recognized as regulatory assets or liabilities.
>
> The impact of adopting US GAAP with respect to accounting for employee future benefits is not expected to have a material impact on the Corporation's consolidated earnings.

Lease-In Lease-Out Transactions ("LILO"): The Corporation entered into arrangements whereby certain natural gas distribution assets were leased to certain municipalities and then leased back by the Corporation from the municipalities. For Canadian GAAP purposes, the lease of the assets to the municipalities has been accounted for as a sales-type lease and the lease back of the assets as an operating lease. Gains recorded on the lease out of the assets are deferred and amortized over the term of the lease back.

For US GAAP purposes, the gas distribution assets are considered to be integral equipment to real estate assets and the transaction was evaluated as a sale-leaseback transaction involving real estate with equipment. The transaction was accounted for as a financing transaction. Under the financing method, the assets subject to the sale-leaseback are recorded on the balance sheet of the Corporation and are depreciated. Sale proceeds are recorded as a liability. Lease payments less the portion considered to be interest expense decrease the financing liability. The deferred gain and amortization thereon recorded for Canadian GAAP purposes are not recognized for US GAAP purposes.

Application of Pushdown Accounting: Push-down accounting refers to the establishment of a new accounting basis for an acquired entity in its separate standalone financial statements based on an acquisition that results in the acquired entity's outstanding shares becoming substantially wholly owned.

On May 17, 2007, Fortis acquired FortisBC Holdings and accounted for the acquisition using the purchase method, whereby the regulated book value of assets and liabilities acquired were assigned as fair value for the purchase price allocation. Total goodwill associated with FortisBC Holdings on acquisition has been included on the balance sheet of Fortis under Canadian GAAP.

As the application of push-down accounting effectively results in the creation of a new accounting entity, the acquired entity's operating results prior to push-down accounting are not combined with those subsequent to push-down accounting. Therefore, the Corporation expects that its retained earnings at the date of acquisition will be reset to zero with an offset to contributed surplus, a component of shareholder's equity. Additionally, it is expected that any fair value adjustments and goodwill associated with the acquisition by Fortis on May 17, 2007 will be recognized in the financial statements of FEI with an offset to contributed surplus.

The above items do not represent a complete list of expected differences between US GAAP and Canadian GAAP, and are subject to change. Other less significant differences have also been identified. Analysis also remains on-going and additional areas where the Corporation's financial statements may be materially impacted may be identified prior to the Corporation's voluntary preparation and filing of its audited US GAAP consolidated financial statements for the year ending December 31, 2011. A detailed reconciliation between the Corporation's audited Canadian GAAP and US GAAP financial statements for 2011, including 2010 comparatives, and any additional areas where significant adjustments may be required in accordance with US GAAP, will be disclosed as part of that voluntary filing.

The unaudited, estimated quantification and reconciliation of the Corporation's balance sheets as of December 31, 2010 prepared in accordance with US GAAP versus Canadian GAAP, and based on the differences identified to date, may be summarized as follows.

Total assets as of December 31, 2010 are estimated to increase by approximately $1,041 million. The estimated increase is due primarily to expected increases in regulatory assets, goodwill and capital assets in accordance with US GAAP.

Total liabilities as of December 31, 2010 are estimated to increase by approximately $147 million. The estimated increase is due primarily to the expected increases in pension liabilities and long term debt in accordance with US GAAP.

Shareholders' equity as of December 31, 2010 is estimated to increase by approximately $894 million. The estimated increase is due primarily to the retrospective application of US GAAP.

As previously indicated, the Corporation expected to continue to apply rate-regulated accounting policies. The unaudited estimated quantification and reconciliation of the Corporation's consolidated statement of earnings for the year ended December 31, 2010 prepared in accordance with US GAAP versus Canadian GAAP, and based on the differences identified to date, may be summarized as follows:

Consolidated net earnings to be reported in accordance with US GAAP for the year ended December 31, 2010, are estimated to increase by approximately $5.2 million (from $93.2 million to $98.4 million). The estimated increase is due primarily to retrospective application of US GAAP.

The audited quantification and reconciliation of the Corporation's financial statements from Canadian GAAP to US GAAP for the 2011 annual reporting period is expected to be completed by March 31, 2012.

FINANCIAL AND OTHER INSTRUMENTS

FAIR VALUE ESTIMATES

	December 31, 2011		December 31, 2010	
(In millions of dollars)	**Carrying value**	**Estimated fair value**	Carrying value	Estimated fair value
Held for trading				
Cash and cash equivalents [1]	**$ 17.2**	**$ 17.2**	$ 15.2	$ 15.2
Loans and receivables				
Accounts receivable [1,2]	**238.4**	**238.4**	298.1	298.1
Long-term receivables [1,2]	**8.9**	**8.9**	8.9	8.9
Other financial liabilities				
Short-term notes [1,2]	**65.0**	**65.0**	178.0	178.0
Accounts payable and accrued liabilities [1,2]	**303.7**	**303.7**	357.9	357.9
Long-term debt, including current portion [3,4,5]	**1,545.4**	**2,026.1**	1,444.7	1,735.8

1 Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.
2 Carrying value approximates amortized cost.
3 Carrying value is measured at amortized cost using the effective interest rate method.
4 Carrying value at December 31, 2011 is net of unamortized deferred financing costs of $14.0 million (2010 - $13.2 million). The majority of the Corporation's long-term debt relates to regulated operations which enables the Corporation to recover the existing financing charges through rates or tolls
5 Fair value is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2011, or by using available quoted market prices.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Financial Instruments are described in Note 14 to the Corporation's annual financial statements.

DERIVATIVE INSTRUMENTS

The Corporation has hedged its exposure to fluctuations in natural gas prices and foreign exchange rates through the use of derivative instruments.

The table below indicates the valuation of the derivative instruments as at December 31, 2011 and 2010.

Asset (Liability) *(In millions of dollars)*	**December 31, 2011** Number of contracts	Term to maturity (years)	Carrying value	Fair value	December 31, 2010 Carrying value	Fair value
Foreign exchange forward	**1**	**0.3**	**$ (0.1)**	**$ (0.1)**	$ (0.2)	$ (0.2)
Natural Gas Commodity swaps and options and gas purchase contract premiums	**168**	**Up to 2.8**	**(86.8)**	**(86.8)**	(120.4)	(120.4)

The derivatives entered into by the Corporation relate to regulated operations and any resulting gains or losses are recorded in rate stabilization accounts or deferral accounts, subject to regulatory approval, and are passed through to customers in future rates.

PRICE RISK MANAGEMENT PLAN

FEI's price risk management strategy aims to (i) improve the likelihood that natural gas prices remain competitive, (ii) dampen price volatility on customer rates and (iii) reduce the risk of regional price disconnects. In July 2010, the BCUC ordered the suspension of all commodity hedging activity and directed FEI to undertake a review of the primary objectives of the Price Risk Management Plan (PRMP). In January 2011, FEI filed a review report and submitted a revised 2011-2014 PRMP, based on recommendations arising from the review report. On July 12, 2011, the BCUC issued its decision on the review report and determined that commodity hedging in the current environment was not a cost effective means to meet the objectives of competitiveness and rate stability. The BCUC concurrently denied FEI's 2011-2014 PRMP with the exception of certain elements to address the risk of regional price disconnects. As a result, FEI has suspended all commodity hedging activity with the exception of basis swaps to reduce the risk of Sumas market price disconnects. The existing hedging contracts continue in effect through to their maturity and FEI's ability to fully recover the commodity cost of gas in customer rates remains unchanged.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, FEI had issued and outstanding 63,010,782 common shares.

FEI is an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

Additional information relating to FEI, including its Annual Information Form is available on SEDAR at www.sedar.com.

For further information, please contact:

Michele Leeners
Vice President, Finance and Chief Financial Officer
FortisBC Energy Inc.
10th Floor, 1111 West Georgia, Vancouver British Columbia
Tel: (250) 469-8013
E-mail: michele.leeners@fortisbc.com

David Bennett
Vice President, General Counsel and Corporate Secretary
FortisBC Energy Inc
10th Floor, 1111 West Georgia, Vancouver British Columbia
Tel: (604)443-6538
E-mail: david.bennett@fortisbc.com

2. Credit Rating Agency reports for the utility and corporate parent since 2006:

- Enclosed are Rating Agency reports for FEI, its direct corporate parent, FortisBC Holdings Inc. (FHI) and its ultimate parent, Fortis Inc.

a. Debt Rating
   - Rating Agency reports include annual debt ratings – See reports

b. Schedule showing the history of any debt rating changes since 2002
   - See schedule – “Changes in ratings since 2002”

c. Interest coverage ratio and other agency’s key debt ratios since 2006
   - Rating Agency reports include key ratios – See reports

Press Release

Dominion Bond Rating Service

Date of Release: May 30, 2006

Industry : Energy

DBRS Confirms Terasen Gas Inc. at "A", R-1 (low)

Terasen Gas Inc.

Rating	Trend	Rating Action	Debt Rated
R-1 (low)	Stb	Confirmed	Commercial Paper
A	Stb	Confirmed	MTNs & Unsecured Debentures
A	Stb	Confirmed	Purchase Money Mortgages

Dominion Bond Rating Service ("DBRS") has today confirmed the ratings of Terasen Gas Inc. ("Terasen Gas" or the "Company") at "A" and R-1 (low) in light of the recent announcement of the proposal by Richard Kinder, Chairman of the ultimate parent company, Kinder Morgan, Inc. ("KMI"), and others, including management and various other private equity funds, to acquire all of the outstanding shares of KMI for US$100 per share in cash in a US$21.8 billion transaction, including assumed debt of US$7.6 billion. The transaction is expected to close by year-end, pending KMI's independent directors' review and recommendation, as well as shareholder and regulatory approvals.

While the ratings of KMI have been placed "Under Review with Negative Implications" due to the estimated pro forma debt-to-capital increase to 67% (from a previous December 31, 2006, estimate of 57%) and impact on other credit ratios, the financial profile of Terasen Gas is not expected to be impacted at all. DBRS takes comfort in the regulatory ring-fencing imposed by the British Columbia Utilities Commission ("BCUC") as a condition of the acquisition by KMI of Terasen Inc. in December 2005 (former parent of Terasen Gas), which required, among other items: (1) maintenance of the BCUC-approved capital structure; (2) no common dividend payment without BCUC approval if the payment would violate condition 1; (3) no financial support or guarantees for non-regulated businesses; and (4) no transactions with affiliates that would violate BCUC guidelines, policies, or directives. The intent of the BCUC decision was to ensure that the public interest was protected and that Terasen Gas, along with other former Terasen Inc. utilities, would continue to operate as separate, stand-alone entities without parental influence.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at: info@dbrs.com.

Nick Dinkha, CFA, MBA
416-593-5577 x2314
Assistant Vice President
ndinkha@dbrs.com

Matthew Kolodzie, CFA, P.Eng.
416-593-5577 x2296
Senior Vice President
mkolodzie@dbrs.com

Rating Report

Report Date: March 16, 2007
Press Release: February 26, 2007
Previous Report: June 22, 2005

Eric Eng/Roshan Thiru
+1 416 597 7578/+1 416 597 7357
eeng@dbrs.com/rthiru@dbrs.com

Insight beyond the rating.

Terasen Gas Inc.

Rating

Rating	Trend	Rating Action	Debt Rated
R-1 (low)	Stable	Confirmed	Commercial Paper
A	Stable	Confirmed	Purchase Money Mortgages
A	Stable	Confirmed	MTNs & Unsecured Debentures

Rating History

	Current	2006	2005	2004	2003	2002	2001
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A	A

Rating Update

DBRS has confirmed the ratings of Terasen Gas Inc. (Terasen Gas or the Company), as listed above, all with Stable trends. The rating confirmation reflects a reasonable regulatory environment and the Company's solid financial profile.

The regulatory environment continues to remain stable, providing a number of reasonable cost-recovery mechanisms, which combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. Although returns on equity (ROE) have declined in recent years (8.37% in 2007 versus 8.8% in 2006), the impact on earnings and cash flows is modest and is largely offset by increases in the rate base and the equity component in the capital structure (35% since 2006, from 33% previously).

DBRS notes that the Company could undergo a change of ownership in light of Fortis Inc.'s (Fortis) proposal to acquire Terasen Inc. (owner of Terasen Gas) from Kinder Morgan Inc. (KMI). DBRS does not believe the proposed Fortis acquisition would impact Terasen Gas' credit profile as Terasen Gas debt holders would benefit from the strong regulatory protection that was put in place at the time of the KMI acquisition of Terasen Inc. in 2005 (ratings of Terasen Gas were confirmed shortly after Fortis's announcement). (Continued on page 2.)

Rating Considerations

Strengths

- Low business risk and reasonable regulatory framework
- Strong regulatory ring fencings
- Solid balance sheet and reasonable credit metrics
- Strong franchise area with a large customer base

Challenges

- Low and declining allowed ROEs
- Volume exposure in the industrial sector
- High natural gas prices increase competition
- Earnings remain flat despite increases in rate base

Financial Information

	12 mos. ended	For the year ended December 31				
	Sept 30, 2006	2005	2004	2003	2002	2001
EBIT interest coverage (1)	1.98	1.94	1.94	1.93	1.95	1.79
% debt in capital structure (1)	65.2%	67.6%	67.1%	69.4%	69.0%	69.4%
Cash flow/total debt (times) (1)	9.6%	8.9%	9.2%	8.5%	8.8%	8.2%
Cash flow/capital expenditures (times)	1.58	1.52	1.61	1.27	1.34	0.98
Allowed ROE	8.80%	9.03%	9.15%	9.42%	9.13%	9.25%
Net income before extraordinary items (CAD millions)	68.9	69.5	70.8	70.4	67.1	67.2
Operating cash flow (CAD millions)	160.4	156.7	151.5	147.9	149.1	142.4
Total throughput volumes (billions of cubic feet)	190.3	192.6	191.6	190.4	206.8	225.1

(1) Includes operating leases

The Company

Terasen Gas is the largest natural gas distributor in British Columbia, serving approximately 816,000 customers or 90% of the province's natural gas users. The Company is a wholly owned subsidiary of Terasen Inc. [rated BBB (high), Under Review – Developing], which is wholly owned by Kinder Morgan, Inc. [rated BB, Under Review – Developing]. In February 2007, Fortis Inc. [rated BBB (high)] proposed to purchase Terasen Inc. The ratings assigned to Terasen Gas are predominantly on a stand-alone basis with no formal guarantees from the parent company.

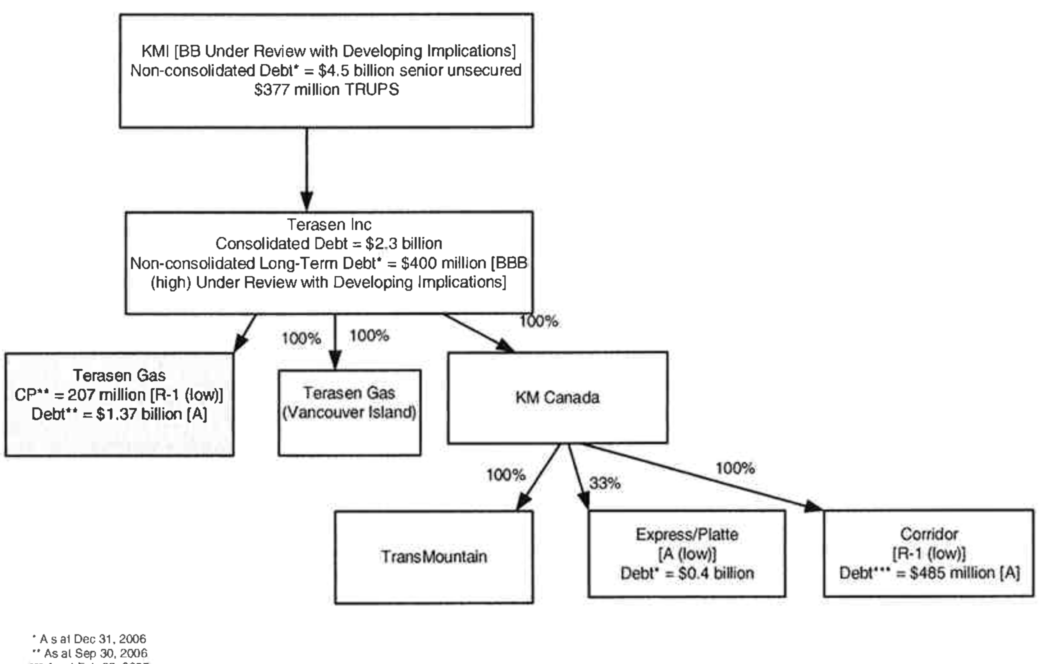
Authorized Paper Amount Limited to $500 million

RATING UPDATE (Continued from page 1.)

Under the ring-fencing conditions, Terasen Gas must maintain at least the same level of equity as approved in the rate base (35% for 2007) and must obtain an approval from the British Columbia Utilities Commission (BCUC) before paying dividends to the parent if it can be reasonably expected that such dividends would increase the debt ratio in the capital structure over the approved level.

Terasen Gas' financial profile remains strong reflecting the following: (1) Credit metrics remain solid within the current rating category with EBIT interest coverage and cash flow-to-debt ratios at 1.98 times and 9.6%, respectively; and (2) no financial support from the parent is expected, as Terasen Gas continues to generate sufficient cash flow to meet its financial obligations and finance growth. Terasen Gas continues to benefit from low business risk as it has limited exposure to volume risk in the residential and commercial segments, which is very critical to maintaining earnings and cash flow stability since gas consumption is very sensitive to the weather. Also, a large customer base in its strong franchise area allows Terasen Gas to continue to achieve a respectable level of operating efficiency, which is key to achieving the productivity factors (for profit and loss sharing) specified in the Performance-Based Rate plan (PBR). The ratings, however, are constrained by Terasen Gas' exposure to industrial and transportation volumes and low ROEs. DBRS notes that these constraints are largely mitigated due to (1) a growing demand in transportation services, (2) a robust provincial economy and (3) Terasen Gas' access to sources of low-cost and reliable natural gas supply.

SUMMARIZED ORGANIZATIONAL CHART



REGULATION

Overview

Terasen Gas' rates of return, contractual agreements with customers, construction and operation of facilities, and cost recovery are regulated by the BCUC. DBRS finds the regulatory framework in British Columbia reasonable, reflecting the following factors:

Market Restructuring

- Beginning in November 2004, commercial customers were able to purchase gas from an alternative supplier. Residential customer services are expected to be unbundled in November 2007.
  - The cost of gas supply is passed on to customers. As a result, the cash flow impact is limited to the timing of recovery.

Returns on Equity

- Allowed ROE is set (by the BCUC) according to a formula and is reset annually.
  - The formula is based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium. The forecast was 4.79% for 2006.
  - The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield on 30-year Canada Bonds.
  - For 2007, ROE for Terasen Gas declines to 8.37% from 8.80% in 2006, with an approved equity ratio remaining at 35% (35% in 2006, 33% in 2005).
  - DBRS believes that this ROE level is low (the lowest among gas distributors in Canada).

Performance-Based Rate Plan (PBR)

- In July 2003, the BCUC approved a negotiated settlement of a PBR plan covering the 2004–2007 period.
  - Under the PBR plan, operating and maintenance costs and base-capital expenditures are subject to an incentive formula, which reflects increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years (2006 and 2007).
  - In February 2007, the Company filed an application with the BCUC to extend the current PBR period for another two years, through to 2009. The requested PBR is materially same as the previously established PBR. A decision by the BCUC is expected sometime in late Q1 or early Q2 of 2007.
  - The Company is entitled to a 50/50 sharing of earnings above or below the allowed ROE.
  - New deferral accounts were established for insurance premiums and pension costs incurred by Terasen Gas. The deferred amounts will be recovered in future rates.

Cost Recovery Mechanisms

(1) Gas Cost Reconciliation Account (GCRA)

- The Company can periodically recover from (remit to) customers any differences between actual gas prices and forecast prices in the rates.
- Shortfalls (surpluses) are recorded in deferral accounts to be amortized and recovered from (or refunded to) customers over a two-year to three-year period. This exposes Terasen Gas to a recovery lag.
- However, price adjustments in the price forecast are made on a quarterly basis to better reflect current gas commodity prices. This serves to mitigate the impact of recovery lag.
- The GCRA was split into two new deferral accounts (commodity account and midstream account) effective April 2004 to accommodate commodity unbundling.
  - These two accounts work in the same way as the GCRA.

(2) Rate Stabilization Adjustment Mechanism (RSAM)

- Terasen Gas is permitted to accumulate the variances from forecast in use per customer for residential and commercial customers.
- The amounts are amortized and recovered over a two-year period. DBRS views the RSAM to be favourable to Terasen Gas. (For comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather).
- Terasen Gas remains exposed to the economic cyclicality of non-RSAM customers, principally large-volume, industrial and transportation service customers, who account for 46% of throughput volumes.

(3) Interest-Rate Deferral Accounts

- The differences in actual financial costs and the costs in the forecasts are deferred and recovered.

- This account helps to smooth the impact of fluctuations in both short-term and long-term interest rates.

Regulatory Restrictions

The following conditions were imposed by the BCUC on Terasen Gas at the time KMI acquired Terasen Inc.

- Terasen Gas must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (35% in 2007). Currently, the equity component in the Company's capital structure is at 35%, at the level approved by the BCUC.
- Terasen Gas must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- Terasen Gas will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- Three of the four directors of the Company must be independent of management and any change in the current composition of the Board that would impact the independence of the Board members would require the approval of the BCUC.
- DBRS believes these conditions help to maintain Terasen Gas' capital ratios and credit metrics.

Rating Considerations

Strengths

(1) Terasen Gas is a regulated gas utility that operates within a reasonable regulatory framework. The Company has no exposure to commodity price risk (but is subject to a recovery lag), is allowed to timely recover all prudently incurred operating expenses and capital expenditures and is able to earn a reasonable return on its investments.

(2) The Company's balance sheet remains solid with leverage at 65% and EBIT interest coverage ratio at 1.98 times. These ratios are acceptable for the current rating category, given the Company's low business risk. Although the cash flow-to-debt ratio at 9.6% is slightly weak for an A rating, it has been very stable and has been supported by stable operating cash flows and strong regulatory ring-fencing.

(3) As part of its approval of the acquisition of Terasen Inc. by KMI, the BCUC imposed a number of conditions (as discussed in the Regulation section). These conditions are positive to Terasen Gas and are effective in insulating Terasen Gas from its parent's weaker financial profile.

(4) The Company serves a large customer base of more than 816,000, located in a stable and growing franchise area that includes the City of Vancouver. The customer mix is favourable with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but it is subject to a reasonable lag) associated with these customers.

Challenges

(1) Terasen Gas has had the lowest allowed ROE relative to all other gas distribution utilities in Canada. ROE declined to 8.37% in 2007 from 8.80% in 2006. In general, the decline in ROE is primarily due to the low interest-rate environment. Lower ROEs have a negative impact on earnings, but the impact is largely offset by a larger rate base.

(2) The Company is exposed to variances from forecast with regards to industrial, fixed-price contracts and transportation-service customers, who represent approximately 46% of throughput volumes (10% of revenues). This exposure, however, is mitigated because these customers are not as weather-sensitive and the forecast therefore tends to be more precise.

(3) High natural gas prices have a negative impact on the Company's throughputs on the industrial side. In addition, the Company faces ongoing competitive pressures on the residential side from low electricity rates in British Columbia due to the dominance of low-cost hydro-based generation.

(4) Earnings have not reflected increases in the rate base. Despite a growing rate base ($2.5 billion at September 2006 compared to $2.3 billion in 2004), EBIT has remained flat due to lower ROEs and a decline in total throughput volumes.

EARNINGS AND OUTLOOK

(CAD millions)	12 mos. ended Sept 30, 2006	For the year ended December 31 2005	2004	2003	2002	2001
Net revenues	516.2	504.8	498.2	500.4	497.0	489.2
EBITDA	302.9	301.6	294.2	298.1	303.0	307.5
EBIT	220.1	222.4	212.6	221.4	225.2	231.9
Gross interest expense	108.3	111.7	106.9	112.5	113.5	127.7
Pre-tax income	112.4	111.3	106.2	109.5	112.7	107.5
Income taxes	43.5	41.8	35.4	39.1	45.6	40.3
Net income (before extras., after prefs.)	68.9	69.5	70.8	70.4	67.1	67.2
Net income	75.8	65.3	70.8	70.4	67.1	67.2
Return on avg. common equity (bef. extras.)	7.9%	8.4%	9.0%	9.2%	8.8%	8.8%
EBIT margin (net of gas costs)	43%	44%	43%	44%	45%	47%

Summary

- EBITDA and earnings have been flat over the last few years, reflecting lower ROEs and a decline in throughput volumes due to a decrease in customer use, offset by higher earnings from growth in the rate base.
  - Earnings are largely derived from distribution services, transportation services and fixed-price customers.
  - Distribution volumes account for more than 54% of total throughputs, while transportation and fixed-price volumes account for roughly 30% and 16%, respectively.
  - Transportation earnings have increased in recent years while industrial volumes have declined.
  - Residential and commercial volumes remain very stable.
- Natural gas price volatility has no impact on earnings since the costs are passed through to customers.
  - The recovery of gas-supply costs is through a deferral account, which smoothes out the impact of volatile natural gas prices on cash flows.
  - The Company has no volume risk with its residential and commercial customers, which mitigates the impact of weather on earnings.
- The 2004–2007 performance-based rate plan provides for a 50/50 sharing (above and below allowed ROE).
  - EBIT margins have been stable under the PBR plan.
  - Interest expense has been stable.

Outlook

- EBIT in 2007 is expected to increase moderately (assuming normal weather conditions) since the impact of lower ROE (8.37% for 2007 compared to 8.80% for 2006) is expected to be offset by a higher rate base for 2007.
- The current PBR plan expires at the end of 2007. Terasen Gas has filed an application to extend the PBR regulation through 2009. A decision by the BCUC is expected in late Q1 or early Q2 of 2007.

DBRS

Financial Risk Profile and Outlook

(CAD millions)	12 mos. ended Sept 30, 2006	For year ended Dec. 31 2005	2004	2003	2002	2001
Net income before extraordinary items	68.9	69.5	70.8	70.4	67.1	67.2
Depreciaton & amortization	82.8	79.2	81.6	76.7	77.8	75.6
Other non-cash adjustments	8.7	8.0	(0.9)	0.8	4.2	(0.4)
Cash Flow From Operations	160.4	156.7	151.5	147.9	149.1	142.4
Capital expenditures	(101.4)	(103.3)	(93.9)	(116.2)	(111.1)	(146.0)
Common dividends	(15.0)	(60.0)	(60.0)	(80.0)	(80.0)	(60.0)
Free Cash Flow Before W/C Changes	44.0	(6.6)	(2.4)	(48.3)	(42.0)	(63.6)
Working capital changes	12.8	(46.4)	15.5	(40.5)	(20.8)	(109.3)
Changes in rate stabilization account	25.8	1.9	24.4	38.2	71.0	2.4
Net Free Cash Flow	82.6	(51.1)	37.5	(50.6)	8.2	(170.5)
Acquisitions/divestitures	7.2	(42.2)	67.7	(3.7)	52.7	45.4
Other adjustment/comprehensive	(10.2)	(1.8)	(2.4)	0.0	0.0	0.0
Cash flow before financing	79.6	(95.1)	102.8	(54.3)	60.9	(125.1)
Net change in debt financing	(37.5)	109.0	(96.8)	52.1	(59.5)	94.4
Net change in pref. share financing	0.0	0.0	0.0	0.0	0.0	0.0
Net change in equity financing	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	42.1	13.9	6.0	(2.2)	1.4	(30.7)
Total adjusted debt (CAD million) (1)	1,676	1,763	1,652	1,737	1,685	1,737
Cash flow/total debt (times) (1)	9.6%	8.9%	9.2%	8.5%	8.8%	8.2%
% debt in the capital structure (1)	65.2%	67.6%	67.1%	69.4%	69.0%	69.4%
EBIT interest coverage (times)	1.98	1.94	1.94	1.93	1.95	1.79

(1) Includes operating leases

Summary

- Terasen Gas has maintained a strong financial profile reflecting solid balance sheet and credit metrics. Cash flow from operations remains strong, supported by stable earnings.
- Free cash flow deficits have improved since 2004 reflecting a modest growth in operating cash flows, moderate levels of capital expenditures and a recent reduction in dividends to the parent.
  - Dividends were reduced to $15 million for the 12 months ending September 2006, compared to $60 million in 2005 and 2004.
  - Approximately 70% to 80% of capital spending is for maintenance.
- The capital structure remains relatively reasonable at 35%/65% and consistent with the approved level. EBIT interest ratio is solid at nearly 1.98 times; the cash flow-to-debt ratio is acceptable at 9.6%.
  - As part of conditions imposed by the BCUC for the acquisition of Terasen Gas, the Company must maintain its capital structure within the structure allowed in the rate base (35% equity in 2006 and 2007).
  - Dividends must be approved by the BCUC before they can be paid to the parent if it can be reasonably expected that if the payment of dividends would increase the debt-to-capital ratio above 65%.
  - These factors are positive and help to maintain leverage and coverage ratios within the current rating category.
- Working capital fluctuations reflect gas price volatility. DBRS believes that the Company has strong liquidity to manage the working capital volatility.

Outlook

- Terasen Gas' financial profile is expected to remain relatively stable going forward, reflecting the following factors:
  - Operating cash flows are expected to grow modestly due to a larger rate base, which more than offsets the negative impact of lower ROE.
  - Capital expenditures are expected to be roughly between $105 million and $110 million in 2007.
  - Approximately 20% to 30% of capital expenditures are allocated to customer growth (including the $37 million pipeline project from Squamish to Whistler, prior to the 2010 Winter Olympics).

- The Company is expected to manage its dividends to keep the capital structure within the approved 35%/65%. As a result, DBRS believes Terasen Gas' financial profile will remain stable, reflecting the following:
  - Terasen Gas will likely incur a very modest free cash flow deficit, but the deficit will be manageable.
  - Leverage should remain at the 65% level.
  - EBIT interest coverage and cash flow-to-debt ratios should remain stable within the current rating category.

LONG-TERM DEBT MATURITIES AND BANK LINES

Long-Term Debt Maturity Schedule – as at September 30, 2006 (DBRS estimate)
(CAD millions)

	2007	2008	2009	2010	Thereafter	Total
Long-term debt	251.8	189.8	61.6	1.8	843	1,348

Summary

- The debt-repayment schedule, although moderate in amounts, is significantly higher in 2007 and 2008, compared to 2009 and 2010.
- DBRS believes that Terasen Gas should be able to refinance its maturing debt in 2007 and 2008, given its solid financial profile.
- The Company's liquidity position is strong, reflecting sizable credit facilities ($500 million), stable cash flow from operations, and moderate short-term obligations.
- On June 21, 2006, Terasen Gas entered into a $500 million three-year revolving credit facility, extendible annually for an additional 364 days at the option of the lenders. This facility replaces five bilateral facilities aggregating $500 million and includes terms and conditions similar to the facilities replaced.
  - The facility's financial covenants include a debt-to-capital ratio of 75%. As of September 30, 2006, Terasen Gas was in compliance with the covenants.
  - The credit facility is used to support its $500 million commercial paper (CP) and support working capital.
  - Terasen Gas is subject to Material Adverse Change (MAC) effect. However, the MAC clause is only applicable for renewing credit facilities, not for subsequent draw-downs from the facilities. DBRS views this as favourable to the company liquidity.
- As of September 31, 2006, Terasen Gas had $207 million of commercial paper and bankers' acceptances outstanding.
  - Letters of credit (related to unfunded pension funds) outstanding at September 2006 was $43.6 million.

Appendix: Operating Data

		12 mos. ended	For year ended December 31					
Throughput Volumes		Sept 30, 2006	2005	2004	2003	2002	2001	2000
Residential		62.272	62.668	60.050	62.126	67.906	62.849	69.531
Commercial		34.758	35.307	34.585	35.217	38.378	38.107	42.170
Small industrial		4.938	3.793	4.425	5.057	5.870	7.585	9.301
Large industrial		0.186	0.271	0.361	0.271	1.084	0.632	1.445
Total Natural Gas Sales Volumes	54%	102.155	102.039	99.420	102.671	113.236	109.173	122.447
Transportation service	30%	56.858	57.702	56.708	56.257	60.230	53.006	55.535
Throughput under fixed-price contracts	16%	31.266	32.869	35.488	31.424	33.321	62.939	57.250
Total Throughputs (billions of cubic feet)		190.279	192.610	191.617	190.352	206.787	225.118	235.232
Customers								
Residential	90%	734,386	723,898	712,304	701,335	694,787	687,375	682,401
Commercial	10%	79,330	78,497	77,624	77,013	77,894	78,756	78,948
Small industrial	0%	356	396	416	470	488	515	602
Large industrial	0%	41	45	45	50	61	61	66
Transportation	0%	2,150	1,907	1,741	1,512	1,328	1,141	856
Total (thousands)	100%	816,263	804,743	792,130	780,380	774,558	767,848	762,873

Terasen Gas Inc.

Balance Sheet (CAD millions)	As at	As at December 31			As at	As at December 31	
Assets	Sept 30, 2006	2005	2004	**Liabilities & Equity**	Sept 30, 2006	2005	2004
Cash	47	16	2	Short-term debt	207	313	107
Accounts receivable	152	401	253	L.t.d. due in one year	22	122	397
Inventories	221	178	152	A/P	348	319	252
Prepaid expenses	2	4	4	Tax payables	22	30	19
Rate stabilization accts	122	13	14	Rate stabilization acct.	0	48	28
Current Assets	544	612	424	**Current Liabilities**	599	832	803
Net fixed assets	2,336	2,329	2,260	Long-term debt	1,348	1,230	1,051
Rate stabilization accts	26	26	28	Deferred credits	40	46	33
Deferred charges	34	35	36	Deferred taxes	70	59	60
Long-term rec. + investments	10	10	10	Shareholders' equity	893	846	810
Total	2,950	3,013	2,757	**Total**	2,950	3,013	2,757

Ratio Analysis	12 mos. ended	For the year ended December 31				
Liquidity Ratios	Sept 30, 2006	2005	2004	2003	2002	2001
Current ratio	0.91	0.74	0.53	0.66	0.53	0.61
Accumulated depreciation/gross fixed assets	20.2%	21.9%	21.0%	20.1%	18.8%	17.5%
Cash flow/total debt (1)	9.6%	8.9%	9.2%	8.5%	8.8%	8.2%
Cash flow/capital expenditure	1.58	1.52	1.61	1.27	1.34	0.98
Cash flow-dividends/capital expenditures	1.43	0.94	0.97	0.58	0.62	0.56
% debt in capital structure (1)	65.2%	67.6%	67.1%	69.4%	69.0%	69.4%
Average coupon on long-term debt	7.24%	7.23%	7.23%	7.29%	7.81%	7.76%
Approved common equity	35%	33%	33%	33%	33%	33%
Common dividend payout (before extras.)	21.8%	86.3%	84.7%	113.6%	119.2%	89.3%
Coverage Ratios						
EBIT interest coverage (1)	1.98	1.94	1.94	1.93	1.95	1.79
EBITDA interest coverage (1)	2.71	2.70	2.75	2.65	2.67	2.41
Fixed-charges coverage (1)	1.93	1.90	1.89	1.89	1.90	1.75
Debt/EBITDA	5.53	5.85	5.61	5.83	5.56	5.65
Earnings Quality						
EBIT margin, excluding cost of natural gas	42.6%	44.1%	42.7%	44.2%	45.3%	47.4%
Net margin (excluding preferred dividends)	13.4%	13.8%	14.2%	14.1%	13.5%	13.7%
Return on avg. common equity (bef. extras.)	7.9%	8.4%	9.0%	9.2%	8.8%	8.8%
Allowed ROE (2)	8.80%	9.03%	9.15%	9.42%	9.13%	9.25%
Operating Statistics						
Customers/employees	680	671	670	626	574	594
Customer growth	5.4%	1.6%	1.5%	0.8%	0.9%	0.7%
Operating costs/avg. customer (CAD)	320	304	313	306	302	282
Rate base (CAD millions)	2,516	2,406	2,310	2,281	2,234	2,208
Rate base growth	4.6%	4.2%	1.3%	2.1%	1.2%	
Kilometres of pipelines	43,775	43,775	43,776	43,777	43,196	37,430
Rate base/km of pipeline (CAD thousands)	57.5	55.0	52.8	52.1	51.7	59.0
Rate base/throughput volumes (CAD millions per bcf)	13.2	12.5	12.1	12.0	10.8	9.8

(1) Includes operating leases

(2) Approved ROE for 2007 is 8.37% with an equity ratio of 35%

Note:
All figures are in Canadian dollars, unless otherwise noted.

Rating Report
Report Date:
May 20, 2008

Previous Report
March 16, 2007

Terasen Gas Inc.

Insight beyond the rating.

Analysts

Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

Roshan Thiru
+1 416 597 7357
rthiru@dbrs.com

The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 826,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Recent Actions

May 13, 2008
Rates New Issue

April 14, 2008
Confirmed with a Stable Trend

Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Purchase Money Mortgages and MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations, a favourable regulatory environment with strong ring-fencing provisions, a strong franchise area with a large customer base and stable financial profile.

The regulatory environment continues to remain stable, providing a number of cost-recovery mechanisms, which, combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. Although return on equity (ROE) has been in general decline in recent years because of the low interest rate environment (8.62% in 2008 as opposed to 9.42% in 2003), the impact on earnings and cash flow has been modest and is largely offset by increases in the rate base and in the regulatory-approved equity thickness in the capital structure (35% since 2006, up from 33% previously).

TGI continues to maintain a stable financial profile and credit metrics, reflecting the regulated nature of its operations and its limited gas-cost exposure. In the medium term, DBRS expects earnings to remain relatively stable, with some variability due to such factors as allowed ROE, population growth, new housing starts and customer conversions. Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the $500 million revolving bank facility and long-term debt issuance. TGI's balance sheet is expected to remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved debt-to-equity ratio of 65%-35%. (Continued on page 2.)

Rating Considerations

Strengths
(1) Low business risk and strong regulatory framework
(2) Strong regulatory ring-fencing provisions
(3) Reasonably strong balance sheet and stable credit metrics
(4) Strong franchise area with a large customer base

Challenges
(1) Earnings and cash flow affected by lower ROE
(2) Long-term competitiveness of natural gas relative to alternative energy sources
(3) Volume exposure in the industrial and transportation segment

Financial Information

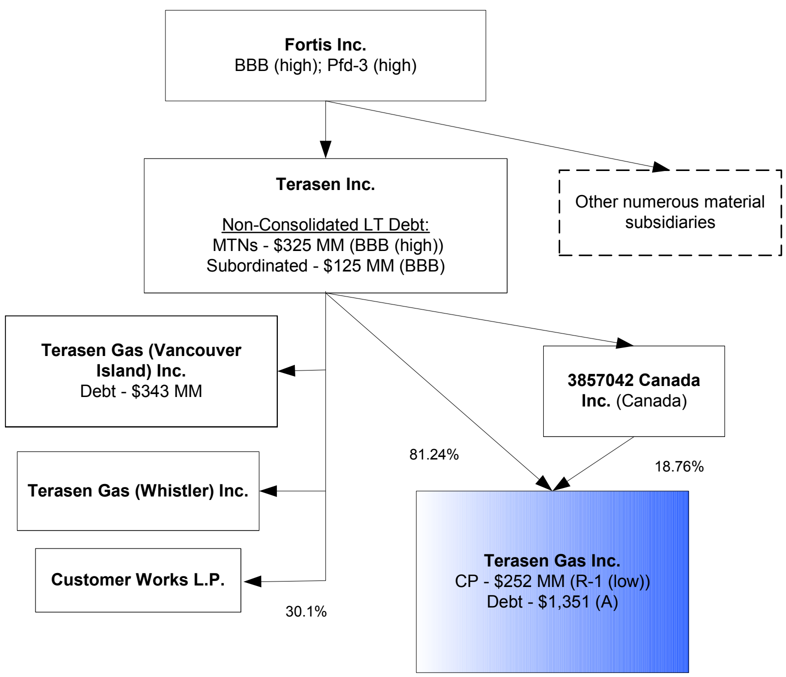
	12 mos. ended	For the year ended December 31				
	Mar. 31, 2008	2007	2006	2005	2004	2003
EBIT interest coverage (1)	1.96	1.95	2.00	1.94	1.94	1.93
% debt in capital structure (1)	65.8%	66.5%	64.7%	67.6%	67.1%	69.4%
Cash flow/total debt (times) (1)	8.8%	8.4%	9.7%	8.9%	9.2%	8.5%
Cash flow/capital expenditures (times)	1.32	1.35	1.47	1.52	1.61	1.27
Allowed ROE	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%
Net income bef. Extra. items (CAD millions)	74	70	68	70	71	70
Operating cash flow (CAD millions)	148	146	160	157	152	148

(1) Includes operating leases

Rating Rationale (Continued from page 1.)

The Company's credit metrics have historically remained stable and are expected to continue to do so, with minor variability. DBRS notes that while TGI's credit metrics appear weaker than those of its peers in the same rating category, this is offset by the Company's more stable credit metrics and business risk profile. Despite the significant increases in natural gas prices since 1999, the Company has maintained a competitive advantage in terms of pricing when compared with alternative energy sources in British Columbia. TGI's financial strength and credit profile over the longer term will depend to an extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



As at March 31, 2008

Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment that benefits from a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the April 30, 2007, British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

(3) TGI maintains a stable balance sheet and credit metrics, reflecting the following: (a) a consistent debt-to-capital ratio, currently at 66%; (b) an EBIT interest coverage ratio historically close to 2.0 times; and (c) a cash flow-to-debt ratio that has been in the 8% to 10% range over the past five years. While the EBIT

coverage and cash flow-to-debt ratios appear on the low end for an "A" rating compared with its gas distribution peers, historically TGI's credit metrics have shown the most stability.

(4) TGI serves a large customer base of more than 826,000, located in a stable and growing franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges

(1) The approved ROE of 8.62% for 2008 is low and has been in gradual decline in recent years due to the low interest rate environment. Despite a modestly growing rate base ($2.5 billion in 2008 compared with $2.3 billion in 2004), earnings and cash flow have remained flat as a result of the lower ROE.

(2) TGI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices since 1999, natural gas has maintained a competitive advantage in terms of pricing compared with electricity. It is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to BC Hydro. However, TGI's competitive position would weaken should gas prices increase significantly for a prolonged period of time, which may affect TGI's longer-term earnings and financial profile.

(3) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

Regulation

Regulatory Overview

- TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC annually for approval of its forecast cost-of-service, throughput, revenue and capital additions.
- TGI's cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; income and other taxes; and a return on equity.
- TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas.
- TGI's rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.
  - **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments in the price forecast are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.
  - **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and

sales customers, which account for 45% of total throughput, are not covered by this deferral account. However their usage is more predictable and less likely to be significantly affected by weather.
  - TGI also has in place short-term and long-term interest rate deferral accounts to absorb interest rate fluctuations.
- Variances between forecast and actual cost of service and revenue are generally approved by the BCUC for recovery in future rates, with the exception of excess OM&A costs and base-capital expenditures, which are subject to an incentive formula.
  - In July 2003, the BCUC approved a negotiated settlement of a performance-based rate (PBR) plan covering the 2004–2007 period.
  - Under the PBR plan, operating and maintenance costs and base-capital expenditures are subject to an incentive formula that reflects increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years (2006 and 2007).
  - The PBR plan provides for a 50-50 sharing mechanism of earnings above or below the allowed ROE.
  - In January 2007, the Company filed an application with the BCUC to extend the current PBR period for another two years, through to 2009. In March 2007, the BCUC approved the application as filed. The approved PBR is materially the same as the previously established PBR.
- Allowed ROE is set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield. Based on this formula, for F2008, the ROE is set at 8.62%, with an equity thickness of 35%. The equity thickness was increased to 35% from 33% in 2006.
- Forecast capital expenditures are also approved by the BCUC. For capital projects that are not covered by the annual capital plan or PBR, TGI submits a separate application to the BCUC. If actual capital costs exceed the amount approved, the excess cost may be subject to a prudence review.
- Beginning in November 2004, commercial customers were able to purchase gas from alternative commodity suppliers. Starting in November 2007, residential customers were also able to purchase gas from alternative commodity suppliers. The unbundling will not have any financial impact on TGI as it will continue to provide delivery services to these unbundled customers and delivery margins are not expected to be affected by the migration of residential customers to alternative commodity suppliers.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (35%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

While the TGI rating is assigned predominantly on a stand-alone basis, the financial strength of its parent, Fortis Inc. (rated BBB (high)) is viewed as a positive.

Earnings and Outlook

Consolidated Earnings

(CAD millions)	12 mos. ended Mar. 31, 2008	For the year ended December 31 2007	2006	2005	2004	2003
Net revenues	509	507	517	505	498	500
EBITDA	295	293	301	302	294	298
EBIT	218	215	217	222	213	221
Gross interest expense	109	108	106	112	107	113
Pre-tax income	110	108	112	111	106	110
Income taxes	36	38	44	42	35	39
Net income (before extras)	74	70	68	70	71	70
Net income	82	78	68	65	71	70
Return on avg. common equity (bef. extras.)	8.3%	7.9%	7.8%	8.4%	9.0%	9.2%
EBIT margin (net of gas costs)	42.8%	42.3%	42.0%	44.1%	42.7%	44.2%
Rate Base	2,505	2,484	2,516	2,406	2,310	2,281
Approved common equity	35.0%	35.0%	35.0%	33.0%	33.0%	33.0%
Allowed ROE	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%

Summary

- TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its retail customer base, increases in its rate base and an increased approved equity component, all largely offset by declining allowed ROE.
  - Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract.
- Though in recent years housing starts in British Columbia have been strong, growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling. The BCUC's 2006 decision to increase TGI's equity thickness to 35% from 33% continues to have a positive impact on TGI's performance.
- The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment have exhibited stability over the past five years, and volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.
- The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is` less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments.
- Interest expense has been relatively stable since 2003 due to fairly consistent levels of total debt.

Outlook

- As a mature gas distribution utility, TGI is expected to have relatively stable earnings over the medium term, with some variability due to allowed ROE, population growth, new housing starts and customer conversions.
- In the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI's financial and credit profile.

Terasen Gas Inc.

Report Date:
May 20, 2008

Financial Profile

(CAD millions)	12 mos. ended Mar. 31, 2008	For year ended Dec. 31 2007	2006	2005	2004	2003
Net income before extraordinary items	74	70	68	70	71	70
Depreciaton & amortization	78	79	84	79	82	77
Other non-cash adjustments	(4)	(3)	8	8	(1)	1
Cash Flow From Operations	148	146	160	157	152	148
Capital expenditures	(112)	(108)	(109)	(103)	(94)	(116)
Common dividends	(125)	(111)	(40)	(60)	(60)	(80)
Free Cash Flow Before W/C Changes	(89)	(73)	12	(7)	(2)	(48)
Working capital changes	(42)	(28)	83	(45)	40	(2)
Net Free Cash Flow	(131)	(101)	95	(51)	37	(51)
Acquisitions/divestitures	14	0	0	(42)	68	(4)
Other adjustment/comprehensive	15	11	(7)	(2)	(2)	0
Cash flow before financing	(102)	(90)	88	(95)	103	(54)
Net change in debt financing	116	89	(98)	109	(97)	52
Net change in pref. share financing	0	0	0	0	0	0
Net change in equity financing	0	0	0	0	0	0
Net Change in Cash	14	(1)	(9)	14	6	(2)
Total adjusted debt (CAD million) (1)	1,686	1,744	1,655	1,763	1,652	1,737
Cash flow/total debt (times) (1)	8.8%	8.4%	9.7%	8.9%	9.2%	8.5%
% debt in the capital structure (1)	65.8%	66.5%	64.7%	67.6%	67.1%	69.4%
EBIT interest coverage (times)	1.96	1.95	2.00	1.94	1.94	1.93
Dividend payout ratio (%)	168.8%	158.0%	58.5%	86.3%	84.7%	113.6%

(1) Includes operating leases

Summary

- TGI continues to maintain strong and stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments.
- The large dividend payment in F2007 was primarily due to the significant reduction in dividend payment in F2006.
  - Dividend payments in F2006 were modest as TGI, through retained earnings, increased its equity thickness from 33% to the new regulatory-approved 35%. Going forward, DBRS expects that dividend payments will be made in such a way as to keep the Company's debt-to-capital in line with that allowed by the regulator.
  - As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes. As such, free cash flow has varied along with the level of dividend payments in recent years. Free cash flow deficits over the past five years have been manageable and were funded with debt.
- Leverage remains reasonable at approximately 66%, offset by a slightly weak but acceptable cash flow-to-debt ratio of 8.8%. The stability of TGI's credit metrics are a key factor in its current ratings.
- While the regulatory ring-fencing helps maintain leverage and coverage ratios within the current rating category, leverage can temporarily get out of line during times of significant capital spending. At present, TGI has no major projects planned.

Outlook

- Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility and long-term debt issuance.
  - DBRS expects the capital expenditure to be approximately $150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.

- TGI's financial profile is expected to remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved 65%-35% debt-to-equity.
- Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Long-Term Debt Maturities and Liquidity

As at March 31, 2008							
(CAD millions)	2008	2009	2010	2011	2012	Thereafter	Total
Long-Term Debt	190	62	2	2	2	1,095	1,351

- Currently TGI has a five-year, $500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2012. Approximately $204 million was unutilized at March 31, 2008. The credit facility is used to support TGI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements (and therefore short-term debt) typically peak in the fall and winter seasons, with reductions in the spring and summer.
- The debt-repayment schedule is modest, with the exception of a large maturity in June 2008. DBRS expects TGI to refinance its maturing debt given its stable credit profile and cash flows generated from its low-risk operations.
- TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.
  - The covenant does not apply to debt issuance for refinancing, and interest expenses do not include interest expenses related to short-term debt or Purchase Money Mortgages.

Terasen Gas Inc.

Report Date:
May 20, 2008

Terasen Gas Inc.

Balance Sheet

(CAD millions)	As at	As at December 31			As at	As at December 31	
Assets	Mar. 31, 2008	2007	2006	**Liabilities & Equity**	Mar. 31, 2008	2007	2006
Cash	9	6	7	Short-term debt	252	305	217
Accounts receivable	433	310	290	L.t.d. due in one year	190	190	251
Inventories	63	187	168	A/P	254	331	408
Prepaid expenses	2	4	5	Tax payables	62	39	31
Rate stabilization accts	19	61	118	Rate stabilization acct.	73	0	0
Current Assets	527	568	588	**Current Liabilities**	830	865	907
Net fixed assets	2,392	2,380	2,353	Long-term debt	1,150	1,151	1,091
Rate stabilization accts	8	12	25	Deferred credits	0	78	67
Deferred charges	38	40	36	Deferred taxes	132	51	55
Long-term rec. + investments	23	23	18	Shareholders' equity	875	878	901
Total	2,988	3,022	3,020	**Total**	2,988	3,022	3,020

Ratio Analysis	12 mos. ended	For the year ended December 31				
Liquidity Ratios	Mar. 31, 2008	2007	2006	2005	2004	2003
Current ratio	0.63	0.66	0.65	0.74	0.53	0.66
Accumulated depreciation/gross fixed assets	n.a.	23.4%	23.5%	21.9%	21.0%	20.1%
Cash flow/total debt (1)	8.8%	8.4%	9.7%	8.9%	9.2%	8.5%
Cash flow/capital expenditure	1.32	1.35	1.47	1.52	1.61	1.27
Cash flow-dividends/capital expenditures	0.21	0.33	1.11	0.94	0.97	0.58
% debt in capital structure (1)	65.8%	66.5%	64.7%	67.6%	67.1%	69.4%
Approved common equity	35%	35%	35%	33%	33%	33%
Common dividend payout (before extras.)	168.8%	158.0%	58.5%	86.3%	84.7%	113.6%
Coverage Ratios						
EBIT interest coverage (1)	1.96	1.95	2.00	1.94	1.94	1.93
EBITDA interest coverage (1)	2.64	2.64	2.84	2.70	2.75	2.65
Fixed-charges coverage (1)	1.91	1.90	1.95	1.90	1.89	1.89
Debt/EBITDA	5.71	5.95	5.50	5.85	5.61	5.83
Earnings Quality						
EBIT margin, excluding cost of natural gas	42.8%	42.3%	42.0%	44.1%	42.7%	44.2%
Net margin (excluding preferred dividends)	14.5%	13.8%	13.2%	13.8%	14.2%	14.1%
Return on avg. common equity (bef. extras.)	8.26%	7.89%	7.8%	8.4%	9.0%	9.2%
Allowed ROE (2)	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%
Operating Statistics						
Customers/employees	n.a.	750	679	671	670	626
Customer growth	0.9%	1.2%	1.3%	1.6%	1.5%	0.8%
Operating costs/avg. customer (CAD)	299	303	318	304	313	306
Rate base (CAD millions)	2,505	2,484	2,516	2,406	2,310	2,281
Rate base growth	0.8%	-1.3%	4.6%	4.2%	1.3%	2.1%

(1) Includes operating leases

(2) Approved ROE for 2007 is 8.37% with an equity ratio of 35%

Operating Statistics

		12 mos. ended	For year ended December 31				
Throughput Volumes		Mar. 31, 2008	2007	2006	2005	2004	2003
Residential		n.a.	74.9	68.7	69.4	66.5	68.8
Commercial		n.a.	42.3	38.4	39.1	38.3	39.0
Small industrial		n.a.	3.4	3.8	4.2	4.9	5.6
Large industrial		n.a.	0.2	0.2	0.3	0.4	0.3
Total Natural Gas Sales Volumes	55%	n.a.	120.8	111.1	113.0	110.1	113.7
Transportation service	28%	n.a.	62.3	62.3	63.9	56.7	62.3
Throughput under fixed-price contracts	17%	n.a.	36.8	36.8	36.4	35.5	34.8
Total Throughputs (PJs)*	100%	n.a.	219.9	210.2	213.3	202.3	210.8
Customers							
Residential	90%	n.a.	742,882	733,598	723,898	712,304	701,335
Commercial	10%	n.a.	79,717	79,113	78,497	77,624	77,013
Small industrial	0%	n.a.	297	325	396	416	470
Large industrial	0%	n.a.	40	40	45	45	50
Transportation	0%	n.a.	2,041	1,956	1,907	1,741	1,512
Total (thousands)	100%	826,672	824,977	815,032	804,743	792,130	780,380

* Increase in throughput volume for F2007 reflects the amalgamation of Terasen Gas (Squamish) Inc. with TGI

Terasen Gas Inc.

Report Date:
May 20, 2008

Rating Table

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	RR-1 (low)	Confirmed	Stable
Purchase Money Mortgages	AA	Confirmed	table
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating History

Debt Rated	Current	2007	2006	2005	2004	2003
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Related Research

Terasen Inc., May 20, 2008.

Notes:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
May 27, 2009

Previous Report
May 20, 2008

Insight beyond the rating.

Terasen Gas Inc.

Analysts

Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

Darryl Brown
+1 416 597 7459
dbrown@dbrs.com

The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 834,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Recent Actions

February 20, 2009
Rates New Issue

May 13, 2008
Rates New Issue

April 14, 2008
Confirmed with a Stable Trend

Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating Update

DBRS has confirmed the Purchase Money Mortgages and the MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations, a favourable regulatory environment with strong ring-fencing provisions, a strong franchise area with a large customer base and a stable financial profile.

The regulatory environment continues to remain stable, and provides for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allows for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. The Company's performance based regulation (PBR), which had been in place from 2004 to 2007, was extended through to 2009. TGI recently filed an application to review its allowed return on equity (ROE) and capital structure, and is expected to file a new revenue requirement application with the continuation of its numerous deferral accounts. Although the ROE has been in general decline (8.47% in 2009 as opposed to 9.42% in 2003) because of the low interest rate environment, the impact on earnings and cash flow has been modest and is largely offset by increases in the rate base, higher approved equity thickness in the capital structure (35% since 2006, up from 33% previously), incentive earnings, and stable levels of debt.

TGI continues to maintain a stable financial profile and credit metrics (albeit weaker than its peers), reflecting the regulated nature of its operations and its limited gas-cost exposure. DBRS expects lower customer growth than in the past few years due to a slowing economy, fewer new housing starts, and a shift in the housing mix to more multi-family dwellings. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low business risk and supportive regulatory framework
(2) Strong regulatory ring-fencing provisions
(3) Reasonable balance sheet and stable credit metrics
(4) Strong franchise area with a large customer base

Challenges

(1) Earnings and cash flow affected by lower ROE
(2) Long-term competitiveness of natural gas relative to alternative energy sources
(3) Volume exposure in the industrial and transportation segment
(4) Loss of PBR incentive earnings upon expiry

Financial Information

	12 mos. ended Mar. 31 '09	For the year ended December 31			
	2009	2008	2007	2006	2005
EBIT interest coverage (1)	1.89	1.88	1.95	2.00	1.94
% debt in capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
Cash flow/total debt (times) (1)	9.6%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditures (times)	1.21	1.24	1.35	1.47	1.52
Net income bef. extras (CAD millions)	79	78	70	68	70
Operating cash flow (CAD millions)	151	152	146	160	157

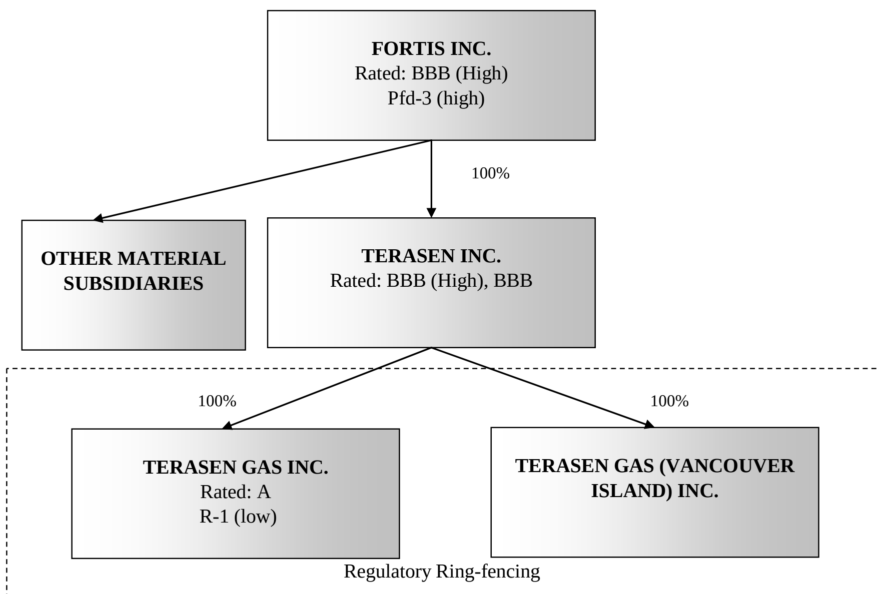
(1) Includes operating leases

Rating Update (Continued from page 1.)

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the $500 million revolving bank facility ($389 million available at March 31, 2009) and long-term debt issuance. TGI's balance sheet should remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved debt-to-equity ratio of 65% to 35%.

The Company's credit metrics have historically remained consistent and are expected to continue to do so, with minor variability. DBRS notes that while TGI's credit metrics are weaker than those of similarly-rated gas distribution peers, this has historically been offset by the Company's more stable credit metrics and business risk profile. The Company continues to maintain a price advantage relative to electricity, the primary competitor to natural gas. The current weak gas pricing environment both improves TGI's competitiveness, and reduces working capital and liquidity requirements. TGI's financial strength and credit profile over the longer term will depend to an extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment within a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the April 30, 2007, British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

(3) TGI maintains a stable balance sheet and credit metrics, reflecting the following: (a) a debt-to-capital ratio consistently in the mid-60% area; (b) an EBIT interest coverage ratio historically close to 2.0 times; and (c) a cash flow-to-debt ratio that has been in the 8% to 10% range over the past five years. While the EBIT coverage and cash flow-to-debt ratios are on the low end for an "A" rating compared with its gas distribution peers, historically TGI's credit metrics have shown the most stability.

(4) TGI serves a large customer base of approximately 834,000, located in a stable franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges

(1) The approved ROE of 8.47% for 2009 (8.62% in 2008) is low and has been in gradual decline in recent years due to the low interest rate environment. Despite a modestly growing rate base ($2.5 billion in 2008 compared with $2.3 billion in 2004), earnings and cash flow have remained flat, largely as a result of the lower ROE. Under the current adjustment mechanism, approved ROEs could trend even lower in the future, depending on Government of Canada bond (Canada Bonds) yields.

(2) TGI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices from 1999 through 2008, natural gas maintained a competitive advantage in terms of pricing compared with electricity. While gas prices have retreated significantly in 2009, it is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to BC Hydro.

(3) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

(4) Under the PBR, TGI shares earnings above or below the allowed ROE on a 50/50 basis with customers. This sharing mechanism will expire along with the PBR, which will likely exert some downward pressure on earnings, as TGI's incentive earnings averaged over $10 million per year in 2007 and 2008.

Regulation

Regulatory Overview

- TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC annually for approval of its forecast cost-of-service, throughput, revenue and capital additions.
- TGI's cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; income and other taxes; and a return on equity.
- TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas.
- TGI's rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.
  - **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments in the price forecast are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.

- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and sales customers, which account for 45% of total throughput, are not covered by this deferral account. However, their usage is more predictable and less likely to be significantly affected by weather.
- TGI also has in place short- and long-term interest rate deferral accounts to absorb interest rate fluctuations.

- Variances between forecast and actual cost of service and revenue are generally approved by the BCUC for recovery in future rates, with the exception of excess OM&A costs and base-capital expenditures, which are subject to an incentive formula.
  - In 2003, the BCUC approved a negotiated settlement of a performance-based rate (PBR) plan covering the 2004 to 2007 period. In 2007, the BCUC approved a TGI application to extend the PBR through 2009.
  - Under the PBR plan, operating and maintenance costs and base-capital expenditures are subject to an incentive formula that reflects increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during 2006 and 2007.
  - The PBR plan provides for a 50-50 sharing mechanism of earnings above or below the allowed ROE.
  - Allowed ROE is set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield. Based on this formula, for F2009, the ROE is set at 8.47% (8.62% in 2008), with an equity thickness of 35%. The equity thickness was increased to 35% from 33% in 2006.
- Declining yields on 30-year Canada Bonds have reduced approved ROEs (and could continue to do so), which, when coupled with increased credit spreads on long-term debt offerings, has resulted in a declining spread between approved ROEs and debt costs. The Company recently filed an application with the BCUC seeking changes to the current generic ROE adjustment mechanism and deemed equity thickness; TGI requested that its ROE be set at 11% (and not be adjusted by an automatic mechanism) and its equity thickness increased to 40%.
- Forecast capital expenditures are also approved by the BCUC. For capital projects that are not covered by the annual capital plan or PBR, TGI submits a separate application to the BCUC. If actual capital costs exceed the amount approved, the excess cost may be subject to a prudence review.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (35%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

Terasen Gas Inc.

Report Date:
May 27, 2009

Earnings and Outlook

Consolidated Earnings

(CAD millions)	12 mos. ended Mar. 31 '09 2009	For the year ended December 31 2008	2007	2006	2005
Net revenues	517	513	507	517	505
EBITDA	291	292	293	301	302
EBIT	211	214	215	217	222
Gross interest expense	112	111	108	106	112
Pre-tax income	101	103	108	112	111
Income taxes	22	25	38	44	42
Net income (before extras)	79	78	70	68	70
Net income	92	92	78	68	65
Return on avg. common equity (bef. extras.)	8.8%	8.9%	7.9%	7.8%	8.4%
EBIT margin (net of gas costs)	40.9%	41.7%	42.3%	42.0%	44.1%
Rate Base	n/a	2,510	2,484	2,516	2,406
Approved common equity	35.0%	35.0%	35.0%	35.0%	33.0%
Allowed ROE	8.47%*	8.62%	8.37%	8.80%	9.03%

* 8.47% for 2009

Summary

- TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its customer base, increases in its rate base and a stable approved equity component, all largely offset by declining allowed ROE.
  - Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract.
- Though in recent years housing starts in British Columbia have been strong, growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling. The BCUC's 2006 decision to increase TGI's equity thickness to 35% from 33% had a positive impact on TGI's performance.
- The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment have exhibited stability over the past five years, and volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.
- The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments.
- Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

- In the shorter term, earnings will likely be moderately impacted by the loss of incentive earnings upon expiry of the PBR mechanism. Over the medium term, as a mature gas distribution utility, TGI is expected to have relatively stable earnings with some variability due to allowed ROE, population growth, new housing starts and customer conversions. DBRS expects lower customer growth than in the past few years due to a slowing economy and fewer new housing starts. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs.
- Over the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI's financial and credit profile. The competitiveness of natural gas will also be affected by the provincial consumption tax on carbon-based fuels.

Financial Profile

(CAD millions)	12 mos. ended Mar. 31 '09 2009	For year ended Dec. 31 2008	2007	2006	2005
Net income before extraordinary items	79	78	70	68	70
Depreciaton & amortization	79	78	79	84	79
Other non-cash adjustments	(7)	(5)	(3)	8	8
Cash Flow From Operations	151	152	146	160	157
Capital expenditures	(125)	(122)	(108)	(109)	(103)
Common dividends	(58)	(100)	(111)	(40)	(60)
Free Cash Flow Before W/C Changes	(32)	(70)	(73)	12	(7)
Working capital changes	25	33	(28)	83	(45)
Net Free Cash Flow	(7)	(37)	(101)	95	(51)
Acquisitions/divestitures	0	14	0	0	(42)
Other adjustment/comprehensive	38	36	11	(7)	(2)
Cash flow before financing	31	13	(90)	88	(95)
Net change in debt financing	(23)	(5)	89	(98)	109
Net change in pref. share financing	0	0	0	0	0
Net change in equity financing	0	0	0	0	0
Net Change in Cash	8	8	(1)	(9)	14
Total adjusted debt (CAD million) (1)	1,569	1,730	1,744	1,655	1,763
Cash flow/total debt (times) (1)	9.6%	8.8%	8.4%	9.7%	8.9%
% debt in the capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
EBIT interest coverage (times)	1.89	1.88	1.95	2.00	1.94
Dividend payout ratio (%)	73.2%	127.7%	158.0%	58.5%	86.3%

(1) Includes operating leases

Summary

- TGI continues to maintain stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments.
- The relatively large dividend payments in F2007 and F2008 were primarily due to the significant reduction in dividend payment in F2006.
  - Dividend payments in F2006 were modest as TGI, through retained earnings, increased its equity thickness from 33% to the new regulatory-approved 35%. Going forward, DBRS expects that dividend payments will be made in such a way as to keep the Company's debt-to-capital in line with that allowed by the regulator.
  - As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes. As such, free cash flow has varied along with the level of dividend payments in recent years. Free cash flow deficits over the past five years have been manageable and were funded with debt.
- Leverage remains reasonable at approximately 66%, offset by a weak but acceptable cash flow-to-debt ratio, which is typically in the 8% to 10% range. The stability of TGI's credit metrics is a key factor in its current ratings.

Outlook

- Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility ($218 million available at December 31, 2008) and long-term debt issuance.
  - DBRS expects the capital expenditure to be approximately $150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.
- TGI's financial profile should remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved 65% to 35% debt-to-equity (unchanged from 2008).
- Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Long-Term Debt Maturities and Liquidity

As at Dec. 31, 2008 (CAD millions)	2009	2010	2011	2012	2013	Thereafter	Total
Long-Term Debt	62	2	2	2	2	1,345	1,413

- Currently, TGI has a five-year, $500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2013. Approximately $389 million was unutilized at March 31, 2009. The credit facility is used to support TGI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements (and, therefore, short-term debt) typically peak in the fall and winter seasons, with reductions in the spring and summer.
- The debt-repayment schedule is very modest through to 2015. In February 2009, TGI issued $100 million of 30-year notes, which more than pre-funds the 2009 maturities.
- TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.
  - The covenant does not apply to debt issuance for refinancing, and interest expenses do not include interest expenses related to short-term debt or Purchase Money Mortgages.

Terasen Gas Inc.

Report Date:
May 27, 2009

Terasen Gas Inc.

Balance Sheet
(CAD millions)

Assets	Mar. 31 2009	As at December 31 2008	2007	**Liabilities & Equity**	Mar. 31 2009	As at December 31 2008	2007
Cash	17	13	6	Short-term debt	68	239	305
Accounts receivable	388	346	310	L.t.d. due in one year	62	62	190
Inventories	64	192	187	A/P	371	366	331
Prepaid expenses	27	3	4	Tax payables	62	66	39
Rate stabilization accts	116	54	61	Rate stabilization acct.	55	24	0
Current Assets	613	608	568	**Current Liabilities**	617	755	865
Net fixed assets	2,369	2,432	2,380	Long-term debt	1,439	1,340	1,151
Rate stabilization accts	0	0	12	Deferred credits	183	138	78
Deferred charges	305	0	40	Deferred taxes	249	1	51
Long-term rec. + investments	101	69	23	Shareholders' equity	900	875	878
Total	3,387	3,109	3,022	**Total**	3,387	3,109	3,022

Ratio Analysis	12 mos. ending Mar. 31/09	For the year ended December 31			
Liquidity Ratios	2009	2008	2007	2006	2005
Current ratio	0.99	0.80	0.66	0.65	0.74
Accumulated depreciation/gross fixed assets	n/a	23.8%	23.4%	23.5%	21.9%
Cash flow/total debt (1)	9.6%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditure	1.21	1.24	1.35	1.47	1.52
Cash flow-dividends/capital expenditures	0.75	0.43	0.33	1.11	0.94
% debt in capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
Approved common equity	35%	35%	35%	35%	33%
Common dividend payout (before extras.)	73.2%	127.7%	158.0%	58.5%	86.3%
Coverage Ratios					
EBIT interest coverage (1)	1.89	1.88	1.95	2.00	1.94
EBITDA interest coverage (1)	2.61	2.55	2.64	2.84	2.70
Fixed-charges coverage (1)	1.89	1.84	1.90	1.95	1.90
Debt/EBITDA	5.40	5.93	5.95	5.50	5.85
Earnings Quality					
EBIT margin, excluding cost of natural gas	40.9%	41.7%	42.3%	42.0%	44.1%
Net margin (excluding preferred dividends)	15.2%	15.3%	13.8%	13.2%	13.8%
Return on avg. common equity (bef. extras.)	8.85%	8.93%	7.89%	7.8%	8.4%
Allowed ROE	8.47%*	8.62%	8.37%	8.80%	9.03%
Operating Statistics					
Customers/employees	n/a	758	750	679	671
Customer growth	n/a	1.1%	1.2%	1.3%	1.6%
Operating costs/avg. customer (CAD)	n/a	306	303	318	304
Rate base (CAD millions)	n/a	2,510	2,484	2,516	2,406
Rate base growth	n/a	1.0%	-1.3%	4.6%	4.2%

(1) Includes operating leases

* 8.47% for 2009

Operating Statistics

	For year ended December 31				
Throughput Volumes	2008	2007	2006	2005	2004
Residential	78.5	74.9	68.7	69.4	66.5
Commercial	44.1	42.3	38.4	39.1	38.3
Small industrial	3.1	3.4	3.8	4.2	4.9
Large industrial	0.1	0.2	0.2	0.3	0.4
Total Natural Gas Sales Volumes	125.8	120.8	111.1	113.0	110.1
Transportation service	57.3	62.3	62.3	63.9	0.0
Throughput under fixed-price contracts	39.6	36.8	36.8	36.4	0.0
Total Throughputs (PJs)	222.7	219.9	210.2	213.3	110.1
Customers					
Residential	750,838	742,882	733,598	723,898	712,304
Commercial	81,012	79,717	79,113	78,497	77,624
Small industrial	284	297	325	396	416
Large industrial	33	40	40	45	45
Transportation	2,059	2,041	1,956	1,907	1,741
Total (thousands)	834,226	824,977	815,032	804,743	792,130

Terasen Gas Inc.

Report Date:
May 27, 2009

Ratings

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	table
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating History

Debt Rated	Current	2008	2007	2006	2005	2004
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report
Report Date:
December 23, 2010
Previous Report:
October 22, 2009

Insight beyond the rating.

Terasen Inc.

Analysts
Yean (Kit) Kitnikone
+1 416 597 7325
kkitnikone@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

The Company
Terasen Inc. is a holding company with primary investments in Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating for the Medium-Term Note Debentures (MTNs) of Terasen Inc. (TER or the Company) at BBB (high). The trend is Stable. The rating of TER reflects the low business risk profile and stable cash flows of its regulated utility subsidiaries, stable credit metrics and the strong parental support of its parent, Fortis Inc. (FTS, rated A (low)). The rating also reflects the regulatory ring-fencing and structural subordination considerations at its subsidiaries as well as the long-term competitiveness of natural gas vis-à-vis alternative energy sources. TER is the holding company of three natural gas distribution utilities, Terasen Gas Inc. (TGI, rated A and R-1 (low)), Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGWI), collectively referred to as the Utilities, as well as a 30% interest in Customer Works L.P. (a customer service provider), and 100% of Terasen Energy Services (an alternative energy solutions provider).

The regulatory environment for TER’s regulated subsidiaries remains stable and continues to provide for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In late 2009, TGI (which contributes to ~75% to 80% of TER’s earnings) executed a negotiated settlement agreement (NSA) that established rates for 2010 and 2011. The settlement excluded the performance-based rate (PBR) mechanism, under which TGI had operated since 2004. The PBR had allowed TGI the opportunity to share earnings above the allowed return on equity (ROE) with customers on a 50/50 basis and had been beneficial to TGI as it had provided, on average, over $11 million per year in earnings in 2008 and 2009. While the loss of PBR income would have potentially negatively affected TGI’s financial results, the British Columbia Utilities Commission’s (BCUC) December 2009 cost of capital decision largely offset the potentially adverse impact by increasing TGI’s allowed ROE to 9.50% from 8.47% and equity thickness to 40.00% from 35.01%, effective July 2009. TGVI and TGW’s ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. As a result, TGI and TGVI continue to generate stable returns, reflecting the regulated nature of their operations and their limited exposure to gas cost. (Continued on page 2.)

Rating Considerations

Strengths
(1) Investments comprised primarily of low-risk gas distribution utilities, providing stable earnings, cash flows and credit metrics
(2) Continued reasonable cash flow and credit metrics despite loss of PBR earnings
(3) Credit profile and support of strong parent

Challenges
(1) Strong regulatory ring-fencing protection at TGI and TGVI
(2) Structural subordination to debt at TGI and TGVI
(3) ROE levels and loss of PBR incentive
(4) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

Terasen Inc. *(Consolidated)*	LTM	FYE Dec. 31st		
	Sept. 30/10	2009	2008	2007
EBIT ($ MM)	305.1	281.5	291.8	281.1
Adj. CFO ($ MM)	218.6	205.2	203.1	153.7
Adj. Debt/Capital	69.1%	66.0%	65.9%	64.9%
Cash Flow/Adj.Debt	7.6%	7.6%	7.8%	6.2%
EBIT/Interest Expense	2.0x	1.7x	1.7x	1.6x
Return on Avg. Common Equity	9.5%	8.1%	10.2%	4.9%

Rating Rationale (Continued from page 1.)

DBRS anticipates that the trend of lower customer growth at TGI and TGVI will continue given fewer new housing starts in their respective service territories and a shift in the housing mix to more multi-family dwellings that do not typically utilize natural gas. This trend is expected to be mitigated by a focus on retaining customers through expanded energy conservation and efficiency programs.

TGVI's $200 million Mt. Hayes liquefied natural gas (LNG) storage facility which commenced construction in 2008 is nearing completion with an expected in-service date of Q2 2011. While the project will increase TGVI's rate base upon completion, TGI is contracting for two-thirds of the storage capacity, providing incremental earnings and cash flows not sourced from TGVI's existing customer base.

Minimal-to-modest free cash flow deficits continue to be expected at TGI and TGVI over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is anticipated to go into the rate base in a timely manner), and modest customer growth. On a consolidated basis, TER's overall credit profile is anticipated to remain reasonably consistent and adequate for its current ratings, with metrics in the range of debt-to-capital of 65%, EBIT-to-interest expense of 2.0x and CFO-to-debt of 8%. Modest improvements with TGI, and thus TER's credits metrics may be attributed to the recent approved regulatory decisions. TER's EBIT-to-interest expense and CFO-to-debt ratios are generally lower than those of its peers primarily due to lower figures at TGI. Non-consolidated metrics also support ratings, with dividend payments from TGI alone expected to be more than sufficient to cover TER's non-consolidated annual interest obligations.

Rating Considerations Details

Strengths

(1) TER is a holding company with investments in a low-risk portfolio of wholly-owned gas distribution subsidiaries, with TGI providing approximately 75% to 80% of TER's earnings. The Utilities operate in a stable, supportive regulatory environment with limited exposure to commodity price risk and volume risk, and provide long-term earnings and cash flow stability.

(2) On both a consolidated and non-consolidated basis, TER's financial profile remains solid with recent modest improvements, reflecting credit metrics that are appropriate for its current rating category but are, however, weaker relative to peers.

In late 2009, TGI executed a Negotiated Settlement Agreement (NSA) that concurrently established rates for 2010 and 2011 and excluded the PBR mechanism under which the Company had operated under since 2004. The PBR had allowed TGI to share earnings above the authorized ROE with customers on a 50/50 basis which was beneficial to TGI as it provided, on average, over $11 million per year in earnings in 2008 and 2009. While the loss of PBR income would have potentially negatively affected TGI's financial results, the BCUC's decision to increase TGI's allowed ROE to 9.50% from 8.47% and equity thickness to 40.00% from 35.01% largely offset any potentially adverse impact to TGI's credit profile. TGVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. As a result, TGI and TGVI continue to generate stable returns, reflecting the regulated nature of their operations in a supportive regulatory regime.

(3) The financial profile of TER's parent, FTS, allows it the flexibility to provide short-term funding to TER as required. This was most recently demonstrated when FTS provided TER with intercompany financing that TER utilized to redeem its $125 million of Capital Securities in April 2010. FTS also provided TER with intercompany funding, with which the Company utilized as an equity injection into TGI to align TGI's new capital structure to the 40% deemed equity approved by the BCUC in December 2009. DBRS anticipates that the remaining $125 million MTN at TER will also be refinanced via intercompany financing when the note matures in April 2014.

Terasen Inc.

Report Date:
December 23, 2010

Challenges

(1) Regulatory ring-fencing conditions imposed on TGI and TGVI in the BCUC's 2007 order that approved the acquisition of TER by FTS restricts TER's ability to upstream cash flow. These provisions include:

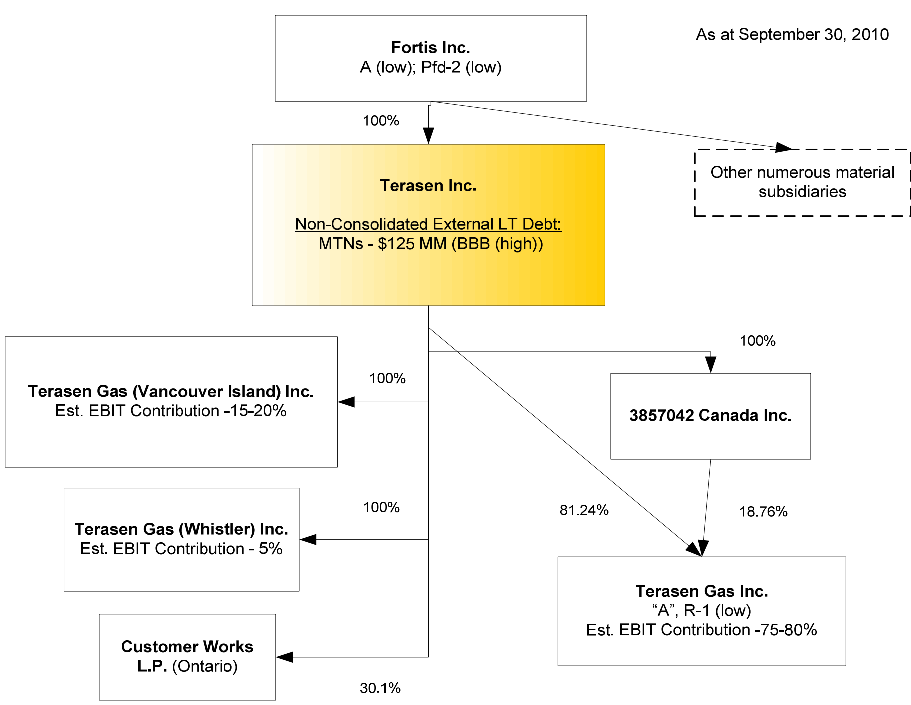
(a) maintaining the appropriate capital structures at TGI and TGVI within approved levels;
(b) obtaining regulatory approval if dividend payments are expected to increase leverage above approved levels; and
(c) refraining from providing loans or loan guarantees to TER.

(2) TER's debt is structurally subordinate to the debt at TGI and TGVI.

(3) Although the BCUC terminated use of the automatic ROE adjustment formula in its December 2009 cost of capital decision while concurrently increasing TGI's approved ROE level TGI to 9.50% (effective July 1, 2009), the Company's ROE had been below 9% for a number of years, consequently adversely impacting earnings and cash flows. Additionally, under the PBR mechanism, TGI had shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of this mechanism appears to have largely offset the credit metric upside of TGI's ROE increase since the PBR incentive earnings averaged more than $11 million annually in 2008 and 2009. Discontinuation of the adjustment formula without a clear replacement or alternate mechanism injects a level of uncertainty as to how ROE levels will be determined in the medium- to long-term. The ROE level as determined in the decision will apply until further review by the BCUC, however, DBRS notes that the BCUC had tasked TGI to investigate the use of alternative mechanisms and report back by the end of 2010. A report has subsequently been submitted to the BCUC.

(4) The earnings and financial profiles of TGI and TGVI, and thus the earnings and financial profile of TER, over the long term, will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. In the past, despite significant increases in natural gas prices throughout 2008, natural gas maintained a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected under reasonable gas price assumptions that natural gas in British Columbia will remain competitive relative to electricity given that, according to British Columbia Hydro & Power Authority (BC Hydro), electricity prices are expected to rise gradually in the medium term.

Simplified Organizational and Debt Chart



Consolidated Earnings Profile

Income Statement *($ MM)*	LTM	FYE Dec. 31st		
	Sept. 30/10	2009	2008	2007
Net Revenue	702.0	664.7	653.7	639.9
EBITDA	417.8	389.9	395.8	380.8
EBIT	305.1	281.5	291.8	281.1
Total Adj. Interest Expense	153.3	162.8	169.6	170.6
Pre-tax Income	155.0	121.9	124.3	111.9
Core Net Income (before extra.)*	120.8	99.7	101.7	67.7
Return on Common Equity	9.5%	8.1%	10.2%	4.9%

**Before intercompany subordinated debt expense for a portion of 2007 and tax-adjusted*

Summary

TER's consolidated earnings are derived almost exclusively from its gas distribution utilities, which have historically maintained predictable levels of EBIT. TGI's earnings (which account for roughly 75% to 80% of TER's earnings) remain stable with modest recent improvements, reflecting modest annual additions to its customer base and rate base and an increased approved ROE (9.50% from 8.47%) and equity component (40% from 35.01%), all largely offset by the loss of PBR incentive earnings. Consequently, given the stability of the underlying Utilities, TER's consolidated EBITDA, EBIT and interest expense have all remained relatively stable.

Outlook

As the holding company of three regulated gas distribution utilities located in British Columbia, TER's earnings are expected to remain relatively stable over the medium term, with some variability due to population growth, new housing starts and customer conversions. DBRS expects that TER will see lower customer growth than in previous years due to fewer new housing starts and a shift in the housing mix to more multi-family dwellings that do not typically utilize natural gas. This trend is expected to be mitigated by a focus on retaining customers through expanded energy conservation and efficiency programs.

While the loss of PBR income would have potentially negatively affected TGI's financial results, the BCUC largely offset the potential adverse impact of the PBR expiry by increasing TGI's allowed ROE and equity thickness, effective July 2009. Discontinuation of the adjustment formula without a clear replacement or alternate mechanism injects a level of uncertainty as to how ROE levels will be determined in the medium-to long-term, however, the BCUC has directed TGI to investigate the use of alternative mechanisms and report back by the end of 2010.

While it is noted that the current level of gas prices is relatively low, in the longer term, the Utilities' earnings will largely depend on the competitiveness of natural gas relative to electricity. Although natural gas maintains a competitive operating cost advantage in terms of pricing vis-à-vis electricity, this is offset by higher initial capital costs for equipment and installation. Additionally, TER's competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on the Utilities' financial and credit profiles. TGVI currently receives between approximately $20 million and $30 million annually in royalties from the provincial government, which will be eliminated by the end of 2011, thereby impacting rates and the competitiveness of natural gas relative to alternative sources.

Terasen Inc.

Report Date:
December 23, 2010

Consolidated Financial Profile

Cash Flow Statement *(C$ MM)*	**LTM Sept. 30/10**	**FYE Dec. 31st 2009**	**2008**	**2007**
Core Net Income (before extra.)	121	100	102	67.7
Depreciation & Amortization	113	108	104	99.7
Non-cash Adjustments	(15)	(3)	(3)	(13.7)
Operating Cash Flow	219	205	203	153.7
CapEx	(237)	(231)	(199)	(174.6)
Interest on Intercompany Sub-debt*	0	0	0	(30.7)
Common Dividends	(50)	(70)	(77)	0.0
Gross Free Cash Flow	(68)	(96)	(73)	(51.6)
Changes in W/C & Rate Stabil. Accoun	(64)	39	55	(9.5)
Net Free Cash Flow	(133)	(57)	(18)	(61.1)
Business Acquisitions, Net of Cash	0	0	0	0.0
Divestitures	0	0	14	(163.2)
Net investments/Other	5	(3)	(132)	84.0
Cash Flow Before Financing	(127)	(60)	(136)	(140.3)
Net External Debt Financing	(83)	44	(184)	11.6
Net Equity	0	0	0	0.0
Advances from Parent	202	25	335	135.3
Net Change in Cash	(8)	9	15	6.6

** Estimated after-tax value*

	LTM Sept. 30/10	**FYE Dec. 31st 2009**	**2008**	**2007**
EBITDA/Interest Expense	2.7x	2.4x	2.3x	2.2x
EBIT/Interest Expense	2.0x	1.7x	1.7x	1.6x
Cash Flow/Total Debt	7.6%	7.6%	7.7%	6.2%
Adj. Debt/Capital	69.1%	66.0%	65.9%	64.9%
Dividend/Net Income	41.4%	70.2%	75.7%	0.0%
Total Debt/EBITDA	6.9x	6.9x	6.6x	6.5x

Summary

The Company has experienced very modest cash flow deficits in recent years, which can be primarily attributed to increased capital expenditures. FTS has provided TER with intercompany loans, which TER utilized to redeem $125 million of Capital Securities, align TGI's new capital structure to the 40% deemed equity approved by the BCUC and support its own Utilities. Overall, TER's credit metrics have improved modestly compared with historical levels as a result of the recent regulatory decisions to allow an increase in ROE and capital structure.

Outlook

TER's underlying Utilities are expected to continue to generate reasonably stable levels of cash flow, however, the loss of incentive earnings may reduce the baseline level of cash flow if the BCUC determines in future decisions that a lower allowed ROEs is appropriate or employs an alternate adjustment mechanism that would yield unfavourable consequences for the Utilities. Minimal-to-modest free cash flow deficits on a consolidated basis are expected over the medium term at the Utilities. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility ($320 million available at September 30, 2010), TGVI's $300 million facility ($98 million available at September 30, 2010) and long-term debt issuance. TGVI is expected to continue to incur free cash deficits in the near term due to construction of its $200 million Mt. Hayes gas storage facility. DBRS would expect any material equity contribution to TGVI to be financed with a contribution from FTS.

TER’s financial profile should remain relatively constant over the near- to medium-term, as the Utilities are expected to manage their balance sheets within the regulatory-approved debt-to-capital confines. In the long term, under reasonable gas and electricity price assumptions, it is projected that the Utilities will remain competitive relative to alternative energy sources on an operating cost basis.

Non-Consolidated Financial Profile

TER’s non-consolidated profile is supported by the stable and predictable financial performances of its underlying Utilities. Moreover, other than intercompany loans from FTS, TER has minimal external debt, with one outstanding MTN totalling $125 million. These obligations result in modest annual interest charges that are well covered by dividend income from TGI alone.

FTS continues to hold all of TER’s $1.2 billion preferred shares, which resulted from the acquisition. Since these preferred shares have no stated dividend or maturity and are retractable, they are treated as equity by DBRS.

External Debt and Liquidity

TER's consolidated long-term debt is primarily comprised of the long-term debt of TGI and TGVI. TER-level long-term obligations are limited to $125 million of MTNs due in 2014, and debt owed to its parent, FTS ($714 million outstanding as of September 30, 2010), which is unsecured and ranks parri passu with the external MTNs.

Liquidity

Credit Facilities *($ MM)*	**Type**	**Amount Commited**	**Amount Drawn**	**LCs**	**Amount Available**	**Expiry Date**
Terasen Inc.	2 year, revolving	30	0	0	30	May-11
Terasen Gas Inc.	5 year, revolving	500	135	45	320	Aug-13
TGVI*	2 year, revolving	300	202	0	98	Apr-12
Total		**830**	**337**	**45**	**448**	

**Excludes $20 MM bilateral facility utilized solely for purposes of refinancing annual prepayments on non-interest bearing government contributions. Outstanding borrowings are included in Current Portion of LTD.*

Regulation

The Utilities are located in the province of British Columbia and are regulated by the BCUC. The ability of the Utilities to generate earnings and cash flow to sustain and grow their businesses is largely influenced by the regulatory regime in which they function. DBRS believes that the regulatory relationship in British Columbia has continued to be reasonable and equitable over the past several years providing for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame.

In December 2009, in response to a joint application made by the Utilities regarding reviews of ROEs and capital structures, the BCUC set the ROE for TGI at 9.50% (retroactive to July 1, 2009), an increase from the 8.43% that the automatic adjustment mechanism would have otherwise produced for 2010. TGI's common equity component in the capital structure was also increased, to 40.00% from 35.01%, effective January 1, 2010. In the decision, the BCUC stated that it took into consideration its jurisdiction, the fair return standard and TGI's business risk, credit ratings and metrics. The BCUC also determined that the automatic adjustment mechanism previously used to determine the ROE for TGI will no longer apply as it would not have provided TGI with an ROE for 2010 that would meet the fair return standard. The ROE level as determined in the decision will apply until further review by the BCUC, with the BCUC also directing TGI to complete its study of alternative mechanisms and report back by the end of 2010. TGVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%.

The BCUC decision is viewed as supportive of TGI's current ratings. However, while the decision is intended to result in an improvement in TGI's credit metrics, DBRS notes that a large portion of the positive benefits of the increased ROEs will effectively be negated with the PBR expiry. Unlike the PBR, the NSA under which TGI will operate for 2010 and 2011 does not include a provision for earning (and sharing) incentive earnings. Consequently, going forward, improvements in TGI's credit metrics will more likely be driven by the increased common equity component.

DBRS

Terasen Inc.

Report Date:
December 23, 2010

Terasen Inc.

(Consolidated)

Balance Sheet *($ MM)*

Assets	As at Sept. 30/10	As at Dec. 31st 2009	2008	Liabilities & Equity	As at Sept. 30/10	As at Dec. 31st 2009	2008
Cash	28	42	33	ST Debt (incl. owed to parent)	981	855	824
Accounts Receivable	169	313	393	LT Debt Due in One Year	18	19	79
Inventories	182	159	212	Other	451	504	563
Prepaid & Other	203	109	80	**Current Liabilities**	1,449	1,378	1,465
Current Assets	582	623	717	Long-Term Debt	1,887	1,817	1,717
Net Fixed Assets	3,101	3,010	2,863	Capital Securities	0	125	125
Long-Term Investments	150	150	150	Other Long-Term liabilities	587	568	220
Goodwill	824	824	818	Preferred Shares	1,180	1,180	1,180
Deferred Charges	555	542	209	Common Equity	108	82	52
Total	5,212	5,149	4,758	**Total**	5,212	5,149	4,758

Ratio Analysis	LTM Sept. 30/10	FYE Dec. 31st 2009	2008	2007
Liquidity Ratios				
Current Ratio	0.4x	0.5x	0.5x	0.5x
Cash Flow/Total Debt	7.6%	7.6%	7.7%	6.2%
Cash Flow/Senior Debt	7.6%	7.6%	7.8%	6.2%
Senior Debt in Capital Structure	69.1%	66.0%	65.9%	64.9%
Dividend/Net Income	41.4%	70.2%	75.7%	0.0%
Cash Flow/CapEx	0.92	0.89	1.02	0.88
Coverage Ratios				
EBITDA/Interest Expense	2.7x	2.4x	2.3x	2.2x
EBIT/Interest Expense	2.0x	1.7x	1.7x	1.6x
Fixed-Charge Coverage	2.0x	1.7x	1.7x	1.6x
Total Debt/EBITDA	6.9x	6.9x	6.6x	6.5x
Profitability Ratios				
EBIT margin	19.4%	16.9%	15.3%	16.1%
EBIT margin, excl. cost of gas	43.5%	42.3%	44.6%	43.9%
Net margin	17.2%	15.0%	15.6%	10.6%
Return on common equity	9.5%	8.1%	10.2%	4.9%
Approved ROE (Terasen Gas Inc.)	9.50%	8.47%	8.37%	8.80%
Approved ROE (TGVI)	10.00%	9.17%	9.07%	9.50%

Terasen Inc.

Report Date:
December 23, 2010

Ratings

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2009	2008	2007	2006	2005
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	Discontinued	BBB	BBB	BBB	BBB	BBB

Related Research

- Terasen Gas Inc., Rating Report, July 22, 2010.
- Recent Regulatory Developments for Canadian Pipeline and Utility Companies, Industry Study, February 10, 2010

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
September 19, 2011

Previous Report
July 22, 2010

Insight beyond the rating.

FortisBC Energy Inc.

Analysts

Yean (Kit) Kitnikone
+1 416 597 7325
kkitnikone@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia (B.C. or the Province, rated AA (high)), serving approximately 846,000 customers and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (FTS, rated A (low)).

Commercial Paper Limit

$500 million

Recent Actions

September 16, 2011
Confirmed

March 1, 2011
Name Change

Rating

Debt	Rating	Rating Action	Trend
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Rationale

On September 16, 2011, DBRS confirmed the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI or the Company, formerly known as Terasen Gas Inc.) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The ratings reflect FEI's low business risk operations within a stable regulatory environment and franchise area, strong ring-fencing provisions, as well as its relatively sound financial profile and credit metrics compared with peers. The ratings also reflect the Company's relatively low allowed ROE, loss of performance-based rate (PBR) incentive earnings, ongoing exposure to volume risk from its industrial and transportation segments and the continued challenge of natural gas' long-term competitiveness vis-à-vis alternative energy sources.

FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) are expected to file an application in the Fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The amalgamation will require the British Columbia Utilities Commission's (BCUC) approval and the Government of British Columbia's consent to proceed. At this time, DBRS anticipates that the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI provided that there are no material changes that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model. DBRS notes that FEI's current contribution to FHI's overall earnings is approximately 75% and anticipates that the bulk of the amalgamated entity's earnings will continue to be derived from FEI. Should the potential amalgamation proceed, DBRS may re-examine any impacts to FEI and the consolidated utility's credit profile as a result of changes to the capital structure or ROE. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low business risk operations within a stable regulatory environment
(2) Strong regulatory ring-fencing provisions
(3) Stable financial profile and credit metrics
(4) Strong franchise area, with a predictable customer base

Challenges

(1) ROE level and loss of performance-based rate (PBR) incentive earnings
(2) Volume exposure in the industrial and transportation segments
(3) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

	LTM Jun. 30th	*For the year ended December 31st*				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
EBIT Interest Coverage(1)	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
% Debt in Capital Structure(1)	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Cash Flow/Total Debt(1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.1x	1.1x	1.2x	1.4x	1.3x	1.5x
Net Income before Extra. (C$ millions)	74	93	87	92	70	68
Operating Cash Flow (C$ millions)	176	177	170	166	146	160

(1) Includes operating leases

Rating Rationale (Continued from page 1.)

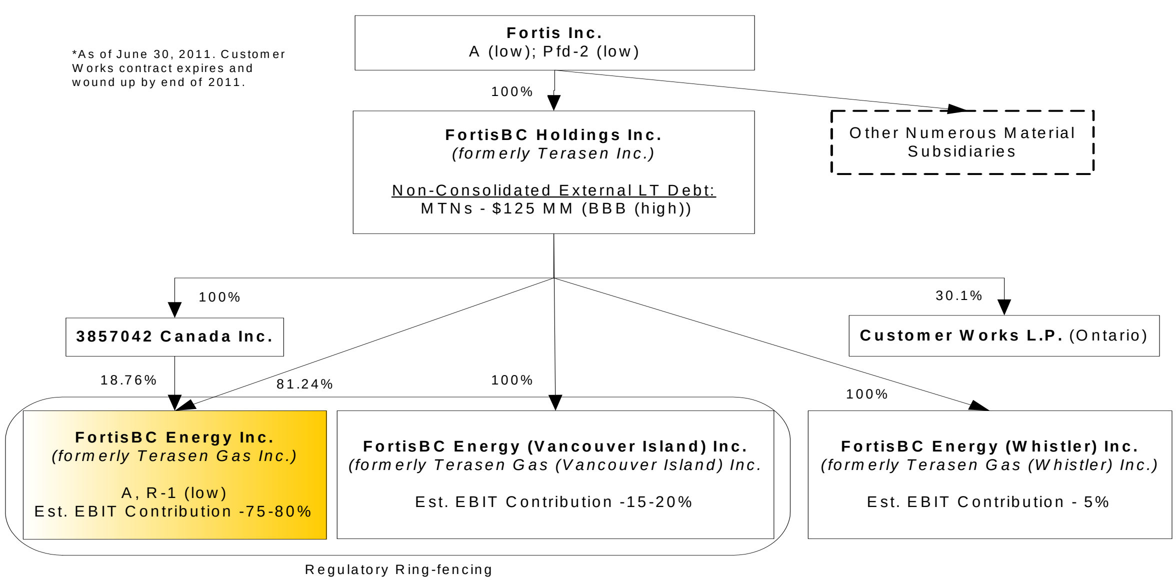
The regulatory environment in which FEI operates continues to provide for a number of cost-recovery mechanisms that, when combined with the general rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In July 2011, the BCUC approved FEI's December 2010 application to provide fuelling station infrastructure and services but denied the Company's request for a general tariff for the provision of natural gas for vehicles unless certain contractual conditions are met. Earlier in May 2011, FEI filed its 2012-2013 Revenue Requirements and Delivery Rate Application (RRA) in which the Company forecasted a rate increase of approximately 2.8% to 3.0% based on an average rate base of roughly $2,740 million to $2,900 million. The outcome is anticipated in the first quarter of 2012.

FEI's operating performance and credit metrics have historically been stable and are expected to continue to remain consistent. Additionally, due to increases in both the approved ROE and equity thickness as a result of regulatory changes in 2009, DBRS anticipates a continued modest lift in the Company's EBIT coverage and cash flow-to-debt metrics, despite the loss of PBR-related earnings. Despite these increases, FEI's key metrics are expected to remain moderately lower than those of similarly rated gas distribution companies, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business.

The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. DBRS expects that FEI will continue to finance any deficits with a combination of bank debt, long-term debt issuances and dividend management.

The Company, in conjunction with its holding company, FHI, and its ultimate parent, Fortis Inc. (FTS, rated A (low)), intends to transition to U.S. GAAP, as opposed to IFRS, in January 2012. The BCUC has approved FEI's request to adopt U.S. GAAP to be used for regulatory reporting purposes from January 1, 2012 to December 31, 2014 but has directed the Company to re-apply by September 1, 2014 for approval of its regulatory accounting standard effective January 1, 2015. DBRS anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis.

Simplified Organization Chart*



Rating Considerations Details

Strengths

(1) FEI's low-risk regulated operations are located in a stable regulatory environment which allows the Company to generate predictable earnings and cash flow to sustain and grow its business. Moreover, FEI operates under a full cost-of-service recovery framework and utilizes deferral accounts which further stabilizes earnings and enables the Company to adjust for the recovery/refund of any shortfalls/overages of natural gas costs from/to customers. FEI is not exposed to commodity costs (subject to a degree of recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) The regulatory ring-fencing imposed by the BCUC on FEI as a condition of the acquisition of FHI by FTS requires, among other conditions: (1) maintenance of the BCUC-approved capital structure; (2) no common dividend payment without BCUC approval if the payment would violate the first condition; (3) no financial support or guarantees for its non-regulated businesses or affiliates; and (4) no transactions with affiliates that would violate BCUC guidelines, policies or directives. The intent of the BCUC decision is to ensure that public interest is protected and that FEI, along with FEVI, will continue to operate as separate, stand-alone entities without undue parental influence.

(3) FEI has historically maintained a stable balance sheet and credit metrics, with some modest improvement attributable to the regulatory changes in 2009. While the EBIT coverage and cash flow-to-debt ratios have improved and are expected to remain at more modestly favourable levels, they remain on the lower end for an A rating compared with its gas distribution peers. However, DBRS remains comfortable with FEI's rating given the inherent low risk nature of its business, and the stability its credit metrics have shown over time.

(4) FEI serves a customer base of approximately 846,000, located in a stable franchise area that includes the City of Vancouver. The customer mix is comprised mainly of residential and commercial customers, which account for roughly 90% of the Company's distribution revenue. Although, there is no volume risk (although there is a degree of recovery lag) associated with these customer segments, DBRS expects the customer growth trend to continue to decline, with fewer new housing starts and a shift in the housing mix to more multi-family dwellings. FEI is expected to focus on retaining customers through expanded energy conservation and efficiency programs in order to offset the growth trend.

Challenges

(1) FEI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (electricity as the primary competitor) in British Columbia. Despite the significant increases in natural gas prices through 2008, natural gas continued to maintain a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected that under reasonable gas price assumptions, FEI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to British Columbia Hydro & Power Authority (BC Hydro). This current pricing environment improves both FEI's competitiveness and reduces its working capital and liquidity requirements.

(2) The Company is exposed to forecast variances related to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes and 5% of revenues but are not eligible for inclusion in the revenue stabilization deferral account. However, this volume risk is mitigated by the fact that usage by these segments is less likely to be significantly affected by weather and is therefore more predictable. FEI also annually surveys its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk are the fixed demand charges derived from this segment.

(3) In 2009, the BCUC terminated the automatic ROE adjustment formula and set the approved level at 9.50%, however, the ROE had been below 9% for the prior three years, negatively affecting earnings and cash flows. Additionally, under the prior PBR mechanism, FEI shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of PBR earnings has largely offset the credit positive impact of the ROE increase.

Regulation

Regulatory Overview

The Company is located in the Province of British Columbia (B.C. or the Province, rated AA (high)) and is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service methodology. Under this system, the Company must apply to the BCUC for approval to recover its forecasted cost-of-service from customers through rates. Typically, FEI's cost of service includes the cost of purchased gas, transportation and distribution, operating, maintenance and administrative expenses (OM&A), depreciation of facilities, interests, income, and other taxes and ROE. Accordingly, FEI's rates are based on estimates of items such as natural gas sales volumes, the cost of natural gas and interest rates.

In order to manage the forecast risks associated with these estimates, the Company employs a number of regulatory deferral accounts to mitigate potential impacts:

- **Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):** Any differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. Consequently, FEI is minimally exposed to recovery lag since balances are expected to be fully recovered or refunded within the next fiscal year, however, prices are adjusted on a quarterly basis to better reflect prevailing gas commodity prices thereby mitigating the impact of recovery lag.
- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer use throughout the year and subsequently recovered in rates over three years. The RSAM stabilizes revenues from residential and commercial customers but variances by large-volume industrial transportation and sales customers, which account for 45% of FEI's total throughput, are not included in this deferral account. However, FEI's exposure to volume risk is mitigated by the predictability in usage of these customer segments that are also less likely to be significantly affected by weather.
- FEI also utilizes short- and long-term interest rate deferral accounts to assist in absorbing the impact of interest rate fluctuations.

FEI is presently operating under a Negotiated Settlement Agreement (NSA) that allows changes to the BCUC-determined ROE (set at 9.50% for 2011) and common equity levels (set at 40.00% for 2011) to be incorporated into rates. Established in late 2009 when the BCUC determined that the ROE adjustment mechanism under which FEI operated no longer applied, the NSA set FEI's rates for 2010 and 2011 but does not include the PBR mechanism that was in effect from 2004 to 2009. Previously under the PBR, the Company's O&M costs as well as base-capital expenditures were subject to an incentive formula that reflected increasing costs due to customer growth and inflation, less a productivity factor.

The PBR had provided for a 50/50 sharing mechanism of earnings above or below the allowed ROE that was set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium was adjusted annually by 75% of the difference between 5.25% and the forecast yield. The common equity component of the capital structure was set at 35.01%; the BCUC has since increase FEI's equity level to 40.00% and the Company received a $125 million equity injection in January 2010 to align its capital structure with this revision. While the loss of the PBR income would have negatively affected FEI's financial results, this was largely offset by an improvement in regulatory allowed ROE (to 9.50% from the 8.43% that would otherwise have been in effect) and equity thickness (from 35.01% to 40%).

Regulatory Ring-Fencing

The regulatory ring-fencing imposed by the BCUC as a condition of the acquisition of FEI by FTS in April 2007 (a continuation of the ring fencing imposed upon acquisition of the former Terasen Inc. by KMI in December 2005) is intended to ensure that public interest is protected and that FEI and FEVI will continue to operate as separate, stand-alone entities without undue parental influence.

Earnings and Outlook

Consolidated Income Statement

(C$ millions)	LTM Jun. 30th 2011	For the year ended December 31st 2010	2009	2008	2007	2006
Net Revenue	566	572	526	513	507	517
EBITDA	296	317	297	292	293	301
EBIT	207	226	214	214	215	217
Gross Interest Expense	106	104	109	111	108	106
Pre-tax Income	103	123	106	103	108	112
Income Tax	29	30	19	12	38	44
Core Net Income (before Extra.)	74	93	87	92	70	68
Net Income	74	93	87	92	78	68
Return on Avg. Common Eq. (before Extra.	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
EBIT Margin (Net of Gas Costs)	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Allowed ROE*	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

* 8.47% for first six months of 2009, 9.50% for second six months

Summary

Much of the recent modest improvement in FEI's earnings is attributable to the 2009 BCUC decision to increase both the Company's common equity component and approved ROE. Notwithstanding these increases, FEI's earnings continue to remain relatively predictable due to the Company's core segment of residential and commercial customers that comprise the majority of its margin while its industrial customers are typically under contract and are less susceptible to the weather. Moreover, FEI continues to maintain very stable EBITDA and EBIT levels that are reflective of modest net additions to its customer base, increases in its rate base and an established approved equity component, all largely offset by relatively low allowed ROE levels.

Historically, FEI's gas distribution segment has accounted for more than 50% of total throughput volumes and roughly 90% of total revenues. Throughputs for this segment exhibit stability, and any volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates. However, the growth in multi-family housing continues to negatively impact net customer additions as the use of natural gas is less prevalent within these dwellings.

FEI's transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of FEI's total throughput volumes and less than 10% of total revenues. Although these segments expose the Company to a degree of volume risk, the exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments. Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

The Company's earnings are anticipated to continue at their modestly higher levels due to the impact of the higher equity component and approved ROE, offset by the negative impact of the loss of incentive earnings upon expiry of the PBR mechanism. DBRS expects that over the medium term, as typical of a mature gas distribution utility, FEI will continue to generate relatively stable earnings, with some variability related to allowed ROE, population growth, new housing starts and customer conversions.

Over the longer term, FEI's earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While FEI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position may weaken should gas prices increase significantly for a prolonged period of time, potentially negatively impacting FEI's financial and credit profile. The competitiveness of natural gas may also be affected by the provincial consumption tax on carbon-based fuels.

Financial Profile

Cash Flow Statement

(C$ millions)	LTM Jun. 30th 2011	For the year ended December 31st 2010	2009	2008	2007	2006
Net Income (before Extra.)	92	93	87	92	70	68
Depreciation & Amortization	89	91	83	78	79	84
Other Non-cash Adjustments	(4)	(7)	0	(4)	(3)	8
Operating Cash Flow	176	177	170	166	146	160
CapEx	(161)	(157)	(139)	(123)	(108)	(109)
Common Dividends	(82)	(84)	(67)	(100)	(111)	(40)
Free Cash Flow Before W/C Changes	(67)	(64)	(36)	(57)	(73)	12
Working Captial Changes	56	(15)	16	33	(28)	83
Net Free Cash Flow	(11)	(79)	(20)	(24)	(101)	95
Acquisitions/Divestitures	0	0	0	14	0	0
Other adjustment/comprehensive	0	0	0	14	0	0
Cash Flow Before Financing	176	177	170	166	146	160
Net Change in Debt Financing	(0)	(24)	6	(5)	89	(98)
Net change in Pref. Share Financing	0	0	0	0	0	0
Net Equity in Financing	0	125	0	0	0	0
Net Change in Cash	1	9	(7)	8	(1)	(9)
Total Adjusted Debt (C$ million)(1)	1,576.0	1,713.3	1,738.9	1,734.4	1,738.6	1,657.6
Cash Flow/Total Debt(1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
% Debt in Capital Structure(1)	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
EBIT Interest Coverage(1)	1.9	2.1	1.9	1.9	1.9	2.0
Dividend Payout Ratio	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%

(1) Includes operating leases

Summary

As with FEI's earnings, the recent modest increase in the Company's stable cash flow from operations is attributable to the regulatory increases to the ROE and equity thickness in 2009. Dividends will continue to be maintained in line with FEI's BCUC-approved capital structure as, pursuant to the BCUC-imposed ring-fencing conditions, FEI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes.

Key cash-flow metrics remain moderately lower than those of similarly rated gas distribution peers, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business and notes that the stability of FEI's coverage metrics continues to be a key factor in its ratings.

Outlook

Historically, FEI's financial profile has been stable and is expected to remain relatively consistent over the medium term, with a continued modest lift in the Company's cash flow-to-debt metrics as a result of the regulatory changes in 2009 and despite the loss of PBR-related earnings. The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. Capital expenditures are expected to be approximately $180 million annually over the short- to medium-term and DBRS expects that any deficits are to be financed with a combination of the Company's $500 million revolving bank facility ($411.8 million of which was available at June 30, 2011) and long-term debt issuances.

Long term, DBRS believes that, under current reasonable gas and electricity price assumptions, FEI will remain competitive relative to alternative energy sources and anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis. Moreover, DBRS anticipates that the planned amalgamation and associated rate harmonization of FEI, FEVI and FEW will not impact the credit profile of FEI provided that the there are no material changes to the consolidated utility that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model.

FortisBC Energy Inc.

Report Date:
September 19, 2011

Long-Term Debt and Liquidity

DBRS views FEI's liquidity as sufficient for its funding requirements. The Company's $500 million, five-year unsecured committed revolving credit facility with a syndicate of banks matures in August 2013 and $411.8 million was unutilized as at June 30, 2011. The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Typically, gas inventory levels and working capital requirements peak in the fall and winter seasons and decline in the spring and summer.

FEI's debt-repayment schedule is negligible in the near term:

As at June 30, 2011

(C$ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Long-Term Debt	2.6	2.6	2.6	2.6	77.5	1,370.0	1,457.9

DBRS notes that FEI's bond indenture contains an EBIT-to-interest coverage test that must be observed in order for the Company to issue additional indebtedness. To allow FEI to issue debt with a maturity term longer than 18 months, EBIT for the 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest.

FortisBC Energy Inc.

Report Date:
September 19, 2011

FortisBC Energy Inc.
(Consolidated)

Balance Sheet

(C$ millions)	As at Jun. 30th	As at the year ended Dec. 31st				As at Jun. 30th	As at the year ended Dec. 31st		
Assets	**2011**	**2010**	**2009**	**2008**	**Liabilities & Equity**	**2011**	**2010**	**2009**	**2008**
Cash	9	15	6	13	Short-term Debt	40	178	204	239
Accounts Receivable	231	298	277	346	Long-term Debt Due within 1 Year	3	3	2	62
Inventories	80	136	149	192	Accounts Payable	280	358	337	366
Prepaid Expenses & Other	14	11	23	3	Tax Payable	65	37	42	66
Rate Stabilization Accounts	61	96	69	54	Rate Stabilization Accounts	33	4	12	24
					Other LT Liabilities & Deferred Credits	5	12	0	0
Current Assets	395	557	524	608	**Current Liabilities**	427	591	597	755
Net Fixed Assets	2,476	2,466	2,423	2,357	Long-Term Debt	1,444	1,442	1,440	1,340
Rate Stabilization Accounts	0	0	0	0	Deferred Credits	167	149	181	138
Deferred Charges	0	0	0	40	Deferred Taxes	282	280	271	1
Long-Term Investments	492	461	423	104	Common Equity	1,044	1,023	881	875
Total	3,364	3,484	3,370	3,109	**Total**	3,364	3,484	3,370	3,109

Ratio Analysis	*LTM Mar. 31st*	*For the year ended December 31st*				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
Liquidity Ratios						
Current Ratio	0.93x	0.94x	0.88x	0.80x	0.65x	0.65x
Accum. Depr./Gross Fixed Assets	N/A	25.4%	24.2%	23.4%	23.4%	23.5%
Cash Flow/Total Debt(1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.09x	1.13x	1.22x	1.35x	1.35x	1.47x
Cash Flow-Dividend/CapEx	0.58x	0.59x	0.74x	0.54x	0.33x	1.11x
Debt in Capital Structure(1)	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Common Div. Payout (before Extra.)	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%
Coverage Ratios						
EBIT/Interest Expense(1)	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
EBITDA/Interest Expense(1)	2.7x	2.9x	2.6x	2.5x	2.6x	2.8x
Fixed-Charge Coverage(1)	1.9x	2.1x	1.9x	1.8x	1.9x	1.9x
Debt/EBITDA	5.3x	5.4x	5.9x	5.9x	5.9x	5.5x
Profitability Ratios						
EBIT Margin, excl. Cost of Gas	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Net Margin excl. Preferred Dividends	13.1%	16.3%	16.5%	17.9%	13.8%	13.2%
Return on Avg. Equity (before Prefs)	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
Allowed ROE(2)	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%
Operating Statistics						
Customer Growth	N/A	0.8%	0.6%	1.1%	1.2%	1.3%
Op. Costs/Avg. Customer (C$ millions)	731	353	316	306	303	318
Rate Base (C$ millions)	2,634	2,540	2,547	2,510	2,484	2,516
Rate Base Growth	N/A	-0.3%	1.5%	1.0%	-1.3%	4.6%

(1) Includes operating leases

(2) 8.47% for first six months of 2009, 9.50% for second six months

FortisBC Energy Inc.

Report Date:
September 19, 2011

Operating Statistics	*For the year ended December 31st*				
	2010	**2009**	**2008**	**2007**	**2006**
Throughput Volumes					
Residential	65.2	72.7	78.5	74.9	68.7
Commercial	38.8	42.4	44.1	42.3	38.4
Small industrial	2.6	3.0	3.1	3.4	3.8
Large industrial	0.1	0.2	0.1	0.2	0.2
Total Natural Gas Sales Volumes	106.7	118.3	125.8	120.8	111.1
Transportation Service	54.9	54.0	57.3	62.3	62.3
Throughput Under Fixed-price Contracts	33.0	36.0	39.6	36.8	36.8
Total Throughputs (PJs)	194.6	208.3	222.7	219.9	210.2
Customers					
Residential	762,496	755,660	750,838	742,882	733,598
Commercial	81,366	81,274	81,012	79,717	79,113
Small industrial	236	251	284	297	325
Large industrial	25	31	33	40	40
Transportation	2,111	2,075	2,059	2,041	1,956
Total (thousands)*	846,234	839,291	834,226	824,977	815,032

* Increase in throughput volume for F2007 reflects the amalgamation of Terasen Gas (Squamish) Inc. with TGI

FortisBC Energy Inc.

Report Date:
September 19, 2011

Ratings

Debt	Rating	Rating Action	Trend
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating History

Debt Rated	Current	2010	2009	2008	2007	2006
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., Rating Report, September 19, 2011.

Notes:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
February 29, 2012

Previous Report
September 19, 2011

Insight beyond the rating.

FortisBC Energy Inc.

Analysts

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 852,000 customers (December 2011) and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit

$500 million

Recent Actions

September 16, 2011
Confirmed

March 1, 2011
Name Change

Rating

Debt	Rating	Rating Action	Trend
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the Medium-Term Notes (MTNs) & Unsecured Debentures (Debentures) and secured Purchase Money Mortgages (PMMs) ratings of FortisBC Energy Inc. (FEI or the Company) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The MTNs and Debentures have the same rating as the PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (17% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The rating confirmation reflects FEI's low-risk business with predominantly regulated operations in an economically strong area, a solid financial profile and a reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and sizable customer base (852,000 or 90% of the province's natural gas users). Competition in the Company's franchise area remains limited to electricity, with FEI retaining a competitive operating cost advantage reflecting the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40%). Although FEI's ROE and capital structure could be affected in 2013 due to a regulatory review (see Regulation), DBRS does not expect the outcome of the regulatory review to have a material impact on the Company's earnings and cash flow.

The Company's financial profile remained relatively stable in 2011, with solid debt-to-capital and interest coverage metrics. This was supported by stronger cash flow and the $125 million equity issuance in 2010 (due to a 5% increase in deemed equity). The cash flow-to-debt metric, despite being slightly weaker than DBRS's "A" rating guidelines, has consistently improved since 2007. FEI is expected to generate negative free cash flow in 2012 as a result of capital spending ($195 million in 2012), which is mainly due to its Customer Care Enhancement Project (CCE). DBRS expects FEI to continue to finance the deficits by managing its dividend payouts and equity issuances to the parent, as well as debt issuances, and maintaining its debt-to-capital ratio in line with the current rating. In the absence of an adverse regulatory decision on its ROE and capital structure, beyond what DBRS has expected, FEI's credit metrics are expected to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths
(1) Low business risk and reasonable regulation
(2) Economically strong service territory
(3) Stable and solid financial profile
(4) A large customer base

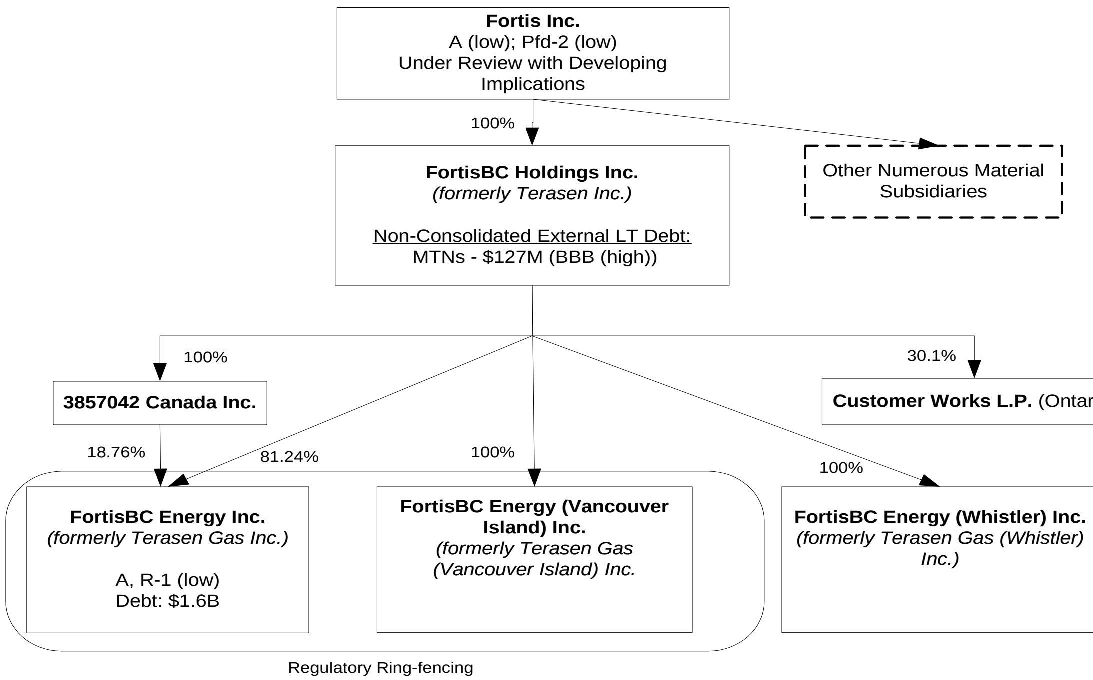
Challenges
(1) Volume risk
(2) No access to the equity market
(3) Potential change in ROE and deemed equity
(4) Competition from electricity

Financial Information

FortisBC Energy Inc. (FEI)	For the year ended December 31st					
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
% debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash flow/Capex	1.13	1.13	1.22	1.35	1.35	1.47
Net income before extra. items (C$ millions)	102	93	87	92	73	68
Cash flow from operations (C$ millions)	191	177	170	166	146	160

(1) Adjusted for operating leases.

Simplified Organization Chart



Potential Amalgamation

FortisBC Energy Inc, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. filed an application in the fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The application was temporarily suspended in late 2011. At this time, DBRS believes the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI, provided that there are no material changes that will negatively affect its rate base and/or its current business model or ROE and capital structure.

Rating Considerations Details

Strengths

(1) **Low business risk**: FEI's operations are predominantly regulated, as most of its earnings are generated from the natural gas transmission and distribution businesses. The competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong franchise:** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 90% of distribution revenues, 54% of throughput), whose consumption is less sensitive to economic conditions.

(3) **Solid credit metrics:** FEI has maintained its capital structure in line with the regulatory structure (required by the regulator). The current debt-to-capital level of 60% and EBIT interest coverage of 2.2 times (x) are commensurate with its current rating range. DBRS notes that FEI's cash flow-to-debt ratio was slightly weaker than the "A" rating guidelines. However, this ratio has improved consistently since 2007.

(4) **A large customer base:** FEI had a large customer base of approximately 852,000 at the end of 2011. This represented approximately 90% of natural gas users in the province. The large customer base allows the Company to operate more efficiently and carry on large capital projects that are not feasible for utilities with a smaller customer base.

Challenges

(1) V**olume risk:** The Company is exposed to volume risk on industrial and transportation customers, who accounted for approximately 46% of the Company's total throughput in 2011 (over 5% of revenue). These customers' usage is sensitive to economic conditions (such as the pulp and paper industries).

(2) **No direct access to the public equity market:** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. When deemed equity changed in 2010, increasing from 35% to 40%, the Company issued $125 million in equity to the parent to maintain its capital structure in line with the regulator's requirement. The company's current rating incorporates DBRS's expectation that the parent will continue to provide financing support in the future if required.

(3) **Generic Cost of Capital Proceeding (GCCP):** The British Columbia Utilities Commission (BCUC) is initiating a GCCP, in which it will review setting the cost of capital for a benchmark low-risk utility (such as FEI) and establishing a return on equity automatic adjustment mechanism. This could have a material impact on FEI's ROE and deemed equity.

(4) **Competitive environment:** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to low power costs in the province. However, FEI currently benefits from a low gas price environment, which is expected to remain low for the foreseeable future.

Regulation

Overview: DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- Based on the forecast, the BCUC will set rates to permit FEI to collect all of its forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):
- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):
- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial transportation and sales customers, which account for approximately 45% of FEI's total throughput, are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rate Design
- Prior to 2010, FEI operated under a performance-based rate plan (PBR).
- In 2010 and 2011, FEI operated under a Negotiated Settlement Agreement (NSA), during which time the Company's ROE and deemed equity were at 9.50% and 40%, respectively.
- Variances in certain operating expenses, including property taxes and changes in tax rates are deferred until the next rate application.
- The Company may apply from time to time for rate changes should it incur costs that are beyond its control.
- The current ROE and the capital structure are expected to remain the same until amended by the BCUC.
- In late 2011, the BCUC notified FEI that it plans to initiate a GCCP in 2012. This proceeding may result in a change in ROE and capital structure for FEI.
- In 2011, FEI filed an application for its 2012-2013 revenue requirements and delivery rates (2012-2013 RRA). The application forecast an average rate base of $2,760 million for 2012 and $2,820 million for 2013. The forecast for a higher rate base reflects significant capital projects related to system integrity and reliability.
- The 2012-2013 RRA seeks a 3% increase in burn-tip rates for 2012 and a 3.1% increase for 2013.
- Rates, including interim delivery and midstream rates, for FEI residential customers increased by 3% effective January 2012 (compared to the preceding quarter) for Lower Mainland, Frazer Valley, Interior, North and the Kootenays, which included the 2012-2013 RRA request on the interim basis.

Regulatory Ring-Fencing
- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in December 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence.
- One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

Earnings and Outlook

Consolidated Income Statement: FEI	For the year ended December 31st					
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
EBITDA	323	317	297	292	293	301
EBIT	233	226	214	214	215	217
Gross interest expense	108	104	109	111	108	106
Pre-tax income	129	123	106	103	108	112
Income tax	27	30	19	12	35	44
Net income before extra. items	102	93	87	92	73	68
Reported net income	102	93	87	92	78	68
Return on avg. common equity	9.8%	9.8%	9.9%	10.4%	8.2%	7.8%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

Summary

- Earnings in 2011 continued to benefit from the 2009 ROE and capital structure decision, which established higher ROE and deemed equity for 2010 and 2011, compared with previous years.
- Higher transportation volumes to the forestry and mining sectors also contributed to higher earnings in 2011. Although the forestry sector has stabilized recently, it remains very sensitive to economic conditions.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the RSAM, which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

Outlook

- The Company’s 2012 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capital expenditures.
- The BCUC is initiating the GCCP in 2012, which could have a negative impact on FEI’s earnings; however, DBRS does not expect the outcome of this regulatory review to have a material impact on the Company’s earnings.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Financial Profile

Consolidated Cash Flow Statement: FEI	For the year ended December 31st					
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Net income before extra. items	102	93	87	92	73	68
Depreciation & amortization	89	91	83	78	79	84
Deferred income taxes/Other	(1)	(7)	0	(4)	(5)	8
Cash flow from operations	191	177	170	166	146	160
Dividends paid	(85)	(84)	(67)	(100)	(111)	(40)
Capex	(169)	(157)	(139)	(123)	(108)	(109)
Free cash flow before WC	(63)	(64)	(36)	(57)	(73)	11
Changes in working capital (WC)	95	(15)	16	33	(28)	83
Net free cash flow	32	(79)	(20)	(24)	(101)	95
Acquisitions	0	0	0	0	0	0
Assets sales/Divestitures	0	0	0	14	0	0
Net changes in equity	0	125	0	0	0	0
Net changes in debt	(12)	(24)	6	(5)	89	(98)
Other/Adjustments by DBRS	(17)	(13)	7	22	11	(7)
Change in cash	2	9	(7)	7	(1)	(9)
(C$ millions)						
EBITDA ($ millions)	323	317	297	292	293	301
Total debt ($ millions)(1)	1,709	1,712	1,737	1,733	1,740	1,652
Total debt in capital structure	60.5%	61.3%	65.2%	65.2%	65.2%	63.4%
Total debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
Total debt/EBITDA (1)	5.30	5.41	5.85	5.94	5.94	5.49
Capex/Depreciation	1.89	1.72	1.68	1.57	1.38	1.30
Dividend payout ratio	83.4%	90.1%	76.8%	109.3%	152.1%	58.5%

(1) Adjusted for operating leases.

Summary

- Cash flow from operations has increased steadily since 2007, reflecting the Company's growing rate base.
- Capital investments to support load growth and system reliability have also increased considerably over this period. This, combined with high dividend payouts (an average of 85% over the last four years), has resulted in cash flow deficits (before working capital).
- DBRS notes that a large swing in working capital in 2011 was a result of changes in deferred accounts.
- The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- When the deemed equity was raised to 40% in 2010 from 35% in 2009, the Company issued $125 million in equity to its parent to finance cash flow deficits and to comply with the 40% equity structure.
- As a result, FEI's credit metrics improved moderately in 2010 and remained stable in 2011.
- Despite the improvement, the cash flow-to-debt ratio remained slightly weaker than the "A" rating range. However, the other two key credit metrics (debt-to-capital ratio and EBIT interest coverage) were commensurate with the current rating.

Outlook

- Cash flow deficits are expected to continue as capital expenditures are expected to remain high at $195 million for 2012 (estimate) largely due to the CCE Project. DBRS expects the Company to continue to finance its capital expenditures by managing dividends and equity issuances to the parent as well as other debt issuances and maintaining its capital structure in line with its current rating range.
- In the absence of any adverse regulatory decisions affecting ROE or capital structure, DBRS expects FEI's credit metrics to remain relatively stable in 2012.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Long-Term Debt and Liquidity

Liquidity

Facilities	Committed	Drawn/LC	Available	Expiry
(C$ millions)				
Syndicated unsecured credit facility	500	113.2	386.8	Aug-13

- The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter. DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period.

Debt Maturity Schedule

Debt Maturities	2012	2013	2014	2015	2016	Thereafter	Total
(C$ millions)							
Long-term	2.9	2.9	2.9	77.8	202.9	1,256.0	1,545.4
Short-term	65.0						65.0
Total	67.9	2.9	2.9	77.8	202.9	1,256.0	1,610.4
% of total	4%	0%	0%	5%	13%	78%	100%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when over $200 million (or 13%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2011	2010
(C$ millions)		
Credit facilities	65	178
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,173
Capital leases	15	13
Total	1,624	1,639
Less: Current portion and LT issue costs	(14)	(16)
Total	1,610	1,623

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only 17% of the total); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but ranks equally with the Company's secured debt.
- In December 2011, FEI issued $100 million of unsecured MTNs, maturing in 2041. The net proceeds were used to repay a credit facility and for general corporate purposes.

FortisBC Energy Inc.

Report Date:
February 29, 2012

FortisBC Energy Inc.

Balance Sheet (C$ millions)	**Dec. 31**	**Dec. 31**	**Dec. 31**		**Dec. 31**	**Dec. 31**	**Dec. 31**
Assets	**2011**	**2010**	**2009**	**Liabilities & Equity**	**2011**	**2010**	**2009**
Cash & equivalents	17	15	6	S.T. borrowings	65	178	204
Accounts receivable	238	298	277	Current portion L.T.D.	3	3	2
Inventories	101	136	149	Accounts payable	304	358	337
Others	82	108	92	Deferred tax	0	1	8
				Others	58	51	45
Total Current Assets	**439**	**557**	**524**	**Total Current Liabilities**	**430**	**591**	**597**
Net fixed assets	2,513	2,466	2,423	Long-term debt (L.T.D.)	1,543	1,442	1,440
Future income tax assets	0	0	0	Deferred income taxes	304	280	271
Goodwill & intangibles	117	95	83	Other L.T. liabilities	177	149	181
Investments & others	435	366	340	Shareholders equity	1,050	1,023	881
Total Assets	**3,503**	**3,484**	**3,370**	**Total Liab. & SE**	**3,503**	**3,484**	**3,370**

Balance Sheet &	For the year ended December 31st					
Liquidity & Capital Ratios	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Current ratio	1.02	0.94	0.88	0.80	0.65	0.65
Net debt in capital structure	60.3%	61.1%	65.1%	65.0%	65.1%	63.3%
Total debt in capital structure	60.5%	61.3%	65.2%	65.2%	65.2%	63.4%
Total debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Net debt	12.0%	11.0%	10.3%	10.2%	8.9%	10.3%
Cash flow/Total debt	11.8%	10.9%	10.3%	10.1%	8.9%	10.3%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash flow/Capex	1.13	1.13	1.22	1.35	1.35	1.47
(Cash flow - Dividends)/Capex	0.62	0.59	0.74	0.54	0.33	1.11
Deemed common equity	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%
Dividend payout ratio	83.4%	90.1%	76.8%	109.3%	152.1%	58.5%
Coverage Ratios (times)						
EBIT gross interest coverage	2.17	2.17	1.96	1.92	1.99	2.05
EBITDA gross interest coverage	3.00	3.04	2.72	2.62	2.72	2.84
Fixed-charges coverage	2.17	2.17	1.96	1.92	1.99	2.05
Debt/EBITDA	4.99	5.13	5.55	5.62	5.62	5.18
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
Profitability Ratios						
EBITDA margin	23.8%	23.2%	20.7%	17.5%	19.2%	19.7%
EBIT margin	17.2%	16.6%	14.9%	12.8%	14.1%	14.2%
Profit margin	7.5%	6.8%	6.0%	5.5%	4.8%	4.5%
Return on equity	9.8%	9.8%	9.9%	10.4%	8.2%	7.8%
Return on capital	6.5%	6.2%	6.2%	6.4%	5.5%	5.1%
Allowed ROE	9.5%	9.5%	9.0%	8.6%	8.4%	8.8%

(1) Adjusted for operating leases.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Ratings

Debt	Rating	Rating Action	Trend
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating History

Debt Rated	Current	2011	2010	2009	2008	2007
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., Rating Report, February 29, 2012.

Notes:
All figures are in Canadian dollars unless otherwise noted.

Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, CANADA

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Rating(s) Under Review
Senior Unsecured -Dom Curr	*Baa2
Subordinate -Dom Curr	*Baa3

* Placed under review for possible downgrade on May 30, 2006

Contacts

Analyst	Phone
Allan McLean/Toronto	1.416.214.1635
Mihoko Manabe/New York	1.212.553.1653
John Diaz/New York	

Key Indicators

Terasen Gas Inc.

	2005	2004	2003	2002	2001
Net Income Avail. to Common/Ave. Common Equity	7.9%	9.0%	9.2%	8.8%	8.8%
Fixed Charge Coverage [1]	1.8x	1.9x	1.9x	1.9x	1.8x
Retained Cash Flow / Debt [2]	5.2%	6.9%	5.8%	8.1%	4.9%
Debt / Capitalization	68.3%	67.6%	70.0%	69.6%	69.3%
Funds from Operations / Fixed Charges	2.3x	2.6x	2.6x	2.9x	2.1x
Common Dividends/Net Income	91.9%	84.7%	113.6%	119.2%	89.3%

[1] Fixed Charges include imputed interest on operating leases [2] Debt includes underfunded pension liabilities and debt equivalent of operating leases

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

TGI is a gas distribution utility and the largest distributor of natural gas in British Columbia. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). It serves approximately 800,000 customers in Greater Vancouver, the Fraser valley, and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province.

Credit Strengths

- Predictable and stable earnings generation from low-risk regulated gas distribution

- Monopoly franchise in a mature service territory with a moderate and predictable growth profile

- Supportive regulatory environment including several regulatory deferral accounts

- Moody's expects BCUC ring-fencing conditions will continue to effectively insulate Terasen Gas Inc. (TGI) from the greater financial and business risks of its parent Terasen Inc. (TER) and its ultimate parent, Kinder Morgan, Inc. (KMI)

Credit Challenges

- Higher financial and business risk profile of TER and KMI and the proposed leveraged buyout of KMI by a consortium of senior management and private equity investors which will likely place additional emphasis on dividend payments to TER

- Weak credit metrics relative to global peers which largely reflect comparatively low deemed equity and allowed ROE

- Meaningful component of short-term debt supported by 364-day bilateral bank lines. Moody's expects that the liquidity support may be strengthened due to a process underway to replace the bilateral facilities with a syndicated facility

- Some cash flow volatility due to variations in weather and consumption - partially mitigated through regulatory deferrals

Rating Rationale

TGI's financial metrics are weaker than those of its global peers at the A3 senior unsecured rating level such as Piedmont Natural Gas Company, Inc. (A3 senior unsecured) and Northwest Natural Gas Company (A3 senior unsecured). Moody's recognizes that TGI's relatively weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE permitted by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada. However, Moody's believes that TGI's weaker metrics (average FFO Interest Coverage of 2.5x and average FFO/Debt of 10.0% over the last five years) are partially offset by the supportive regulatory environment in which TGI operates. The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. TGI's exposure to commodity price and volume risks as well as pension funding costs and insurance costs is limited by operation of various deferral mechanisms including the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM). In March 2006, TGI received a decision on its application to review its deemed capital structure and allowed ROE, which increased TGI's deemed equity to 35% from 33% and increased its 2006 allowed ROE to 8.80% from 8.29%. Moody's expects that these changes will lead to modest improvements in TGI's financial metrics although TGI's metrics are expected to remain weaker than those of its international peers in the A3 senior unsecured rating category. Moody's continues to believe that TGI's financial profile is weak for its rating level and that the company needs to demonstrate steady progress toward achieving FFO/Debt in the mid teens and FFO Interest Coverage in excess of 3.0x in order to remain at the A3 senior unsecured rating level.

The rating also considers TGI's relatively heavy reliance on commercial paper funding supported by 364-day bilateral bank facilities. While Moody's recognizes that this strategy is supported by TGI's regulator and that the regulator has approved the use of an interest rate deferral account to limit TGI's exposure to interest volatility, we believe that TGI's 364-day bilateral credit facilities, which lack term-out features, provide relatively weak support for its CP program. Moody's notes that the company has commenced a process to replace its bilateral facilities with a single $500 million syndicated revolving facility with a multi-year tenor. Moody's believes that the successful conclusion of that process would substantially improve the liquidity support for TGI's CP program. Moody's rating also considers that TGI's debt maturities and planned capital expenditures are relatively modest over the next few years.

Moody's has affirmed the senior secured and senior unsecured ratings for TGI at A2 (stable outlook) and A3 (stable outlook) respectively following the announcement that KMI's board has received a buyout proposal from a group composed of senior management and private equity partners. Moody's believes that the regulatory ring fencing which was imposed by the BCUC in November, 2005 upon the acquisition of TGI's parent, TER, by KMI will act to preserve the financial integrity of TGI and insulate it from the higher financial and business risk of its parent and ultimate parent (KMI), allowing Moody's to evaluate TGI's credit profile on a stand-alone basis. The ring fencing provisions require that TGI maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%), restrict loans or guarantees to affiliates and prohibit investments in or support of non-regulated business. The ring fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes.

Rating Outlook

The stable outlook is predicated on TGI's low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and KMI. Moody's believes that if a leveraged buyout of KMI is consummated, the financial risk profiles of KMI and TER would increase significantly. However, Moody's continues to be of the view that the BCUC ring fencing provisions should act to prevent any significant deterioration of TGI's financial condition that might otherwise occur as a result of a leveraged buyout of KMI.

What Could Change the Rating - Up

- A sustainable improvement in TGI's credit metrics could result in an increase in TGI's rating. At the A2 senior unsecured level, Moody's would expect TGI's FFO/Debt to be in the high teens and FFO Interest Coverage to exceed 3.5x

What Could Change the Rating - Down

- Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3 senior unsecured rating level. Accordingly a failure to demonstrate steady progress toward achieving FFO/Debt in the mid teens and FFO Interest Coverage in excess of 3.0x could result in further reductions to TGI's credit rating

---

Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
John Diaz/New York	212.553.1977

Key Indicators

Terasen Gas Inc.

	[1]**LTM**	**2006**	**2005**	**2004**	**2003**
ROE (%) [2]	**8.6%**	**7.7%**	**7.8%**	**9.2%**	**9.3%**
EBIT/Customer Base (US$ MM) [3]	**$238.8**	**$222.2**	**$226.5**	**$212.6**	**$207.2**
EBIT/Interest (x)	**2.0x**	**2.0x**	**1.9x**	**2.0x**	**1.9x**
RCF/Debt (%)	**0.1%**	**8.0%**	**5.8%**	**7.3%**	**6.1%**
Debt/Book Capitalization (Excluding Goodwill) (%)	**67.8%**	**65.3%**	**68.7%**	**68.1%**	**71.1%**
FCF/FFO (%)	**-74.5%**	**54.9%**	**-63.4%**	**20.3%**	**-25.3%**

[1] To September 30, 2007 [2] Return on Average Equity [3] US$ EBIT/ Residential and Commerical Customers (Ex. Industrial)

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Headquartered in Vancouver, British Columbia, Terasen Gas Inc. (TGI, A3 senior unsecured, stable) is the largest distributor of natural gas in the Province and the third largest gas distribution utility in Canada. It is a wholly-owned subsidiary of Terasen Inc. (TER, Baa2 senior unsecured, stable), a holding company which also owns 100% of the ownership interest of Terasen Gas Vancouver Island Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW), and a 30% interest in CustomerWorks, L.P. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). This low-risk regulated gas distribution company generates predictable, stable earnings and serves approximately 800,000 customers in Greater Vancouver, the Fraser Valley, and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province.

Recent Developments

TER, and consequently TGI, was acquired by Fortis Inc. (FTS, unrated) on May 17, 2007 for a total consideration of $3.7 billion. Cash consideration paid by FTS was $1.24 billion and assumed debt was $2.46 billion. The cash consideration was substantially funded with a $1.15 billion equity offering by FTS with the balance of the consideration funded from FTS' committed credit facilities.

The acquisition was structured in such a way that, on closing, TER's main assets were the gas distribution utilities TGI, TGVI and TGW.

Moody's anticipates that under FTS' ownership, TER and its gas LDC subsidiaries will be financially and operationally independent from FTS and its other subsidiaries. This approach would be consistent with FTS' approach to its other Moody's rated utility subsidiaries, FortisAlberta Inc. (FAB, Baa1 senior unsecured, stable), FortisBC Inc. (FAB, Baa2 senior unsecured, stable) and Newfoundland Power Inc. (NPI, Baa1 senior unsecured, stable).

Rating Rationale

TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). These regulatory ring-fencing conditions together with FTS' philosophy of requiring its utility operating subsidiaries to be financially and operationally independent of FTS allow Moody's to evaluate the credit profile of TGI substantially on a stand alone basis.

As described in Moody's rating methodology for North American Regulated Gas Distribution Industry (Local Distribution Companies), Moody's focuses on the following four main rating factors in assessing the relative creditworthiness of Local Distribution Companies (LDCs) such as TGI: Sustainable Profitability, Regulatory Support, Ring-Fencing, and Financial Strength and Flexibility. It is Moody's intent that in applying this methodology, investors should be able to derive a rating indication that is within two notches of the company's published rating in most instances.

FACTOR 1: SUSTAINABLE PROFITABILITY (20% weighting)

a) Return on Equity (15% weighting) - TGI's Return on Equity scores within the A range with a three year average of approximately 8.2%. In March 2006, the BCUC approved an increase in TGI's deemed equity to 35% (from 33%) and increased the equity risk premium in the automatic ROE adjustment formula by 50 basis points. While these changes result in stronger credit metrics, all else being equal, TGI continues to operate with one of the lowest deemed equity levels among its peers both in Canada and internationally. TGI has operated under a Performance Based Rate Plan (PBR) since 2004. TGI recently received approval of a negotiated settlement to extend its PBR Plan through 2009. Under the PBR plan, TGI has typically been able to earn ROE's in excess of its allowed ROE while sharing a portion of PBR savings with ratepayers. In the event that the existing PBR plan is not extended and a new PBR plan is not established, Moody's expects that TGI's metrics would weaken somewhat in 2010 and beyond. However, the impact of the termination of the PBR plan would be somewhat muted in 2010 and 2011 due to features of the current plan which provide for a phase out of the sharing of capital incentives for two years. TGI's ROE for the year ended December 31, 2006 was approximately 7.7% and is on par with those of its LDC peers within the Baa range (5-9%).

b) EBIT/Customer Base (5% weighting) - The company's three year historical average has been approximately US$220/customer which scores in the A category for this subfactor. TGI benefits from a monopoly franchise in a mature service territory with a moderate and predictable growth profile.

FACTOR 2: REGULATORY SUPPORT (10% weighting)

TGI scores in the Aa category on this factor. The company's location in British Columbia, which enjoys a strong provincial economy and supportive regulatory climate, contributes to Moody's view of TGI as a low-risk regulated gas distribution company. Moody's considers Canada to have supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the more supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. TGI annually reviews its capital spending plans and the rate impacts thereof with the BCUC, a process which substantially reduces the risk of being unable to fully recover costs that have already been incurred.

The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics (average EBIT Interest Coverage of 2.0x and average RCF/Debt of 7.0 % over the last three years) are partially offset by the supportive regulatory environment in which TGI operates. TGI's exposure to commodity price and volume risks as well as pension funding costs and insurance costs is limited by operation of various deferral mechanisms including the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM).

FACTOR 3: RING-FENCING (10% weighting)

Relative to its peers, Moody's considers TGI's ring-fencing to be very good and scores in the Aa category. The ring-fencing provisions require that TGI maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%), restrict loans or guarantees to affiliates, and prohibit investments in or support of non-regulated business. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes.

Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile on a stand-alone basis.

FACTOR 4: FINANCIAL STRENGTH AND FLEXIBILITY (60% weighting)

Moody's rating methodology considers the following credit metrics to be important indicators of the financial strength of local gas distribution companies:

a) EBIT/Interest (15% weighting) - TGI's EBIT/Interest Expense scores within the Ba range, with a three year historical average measuring approximately 2.0x. In the short to medium-term, Moody's expects TGI's EBIT/Interest Expense ratio to remain relatively weak at approximately 2.0x which is within the Ba range for this subfactor. TGI's EBIT to Interest Coverage for the year ended December 31, 2006 was approximately 1.9x and is on par relative to those of its LDC peers within the Ba range.

b) RCF/Debt (15% weighting) - The company's Retained Cash Flow to Debt falls within the Ba range based on a historical three year average of approximately 7.0%. While TGI's RCF/Debt was approximately 8.0% for the year ended December 31, 2006, Moody's expects TGI's RCF/Debt to remain within the Ba category. TGI's LTM RCF to Debt ratio reflects unusual dividend distributions in the past 12 months due to activities related to the change of control of the Terasen group from Knight, Inc. (formerly Kinder Morgan, Inc.) to FTS. Whereas in recent years the company declared dividends in the range of $60 million per annum, it declared $40 million in both Q4 2006 and Q1 2007 as well as an additional $71 million in Q2 2007. Moody's expects that dividend distributions will return to historical or near historical levels commencing 2008.

c) Debt/Book Capitalization (Excluding Goodwill) (15% weighting) - TGI's Debt to Capitalization (Excluding Goodwill) has historically been in the mid to high 60% range and therefore falls in the Ba category. For the year ended December, 31, 2006, TGI's debt to capitalization ratio was approximately 65%. Given that TGI's capitalization is driven by the BCUC's deemed capital structure, Moody's does not anticipate any material change in TGI's capital structure in the near term.

d) FCF/FFO (15% weighting) - Historically, TGI's FCF to FFO ratio has been changeable reflecting year to year variations in capital spending levels and dividend distributions. The company's three year average FCF/FFO of approximately 3.9% scored in the Aa range whereas for the year ended December 31, 2006, FCF/FFO measured approximately 54.9%. Moody's expects the company's FCF/FFO to average in the A category going forward.

RATING METHODOLOGY IMPLIED RATING

TGI's financial metrics are generally weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Colonial Gas Company and Connecticut Natural Gas Corporation. Moody's recognizes that TGI's relatively weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE permitted by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada. However, TGI's A3 senior unsecured rating reflect Moody's view that TGI's relatively weaker financial metrics are offset to a significant degree by the supportiveness of the business and regulatory environments in which TGI operates. Moody's rating methodology model indicates an A3 rating for TGI which mirrors the company's A3, senior unsecured published rating assigned by Moody's rating committee. The methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

LIQUIDITY

In evaluating a company's liquidity, Moody's typically assumes that the company loses access to the term debt markets for a period of 12 months. In this context we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

TGI is expected to generate approximately $165 million of adjusted funds from operations (FFO) in 2008. After dividends in the range of $65 million and capital expenditures and working capital changes of approximately $140 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately $40 million in 2008.

In October 2007, TGI refinanced two debt maturities totaling $250 million. Future debt maturities continue to be somewhat lumpy but after the 2008 and 2009 maturities of $188 million and $59.9 million respectively, TGI has no maturities until 2015.

During 2006, TGI replaced its bilateral credit facilities with a single $500 million syndicated committed revolving facility which is available to support its $500 million commercial paper (CP) program and for general corporate purposes. This facility now has with a five year term, extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the available portion of the facility in situations of financial stress. TGI's has a relatively heavy reliance on short-term debt with $280 million of CP outstanding at September 30, 2007. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's high levels of short-term debt relative to the size of its credit facility can limit the company's financial flexibility, as is the case in 2008 when debt maturities are relatively high. At September 30, 2007, approximately $166 million was available under the $500 million committed facility reflecting $280 million of CP outstanding, an $11.2 million overdraft and approximately $43 million letters of credit (LCs) outstanding. Moody's recognizes that gas inventories, which are typically financed with short-term debt, tend to be at or near a peak at the end of TGI's third quarter. Accordingly, inventory levels and short-term debt are likely to be somewhat lower by TGI's December 31, 2007 year end which would increase availability under the company's credit facility, all else being equal.

Given the forecast $40 million FCF shortfall and $188 million of debt maturities in 2008, availability under TGI's syndicated bank credit facility could be less than TGI's forecast 2008 funding requirements. This situation could render TGI reliant upon access to the capital markets to meet a portion of its forecast 2008 funding needs. Moody's notes that TGI's credit facility provides the company with the ability to request a $100 million increase in the size of the facility. While this accordion feature provides one possible means of addressing TGI's 2008 funding requirements, Moody's views this feature as a less reliable source of liquidity since it is subject to the banks' prior approval which may or may not be provided.

Post 2008, Moody's expects TGI's liquidity situation to be more robust. All else being equal, lower levels of debt maturities are expected to reduce TGI's funding requirements to levels which are manageable in the context of TGI's $500 million committed bank credit facility. During 2008, Moody's expects that TGI will monitor opportunities to pre-fund its $188 million debt maturity or to seek to institute the accordion feature in its credit agreement to the extent that availability under the $500MM credit facility appears to be less than the company's funding requirements.

Rating Outlook

The stable outlook is predicated on TGI's low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change Rating - Up

A sustainable improvement in TGI's credit metrics could result in an increase in TGI's rating. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 9%, EBIT/Interest to approach 3x , RCF/Debt to approach 15%, Debt/Book Capitalization (Excluding Goodwill) to be below 65% and FCF/FFO to be in the range of -20% to -15%.

What Could Move Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT/Interest below 2x, RCF/Debt below 5% and/or Debt/Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				8.2%			
b) EBIT to Customer Base (5%) [3]		$220.4					
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					
Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					

Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)					1.9x		
b) Retained Cash Flow/Debt (15%)					7.0%		
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					67.4%		
d) Free Cash Flow/Funds from Operations (15%)		3.9%					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			**A3**				
b) Actual Senior Unsecured Equivalent Rating			**A3**				

[1] Three year averages (2004-2006) [2] Return on Average Equity [3] US$ EBIT/ Residential and Commercial Customers (Excluding Industrials)

Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Key Indicators

Terasen Gas Inc.

	[1]**LTM**	**2007**	**2006**	**2005**	**2004**
ROE (%) [2]	**8.5%**	**8.2%**	**7.7%**	**7.8%**	**9.2%**
EBIT/Customer Base (US$ MM) [3]	[4]**$274.4**	**$257.4**	**$222.2**	**$226.5**	**$212.6**
EBIT/Interest (x)	**2.0x**	**2.0x**	**2.0x**	**1.9x**	**2.0x**
RCF/Debt (%)	**2.1%**	**2.6%**	**7.8%**	**5.8%**	**7.3%**
Debt/Book Capitalization (Excluding Goodwill) (%)	**66.2%**	**66.8%**	**65.2%**	**68.7%**	**68.1%**
FCF/FFO (%)	**-82.3%**	**-64.8%**	**55.5%**	**-63.4%**	**20.3%**

[1] Last twelve months ending March 31,2008 [2] Return on Average Equity [3] US$ EBIT/ Residential and Commercial Customers (excluding Industrials) [4] US$ LTM EBIT/ FYE 2007 Residential and Commercial Customers (excluding Industrials)

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Headquartered in Vancouver, British Columbia, Terasen Gas Inc. (TGI) is the largest distributor of natural gas in the Province and the third largest gas distribution utility in Canada. It is a wholly-owned subsidiary of Terasen Inc. (TER) which is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company based in St. John's, Newfoundland. TER is a holding company which also owns 100% of the ownership interest of Terasen Gas Vancouver Island Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW), and a 30% interest in CustomerWorks, L.P. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). This relatively low-risk regulated gas distribution company generates predictable, stable earnings and serves approximately 827,000 customers in Greater Vancouver, the Fraser Valley, and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province.

Recent Developments

On February 19, 2008, the Province of British Columbia announced the phased introduction of a carbon tax on fossil fuels sold in the province effective July 1, 2008. The tax will progressively increase from $10 to $30 per tonne of carbon emissions by 2012 but will not initially apply to electricity sold in the province regardless of its origin or source of generation. TGI expects that the tax will add roughly $0.50 to $1.50 per GJ to the cost of natural gas sold in British Columbia. Moody's observes that the imposition of a carbon tax combined with increasing gas prices has the potential to further erode or eliminate the historic price advantage that gas has held over electricity in British Columbia and that the potential loss of gas' price advantage could negatively impact TGI's financial risk profile. However, Moody's expects that proposed electricity rate increases sought by British Columbia Hydro and Power Authority (BCH) should, to some degree, offset the impact of the carbon tax on the price competitiveness of gas in British Columbia.

Rating Rationale

TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). These regulatory ring-fencing conditions together with FTS' philosophy of requiring its utility operating subsidiaries to be financially and operationally independent of FTS allow Moody's to evaluate the credit profile of TGI substantially on a stand alone basis.

As described in Moody's rating methodology for North American Regulated Gas Distribution Industry (Local Distribution Companies), Moody's focuses on the following four main rating factors in assessing the relative creditworthiness of Local Distribution Companies (LDCs) such as TGI: Sustainable Profitability, Regulatory Support, Ring-Fencing, and Financial Strength and Flexibility. It is Moody's intent that in applying this methodology, investors should be able to derive a rating indication that is within two notches of the company's published rating in most instances.

FACTOR 1: SUSTAINABLE PROFITABILITY (20% weighting)

a) Return on Equity (15% weighting) - TGI's Return on Equity scores within the Baa range with a three year average of approximately 7.7%. In 2006, TGI's deemed equity component was increased to 35% from 33% and the equity risk premium used in the BCUC's automatic ROE adjustment formula was increased by 50 basis points. While Moody's considers these changes to be credit positive, we note that TGI continues to operate with one of the lowest deemed equity levels among its peers both in Canada and internationally. TGI has operated under a Performance Based Rate Plan (PBR) since 2004. Under the PBR plan, TGI has typically been able to earn ROE's in excess of its allowed ROE while sharing a portion of PBR savings with ratepayers. Although TGI received approval of a negotiated settlement to extend its PBR Plan through 2009, in the event that the existing PBR plan is not extended and a new PBR plan is not established, Moody's expects that TGI's metrics would weaken somewhat in 2010 and beyond. However, the impact of the termination of the PBR plan would be somewhat muted in 2010 and 2011 due to features of the current plan which provide for a phase out of the sharing of capital incentives for two years. TGI's ROE for the last twelve months (LTM) ending March 31, 2008 was approximately 8.5% and is on par with those of its LDC peers within the Baa range (5-9%).

b) EBIT/Customer Base (5% weighting) - The company's three year historical average has been approximately US$235/customer which scores in the A category for this subfactor. TGI benefits from a monopoly franchise in a mature service territory with a moderate and predictable growth profile.

FACTOR 2: REGULATORY SUPPORT (10% weighting)

TGI scores in the Aa category on this factor. The company's location in British Columbia, which enjoys a strong provincial economy and supportive regulatory climate, contributes to Moody's view of TGI as a relatively low-risk regulated gas distribution company. Moody's considers Canada to have supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the more supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. TGI annually reviews its capital spending plans and the rate impacts thereof with the BCUC, a process which substantially reduces the risk of being unable to fully recover costs that have already been incurred.

The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics (average EBIT Interest Coverage of 1.9x and average RCF/Debt of 4.6% over the 36 month period ended March 31, 2008) are partially offset by the supportive regulatory environment in which TGI operates. TGI's exposure to commodity price and volume risks as well as pension funding costs and insurance costs is limited by operation of various deferral mechanisms including the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM).

FACTOR 3: RING-FENCING (10% weighting)

Relative to its peers, Moody's considers TGI's ring-fencing to be very good and scores in the Aa category. The ring-fencing provisions require that TGI i) maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%); ii) refrain from extending loans or guarantees to affiliates; and iii) refrain from investing in or providing support to non-regulated business. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes. Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile substantially on a stand-alone basis.

FACTOR 4: FINANCIAL STRENGTH AND FLEXIBILITY (60% weighting)

Moody's rating methodology considers the following credit metrics to be important indicators of the financial strength of local gas distribution companies:

a) EBIT/Interest (15% weighting) - TGI's EBIT to Interest Expense scores within the Ba range, with a three year historical average measuring approximately 1.9x. In the short to medium-term, Moody's expects TGI's EBIT/Interest Expense ratio to remain relatively weak at approximately 2.0x which is within the Ba range for this subfactor. TGI's EBIT to Interest Coverage for the LTM ending March 31, 2008 was approximately 2.0x and is on par relative to those of its LDC peers within the Ba range.

b) RCF/Debt (15% weighting) - The company's Retained Cash Flow to Debt falls within the B range based on a historical three year average of approximately 4.6%. While TGI's RCF/Debt was approximately 2.1% for the LTM March 31, 2008, Moody's expects TGI's RCF/Debt to return to the Ba category going forward. TGI's 2007 and LTM RCF to Debt ratio reflects unusual dividend distributions due to activities related to the change of control of the Terasen group from Knight, Inc. (formerly Kinder Morgan, Inc.) to FTS. Whereas in recent years the company declared dividends in the range of $60 million per annum, it declared $40 million in both Q4 2006 and Q1 2007 as well as an additional $71 million in Q2 2007 for a total of $111 million of dividends in 2007. Moody's expects that dividend distributions will return to historical levels commencing 2008.

c) Debt/Book Capitalization (Excluding Goodwill) (15% weighting) - TGI's Debt to Capitalization (Excluding Goodwill) has historically been in the mid to high 60% range and therefore falls in the Ba category. For the LTM ending March, 31, 2008, TGI's debt to capitalization ratio was approximately 66%. Given that TGI's capitalization is driven by the BCUC's deemed capital structure, Moody's does not anticipate any material change in TGI's capital structure in the near term.

d) FCF/FFO (15% weighting) - Historically, TGI's FCF to FFO ratio has been changeable reflecting year to year variations in capital spending levels and dividend distributions. The company's three year average FCF/FFO of approximately -16.8% scored in the A range whereas for the LTM ending March 31, 2008, FCF/FFO measured approximately -82.3%. On a forward looking basis, Moody's expects the company's average FCF/FFO to be in the Aa category.

LIQUIDITY

In evaluating a company's liquidity, Moody's typically assumes that the company loses access to new capital, other than debt available under a company's committed credit facilities, for a period of 12 months. In this context, we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

TGI is expected to generate approximately $165 million of adjusted funds from operations (FFO) in the next 12 months. After dividends in the range of $70 million and capital expenditures and working capital changes of approximately $145 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately $50 million. Although TGI has scheduled debt maturities of approximately $190 million during the twelve months ending March 31, 2009, the company issued $250 million MTN debentures on May 13, 2008, the proceeds of which will be utilized to retire scheduled debt maturities and for general corporate purposes. Taking into account the recent MTN issuance, TGI's funding requirement for the twelve months ending March 31, 2009 is effectively nil. After the $188 million maturity in June 2008 and the $59.9 million maturity in June 2009, TGI has no maturities until 2015.

TGI's $500 million syndicated committed revolving facility matures August 2012 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the available portion of the facility in situations of financial stress. TGI has a relatively heavy reliance on short-term debt with $252 million of CP outstanding at March 31, 2008. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's high levels of short-term debt relative to the size of its credit facility can limit the company's financial flexibility, as was the case prior to the May 2008 MTN offering due to relatively high scheduled debt maturities. At March 31, 2008, approximately $204 million was available under the $500 million committed facility reflecting $252 million of CP outstanding, and approximately $44 million letters of credit (LCs) outstanding.

Looking forward, Moody's expects TGI's liquidity resources to be sufficient for its needs. All else being equal, low levels of scheduled debt maturities until 2015 are expected to reduce TGI's funding requirements to levels that will be manageable in the context of TGI's $500 million committed bank credit facility.

OPERATIONAL AND FINANCIAL INDEPENDENCE FROM PARENT, FORTIS INC.

TGI is one of a number of utility operating companies owned by FTS. Recognizing FTS' philosophy of allowing its utility subsidiaries to operate on a stand-alone basis, Moody's considers TGI, like sister companies FAB, FBC, NPI, and Terasen Gas (Vancouver Island) Inc. (TGVI), to be operationally and financially independent from FTS. FTS has consistently demonstrated good management and support of its subsidiaries, as well as the ability to maintain or rebuild good relationships with regulators of the companies that FTS has acquired. Moody's believes there is a low probability that FTS would pursue a dividend or other financial policy that would weaken TGI's financial condition given FTS' demonstrated philosophy of allowing its subsidiaries to operate on a stand-alone basis and the existence of the BCUC ring-fencing conditions. Overall, Moody's considers TGI's access to the financial resources and executive support of FTS to be a credit strength.

RATING METHODOLOGY-IMPLIED RATING

TGI's financial metrics are generally weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Connecticut Natural Gas Corporation, Public Service Co. of North Carolina, UGI Utilities and sister company, TGVI. Moody's recognizes that TGI's relatively weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE permitted by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada. However, TGI's A3 senior unsecured rating reflect Moody's view that TGI's relatively weaker financial metrics are offset to a significant degree by the supportiveness of the business and regulatory environments in which TGI operates. Moody's rating methodology model for North American LDCs indicates a Baa1 rating for TGI which is one notch below the company's A3, senior unsecured published rating assigned by Moody's rating committee. TGI's published rating exceeds the methodology-implied rating because Moody's rating committee places greater emphasis on the supportiveness of TGI's regulatory and business environments than the rating methodology model does. The methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

Rating Outlook

The stable outlook is predicated on TGI's relatively low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change the Rating - Up

Moody's considers an upward revision in TGI's rating to be unlikely in the near term. However, the rating could be positively impacted if TGI could demonstrate expectations for a sustainable improvement in TGI's credit metrics. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 10%, EBIT to Interest to approach 3.5x, RCF to Debt to approach 15%, Debt to Book Capitalization (Excluding Goodwill) to be below 65% and FCF to FFO to be in the range of -20% to -15%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT to Interest below 2x, RCF to Debt below 5% and/or Debt to Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				7.7%			
b) EBIT to Customer Base (5%) [3]			[4]$235.4				
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					

Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)					1.9x		
b) Retained Cash Flow/Debt (15%)						5%	
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					65.2%		
d) Free Cash Flow/Funds from Operations (15%)		-16.8%					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			**Baa1**				
b) Actual Senior Unsecured Equivalent Rating			**A3**				

[1] Last twelve months ending March 31,2008 [2] Return on Average Equity [3] US$ EBIT/ Residential and Commercial Customers (excluding Industrials) [4] US$ LTM EBIT/ FYE 2007 Residential and Commercial Customers (excluding Industrials)

Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Key Indicators

Terasen Gas Inc.

	[1]LTM	2008	2007	2006	2005	2004
ROE (%) [2]	4.2%	4.3%	8.1%	7.6%	7.8%	9.1%
EBIT/Customer Base (US$ MM) [3]	[4]229.4	$242.7	$257.4	$222.2	$226.5	$212.6
EBIT/Interest (x)	1.8x	1.8x	2.0x	2.0x	1.9x	2.0x
RCF/Debt (%)	6.7%	4.2%	2.5%	7.7%	5.7%	7.3%
Debt/Book Capitalization (Excluding Goodwill) (%)	61.0%	68.4%	66.8%	65.2%	68.7%	68.1%
FCF/FFO (%)	3.5%	-13.5%	-65.1%	55.7%	-63.7%	20.4%

[1] Last twelve months ending March 31,2009. [2] Return on Average Equity. [3] US$ EBIT/ Residential and Commercial Customers (excluding Industrials). [4] US$ LTM EBIT/ FYE 2008 Residential and Commercial Customers (excluding Industrials).

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Relatively weak credit metrics partially offset by a supportive regulatory environment.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas Inc. (TGI) is the largest distributor of natural gas in British Columbia and the third largest gas distribution utility in Canada. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). It is a wholly-owned subsidiary of Terasen Inc. (TER) which is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company. TER is a holding company which also holds

100% of Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

The A3 senior unsecured rating and stable outlook of TGI reflects the utility's low-risk business model and supportive regulatory environment which partially offset TGI's weak credit metrics. Moody's recognizes that the weakness of TGI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. Moody's believes that TGI's weak financial profile is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. TGI's weak financial profile causes the indicated rating under Moody's Gas LDC Rating Methodology to be one notch lower than the company's actual rating. Moody's is concerned that the BCUC's formula driven ROE mechanism and the current low interest rate environment could further pressure TGI's financial profile and its A3 rating. Moody's will closely follow the progress of TGI's May 15, 2009 cost of capital application and its pending application for 2010 rates to determine their impact on TGI's financial profile. Regulatory ring-fencing mechanisms effectively insulate TGI from its weaker parent companies, TER and FTS. Growth in TGI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. TGI enjoys good access to the term debt markets and maintains alternate liquidity resources that are generally sufficient except when large debt maturities occur during the peak gas storage season. Scheduled debt maturities are relatively modest until 2016.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, Moody's considers gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, Moody's considers regulated gas LDCs like TGI to be among the lowest risk corporate entities.

The company's location in British Columbia, which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate, contributes to Moody's view of TGI as a relatively low-risk regulated gas distribution company. Moody's considers Canada to have more supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics are partially offset by the supportive regulatory environment in which TGI operates. TGI has limited exposure to commodity price and volume risks, pension funding costs, insurance costs and interest rate volatility on short-term debt by operation of various BCUC-approved deferral mechanisms. These include the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM). In addition, on an annual basis TGI reviews its capital spending plans, and the rate impacts thereof, with the BCUC. In Moody's view this process substantially reduces the risk that TGI might be unable to fully recover its capital investments.

Growth in TGI's franchise area tends to be relatively predictable and capital spending is expected to remain relatively stable and modest in the context of TGI's asset base and depreciation expense. Moody's anticipates that TGI will be able to continue to finance capital spending with a prudent combination of internally generated funds and additional term debt.

LOW INTEREST RATES AND FORMULA DRIVEN ROE COULD PRESSURE FINANCIAL PROFILE AND EXISTING RATING

TGI's financial metrics are materially weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Public Service Co. of North Carolina, UGI Utilities and its sister company, TGVI. Moody's recognizes that TGI's weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE generated by the BCUC's automatic ROE adjustment formula. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada.

Moody's rating methodology model for North American LDCs indicates a Baa1 rating for TGI which is one notch below the company's A3 senior unsecured rating assigned by Moody's rating committee. TGI's published rating exceeds the methodology-implied rating because Moody's rating committee places greater emphasis on the supportiveness of TGI's regulatory and business environments than the rating methodology does. However, the methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

However, in the context of the current low interest rate environment and weaker economy, Moody's is becoming concerned that TGI's credit metrics could deteriorate to levels that, despite the relative supportiveness of TGI's regulatory environment, are not commensurate with the company's existing A3 senior unsecured rating and therefore could lead to a negative rating action. Moody's notes that on May 15, 2009, TGI filed a cost of capital application with the BCUC seeking an 11% ROE on a 40% deemed equity thickness, a meaningful increase from the 8.47% ROE on a 35.01% equity base currently utilized for rate-making purposes. Moody's acknowledges that in the context of the National Energy Board's precedent setting March 19, 2009 decision in the Trans Québec and Maritimes Pipelines' rate cases, there is some reason to believe that TGI's cost of capital application could result in changes which would be positive for TGI's financial profile. Accordingly, Moody's will be following the progress of TGI's cost of capital application and its pending application for 2010 rates to determine their impact on TGI's financial profile.

Moody's notes that the improvement in TGI's debt to capitalization as at March 31, 2009 is due almost entirely to a change in Canadian GAAP and that the lower debt to capitalization ratio is not indicative of any improvement in TGI's fundamental financial condition. Effective January 1, 2009, Canadian GAAP requires regulated utilities to recognize deferred income tax liabilities and assets together with offsetting regulatory assets or liabilities.

STRONG REGULATORY RING-FENCING SEPARATES TGI FROM PARENT, TERASEN INC.

TGI is subject to a set of regulatory ring-fencing conditions originally imposed by the BCUC in 2005 and affirmed by the BCUC on FTS' acquisition of TER in May 2007 (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile substantially on a stand-alone basis. Relative to its peers, Moody's considers TGI's ring-fencing to be very good. The ring-fencing provisions require that TGI i) maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%); ii) refrain from extending loans or guarantees to affiliates; and iii) refrain from investing in or providing support to non-regulated businesses. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes.

Liquidity Profile

TGI's liquidity is expected to be sufficient to meet its anticipated funding requirements in Moody's hypothetical liquidity stress scenario which assumes that a company loses access to new capital, other than amounts available under its committed credit facilities, for a period of 4 quarters.

TGI is expected to generate approximately $165 million of adjusted funds from operations (FFO) in the next 4 quarters. After dividends in the range of $60 million and capital expenditures and working capital changes of approximately $135 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately $30 million. TGI has scheduled debt maturities of approximately $62 million during the four quarters ending March 31, 2010 resulting in a funding requirement of approximately $90 million. After the $60 million maturity in June 2009, TGI has no significant maturities until 2015.

TGI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Given availability of approximately $389 million under TGI's credit facility at March 31, 2009, TGI has more than sufficient resources to meet its anticipated funding requirement of approximately $90 million during the 12-month period ending March 31, 2010.

Although utilization of TGI's credit facility was limited to $111.5 million at March 31, 2009, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of TGI's credit facility. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. This was the case prior to TGI's May 2008 MTN offering and left TGI dependent upon access to the capital markets to refinance the scheduled debt maturity.

Rating Outlook

The stable outlook is predicated on TGI's relatively low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change the Rating - Up

Moody's considers an upward revision in TGI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if TGI could demonstrate expectations for a sustainable improvement in its credit metrics. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 10%, EBIT to Interest to approach 3.5x, RCF to Debt to approach 15%, Debt to Book Capitalization (Excluding Goodwill) to be below 65% and FCF to FFO to be in the range of -20% to -15%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. In the context of a weak economy and a low interest rate environment any further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT to Interest below 2x, RCF to Debt below 5% and/or Debt to Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				6.7%			
b) EBIT to Customer Base (5%) [3]			$245				
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					
Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)					1.9x		
b) Retained Cash Flow/Debt (15%)						4.8%	
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					66.8%		
d) Free Cash Flow/Funds from Operations (15%)		-7.7%					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			**Baa1**				
b) Actual Senior Unsecured Equivalent Rating			**A3**				

[1] Three year average (2006-2008) [2] Return on Average Equity [3] US$ EBIT/ Residential and Commercial Customers (excluding Industrials)

MOODY'S
INVESTORS SERVICE

Credit Opinion: Terasen Gas Inc.

Global Credit Research - 28 May 2010

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
Donald S. Carter, CFA/Toronto	416.214.3851

Key Indicators

[1]**Terasen Gas Inc.**

	[2]**LTM**	**2009**	**2008**	**2007**	**2006**	**2005**
(CFO Pre-WC + Interest) / Interest Expense	**2.7x**	**2.6x**	**2.5x**	**2.4x**	**2.5x**	**2.4x**
(CFO Pre-WC) / Debt	**12.2%**	**10.3%**	**9.8%**	**8.8%**	**10.1%**	**9.0%**
(CFO Pre-WC - Dividends) / Debt	**7.6%**	**6.5%**	**4.2%**	**2.5%**	**7.7%**	**5.7%**
Debt / Book Capitalization	**55.9%**	**61.7%**	**68.4%**	**66.8%**	**65.2%**	**68.7%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments
[2] Last twelve months ended March 31, 2010

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Relatively weak financial metrics partially offset by a supportive regulatory environment.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas Inc. (TGI) is the largest distributor of natural gas in British Columbia and the third largest gas distribution utility in Canada. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC).

TGI is a wholly-owned subsidiary of Terasen Inc. (TER) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company. TER is a holding company which also holds 100% of Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

TGI's A3 senior unsecured rating and stable outlook reflect its low-risk business model and supportive regulatory environment which partially offset its weak financial metrics. Moody's recognizes that the weakness of TGI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that TGI's weak financial profile is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically.

TGI's financial profile is expected to strengthen modestly in 2010 due to the BCUC's December 2009 cost of capital decision which increased TGI's allowed ROE to 9.5% and its deemed equity to 40%. Regulatory ring-fencing mechanisms effectively insulate TGI from its weaker parent companies, TER and FTS. Growth in TGI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. TGI enjoys good access to the term debt markets and maintains liquidity resources that are sufficient.

TGI's A3 rating is consistent with the A3 rating implied by our Regulated Electric and Gas Utility Rating Methodology.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas local distribution companies (LDC) to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like TGI to be among the lowest risk corporate entities.

The company's location in British Columbia, which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate, contributes to our view of TGI as a relatively low-risk regulated gas distribution company. We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. The supportiveness of the British Columbia regulatory environment is also evidenced by the fact that TGI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit TGI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, on an annual basis TGI reviews its capital spending plans, and the rate impacts thereof, with the BCUC. In our view, this process substantially reduces the risk that TGI might be unable to fully recover its capital investments. In our view, these factors more than offset the fact that deemed equity thicknesses and allowed ROEs in Canada tend to be lower than those in the U.S.

Growth in TGI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of TGI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2010 and 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occuring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2010 and 2011, we anticipate that TGI will continue to finance capital spending with a prudent combination of internally generated funds and additional term debt.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2010

TGI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, TGVI. We recognize that TGI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and historically TGI's were among the lowest in Canada.

However, the BCUC's December 2009 cost of capital decision is expected to have a small positive impact on TGI's financial metrics. In that decision, TGI's allowed ROE was increased to 9.5% from 8.47% retroactive to July 1, 2009 and its deemed equity percentage was increased to 40% from 35.01% effective January 1, 2010. In order to bring TGI's actual capital structure in line with the new 40% deemed equity level, TGI raised $125 million of common equity from its ultimate parent, FTS, in January 2010. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to be in the upper 2x range going forward versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its sub-10% level in the past few years.

The improvement in TGI's debt to capitalization as at March 31, 2010 also reflects the change in Canadian GAAP that took effect January 1, 2009 and requires regulated utilities to recognize deferred income tax liabilities. This had the effect of increasing capitalization and therefore reducing debt to capitalization since we include deferred taxes in capitalization.

Despite the increase in TGI's allowed ROE to 9.5% and deemed equity to 40%, these levels remain lower than those of U.S. gas LDCs which typically have allowed ROEs of 10% or more and deemed equity in the 50% range.

STRONG REGULATORY RING-FENCING SEPARATES TGI FROM PARENT, TERASEN INC.

We believe that TGI's ring-fencing is very good relative to that of its peers outside of British Columbia. TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, TGI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause TGI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate TGI from the greater financial and business risks of its parents, TER and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow Moody's to evaluate TGI's credit profile on a stand-alone basis.

Liquidity Profile

TGI's liquidity is expected to be sufficient to meet its anticipated funding requirements. Availability under TGI's credit agreement at March 31, 2010 was $414 million which exceeds our $120 million estimate of the company's funding requirement for the subsequent four quarters.

TGI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

TGI is expected to generate approximately $190 million of adjusted funds from operations (FFO) in the next 4 quarters. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $225 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately $120 million. TGI has no material scheduled debt maturities during the four quarters ending June 30, 2011 resulting in a funding requirement of approximately $120 million.

Although utilization of TGI's credit facility was limited to roughly $86 million at March 31, 2010, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of TGI's credit facility. For instance, at the end of the third quarter of 2008, availability under TGI's $500 million credit facility was only about $175 million. We recognize that TGI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, we believe that TGI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. However, this is not a concern in the near term as TGI's next significant debt maturity occurs in September 2015.

Rating Outlook

The stable outlook is predicated on TGI's low business risk as a regulated gas distribution utility, our expectation that TGI's regulatory environment will continue to be supportive and our belief that TGI's financial profile will improve modestly in 2010.

What Could Change the Rating - Up

We consider an upward revision in TGI's rating to be unlikely in the near term due to its relatively weak financial profile. However, the rating could be positively impacted if TGI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect TGI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of TGI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of TGI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

Terasen Gas Inc.

Regulated Electric and Gas Utilities Rating Methodology	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)		X				
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (10%)			X			
b) Generation and Fuel Diversity (0%)			n/a			
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Interest (7.5%)					2.5x	
c) CFO pre-WC / Debt (7.5%)					9.6%	
d) CFO pre-WC - Dividends / Debt (7.5%)					4.4%	
e) Debt / Capitalization or Debt / RAV (7.5%)						65.6%
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating			**A3**			

MOODY'S INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 21 Jul 2011

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Key Indicators

[1]**FortisBC Energy Inc.**

	[2]LTM	2010	2009	2008	2007	2006
(CFO Pre-W/C + Interest) / Interest Expense	2.7x	2.7x	2.6x	2.5x	2.4x	2.5x
(CFO Pre-W/C) / Debt	11.3%	10.6%	10.2%	9.8%	8.8%	10.1%
(CFO Pre-W/C - Dividends) / Debt	5.4%	5.9%	6.5%	4.2%	2.5%	7.7%
Debt / Book Capitalization	57.3%	59.1%	61.8%	68.4%	66.8%	65.2%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended March 31, 2011

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost-of-service regulated gas transmission and distribution utility

Weak financial metrics balanced by a supportive regulatory environment

Strong regulatory ring-fencing mechanisms insulate company from its weaker parent

Sufficient liquidity resources

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI is a holding company which also holds 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating and stable outlook reflect its low-risk LDC business model and supportive regulatory environment which are balanced by its weak financial metrics. We recognize that the weakness of FEI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that FEI's weak financial profile is balanced by its relatively low business risk as a gas LDC and the by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. We expect FEI's financial profile to strengthen modestly in 2012 and 2013. Regulatory ring-fencing mechanisms effectively insulate FEI from its weaker parent companies, FHI and FTS. Growth in FEI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. FEI maintains sufficient liquidity resources.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas LDCs to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI to be among the lowest risk corporate entities.

We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia (BC) is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings in BC tend to be less adversarial than those in other jurisdictions and decisions tend to be timely and balanced. The supportiveness of the BC regulatory environment is also evidenced by the fact that FEI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit FEI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. We believe these qualitative factors balance FEI's weak financial profile.

Growth in FEI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of FEI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occurring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2011, we anticipate that FEI will continue to finance its capital spending with a prudent combination of internally generated funds, additional term debt and equity injections from FTS as required.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2012 and 2013

FEI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, FEVI. We recognize that FEI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions.

We expect FEI's cash flow to increase in 2012 and 2103 due to higher levels of non-cash depreciation and amortization expense that will be collected in revenues. The largest driver of the higher depreciation will be FEI's customer care enhancement project which is slated to be placed into service in 2012. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to approach 3x in 2012 and 2013 versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its approximately 10% level in the past few years.

POTENTIAL AMALGAMATION OF FEI, FEVI AND FEW LIKELY CREDIT NEUTRAL

FEI has indicated that during 2011 it intends to apply to the BCUC to amalgamate FEI, FEVI and FEW and harmonize rates across the amalgamated utility. In an amalgamation scenario, the senior unsecured debt of FEI and FEVI would rank pari passu and be supported by the combined cash flow of the amalgamated utility. While the timing and outcome of the planned amalgamation application are unknown at this time, we expect that amalgamation and rate harmonization would be credit neutral to FEI provided that there are no reductions in deemed equity levels or allowed ROE or increases in the fundamental business risks borne by the amalgamated utility.

STRONG REGULATORY RING-FENCING INSULATES FEI FROM PARENT, FHI

We believe that FEI's ring-fencing is very good relative to that of its peers outside of BC. FEI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support any non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEI from the greater financial and business risks of its parents, FHI and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow us to evaluate FEI's credit profile on a stand-alone basis.

Liquidity Profile

We expect FEI's liquidity will be sufficient to meet its funding requirements over the next four quarters.

We expect FEI to generate approximately $215 million of CFO pre-WC during the 12 months ending June 30, 2012. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $255 million, we expect FEI to be free cash flow (FCF) negative by approximately $125 million. FEI has no material scheduled debt maturities during the twelve months ending June 30, 2012 resulting in a funding requirement of approximately $125 million.

We estimate availability under FEI's credit agreement to be roughly $380 million which exceeds our $125 million estimate of the company's funding requirement.

FEI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum

75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Although utilization of FEI's credit facility was limited to roughly $134 million at March 31, 2011, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of FEI's credit facility. For instance, at the end of the third quarter of 2008, availability under FEI's $500 million credit facility was only about $175 million. We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly, when material debt maturities fall within the peak storage season. Although FEI has no significant debt maturities until September 2015, the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's cash flow and increase FEI's liquidity requirements. This decision is directionally negative for credit but, at this time, not material enough to impact our rating or outlook.

Rating Outlook

The stable outlook is predicated on FEI's low business risk as a regulated gas LDC, our expectation that FEI's regulatory environment will continue to be supportive and our belief that FEI's financial profile will continue to improve modestly through 2013. The outlook also reflects our belief that if FEI, FEVI and FEW ultimately amalgamate, the amalgamation and rate harmonization would be credit neutral for FEI's credit profile.

What Could Change the Rating - Up

We consider an upward revision in FEI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if FEI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect FEI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding FEI's low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**		[3]**Moody's 12-18 month Forward View As of 07/20/2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Aa		Aa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.6x	Ba1	2.6x-2.8x	Ba1/Baa3
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	10.2%	Ba2	9%-11%	Ba2/Ba1
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	5.5%	Ba2	5%-7%	Ba2/Ba1
e) Debt/Capitalization (3 Year Avg) (7.5%)	62.9%	Ba3	57%-60%	Ba2/Ba1
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned		A3		A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Financial ratios reflect three year averages for 2008, 2009 and 2010. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

STANDARD & POOR'S

RATINGSDIRECT®

August 10, 2006

Research Update: Terasen Gas Inc. Ratings Remain On CreditWatch Negative

Primary Credit Analyst:
Bhavini Patel, CFA, Toronto (1) 416-507-2558;bhavini_patel@standardandpoors.com

Secondary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676;todd_shipman@standardandpoors.com

Table Of Contents

Research Update: Terasen Gas Inc. Ratings Remain On CreditWatch Negative

Credit Rating: BBB/Watch Neg/NR

Rationale

On Aug. 10, 2006, Standard & Poor's Ratings Services said that the ratings on Terasen Gas Inc. (TGI; BBB/Watch Neg/--) remain on CreditWatch with negative implications, where they were placed May 30, 2006. TGI has about C$1.5 billion of total debt outstanding.

Evaluation of the relationship between the Vancouver, B.C.-based natural gas distribution utility and its ultimate parent, Houston, Texas-based Kinder Morgan Inc. (KMI; BBB/Watch Neg/A-2), indicates that ratings on TGI will remain in the investment-grade category if the KMI ratings are lowered due to completion of a proposed management buyout of the publicly-held shares of KMI. That conclusion is based on Standard & Poor's current understanding of the buyout plans and the assumption that nothing material changes regarding the buyout or TGI's business and regulatory situation.

The negative CreditWatch placement on KMI and related entities was prompted by KMI's plans to noticeably increase its financial leverage to fund the stock buyout. Including TGI in the negative CreditWatch listing reflected its status as an indirect, wholly owned subsidiary of KMI. KMI purchased the utility's parent company, Terasen Inc. (BBB/Watch Neg/--), in December 2005.

The offer to take KMI private is being evaluated by KMI's board of directors. If the proposal proceeds, Standard & Poor's evaluation of the entire Kinder Morgan enterprise will focus on the greater debt burden and future composition of business activities at KMI. The sharp increase in debt contemplated in the buyout offer would likely lead to a downgrade at KMI well into the 'BB' category.

In concluding that TGI would remain in the 'BBB' category even if KMI were downgraded, Standard & Poor's believes that the utility's credit profile would be unlikely to suffer significant deterioration from the parent's activities. The separation is substantiated by management actions that have been consistent with maintaining the utility's investment-grade credit quality during the short time KMI has controlled TGI. More significantly, Standard & Poor's would expect greater regulatory scrutiny if ratings on the utility's parent company fell below the 'BBB-' investment-grade threshold.

Furthermore, explicit conditions established in the British Columbia Utilities Commission's (BCUC) order approving KMI's purchase help support investment-grade ratings. The conditions designed to insulate the utility from KMI include an obligation to maintain a minimum common equity in its capital structure, a requirement for BCUC approval of dividends under certain circumstances, and restrictions on financial and other transactions between the utility and KMI. (For more information on the decision to separate the ratings, please see "Credit FAQ: Terasen Gas Inc. To Remain Investment-Grade" published Aug. 10, 2006, on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis.)

Ratings List

Terasen Gas Inc.

Ratings Remaining On CreditWatch Negative	
Corporate credit rating	BBB/Watch Neg/--
Senior secured	A-/Watch Neg
Senior unsecured	BBB/Watch Neg

STANDARD & POOR'S

BREAKING NEWS

Terasen Gas Inc. Rating Raised To 'A' From 'BBB', Off CreditWatch; Outlook Stable

Primary Credit Analyst:
Kenton Freitag, CFA
Toronto
(1) 416-507-2545
kenton_freitag@
standardandpoors.com

Secondary Credit Analyst:
Nicole Martin
Toronto
(1) 416-507-2560
nicole_martin@
standardandpoors.com

Publication Date
June 19, 2007

Rationale

On June 19, 2007, Standard & Poor's Ratings Services raised its long-term corporate credit and senior unsecured debt ratings on Terasen Gas Inc. to 'A' from 'BBB'. We also removed the ratings from CreditWatch with positive implications, where they were placed on Feb. 26, 2007. The outlook is stable. The upgrade primarily reflects our view that the regulatory insulation between Terasen Gas and parent Terasen Inc. (BBB+/Stable/—) is sufficient to rate Terasen Gas primarily on a basis that reflects its standalone credit quality instead of that of its direct parent or its indirect parent, Fortis Inc. (A-/Stable/—).

The ratings on British Columbia-based Terasen Gas reflect the company's low-risk, regulated natural gas distribution business; its sound operational record; and its free cash generation capability. Somewhat high leverage levels partially offset these strengths.

Terasen Gas is the primary distributor of gas in mainland B.C. Parent Terasen was formerly owned and its ratings capped by Knight Inc. (formerly Kinder Morgan Inc.; BB-/Stable/—). In spinning off Terasen to Fortis, Knight retained Terasen's higher-risk oil transmission assets; Terasen now focuses primarily on owning gas distribution and transmission companies in B.C. On June 19, 2007, we raised the long-term corporate credit rating on Terasen to 'BBB+' from 'BB-'. (For more information, please see the research report on Terasen published June 19, 2007.)

Terasen Gas' excellent business position benefits from its monopoly status, the supportive cost of service regulation, and additional regulatory mechanisms that mitigate major operating risks, such as commodity costs. The major risks of volatile gas commodity costs and unpredictable weather are essentially mitigated by regulatory deferral accounts and quarterly rate adjustments. The regulatory structure has supported a record of very stable operating results.

Gas regulation within B.C. is well-established, and we view it as supportive of credit quality. Allowed ROE is determined as a premium to long-term bond yields. This resulted in a low calculated ROE of 8.37% for 2007—a rate that reflects in part the regulator's view that Terasen Gas has the lowest operating risk of all B.C. utilities. The regulator has approved steps taken by Terasen to insulate Terasen Gas from the parent through conditions such as dividend restrictions if Terasen Gas doesn't maintain minimum equity levels (currently 35%).

Terasen Gas benefits from a good operational track record. It has operated one of the more efficient gas distribution networks in Canada (as measured by operating margin, operating costs per customer, and customers per employee). Despite competition from low-cost electricity, Terasen Gas has good market penetration and should continue to increase its customer base. The competitive advantage of natural gas compared with electricity has narrowed significantly with elevated gas prices. We expect that increases in electricity prices in the next several years will help maintain the company's established customer base.

The company's free cash generation ability supports the rating. In the past five years, Terasen Gas has averaged more than C$60 million per year in free cash flow generation. The company's rate base has increased moderately, standing at about C$2.5 billion, and it has targeted capital expenditures of around C$100 million per year. Given expectations of funds from operations in excess of C$160 million per year, we expect that the company's stable operations will support, on average, similar levels of free cash flow in the next few years. Nevertheless, because of the potential for gas prices to spike, the company could occasionally encounter working capital volatility, as it might have to defer full recovery of gas costs to smooth customer rates. The company's policy of entering into preapproved forward contracts for gas purchases somewhat mitigates this risk—about 70% of winter gas costs are locked in through hedging and storage.

A primary operating risk for Terasen Gas is its reliance on the Spectra pipeline to source gas for its distribution network. In the event of a pipeline shutdown, Terasen Gas could source gas from storage and from the U.S., but the company would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the rating level. Furthermore, the company's affiliate (Terasen Gas Vancouver Island) is proceeding with a plan to build new liquid natural gas storage on Vancouver Island, a portion of which will be available to Terasen Gas.

Terasen Gas' financial risk profile is intermediate, and below-average financial metrics constrain the ratings. Terasen Gas' financial measures are primarily driven by regulatory directions with respect to allowed ROE (8.37% for 2007) and deemed equity layers (35%). The combination of a lower amount of equity in the capital structure and a low ROE results in elements of its financial profile, particularly interest coverages (funds from operations interest coverage of 2.6x) and leverage measures (debt-to-capital of 66%), that are somewhat weaker than those of higher rated U.S. peers. This is partly mitigated by Terasen Gas' consistency of free cash flow, satisfactory liquidity, and predictable financial policies.

Liquidity

Terasen Gas' liquidity is satisfactory and supported by the following factors:

- As at March 31, 2007, Terasen had C$500 million in credit lines with availability of C$320 million.

- Bank lines can support working capital volatility due to seasonality and gas price volatility. Typically, usage of credit lines will peak at around C$300 million, but use could rise if gas prices spike.
- The company typically produces free cash flow of about C$60 million per year. This will support a similar level of dividends to parent Terasen.
- Debt maturities are evenly spread out in the next few years. Terasen Gas continues to enjoy good access to Canadian debt markets.
- Fortis, which has access to both debt and equity markets, serves as a potential temporary liquidity provider. However, Terasen Gas is a primary source of cash flow to Fortis and would not likely be able to provide support if its difficulties appeared permanent.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance. Given that an improvement in its capital structure appears remote an upgrade or a positive outlook is unlikely. A negative outlook or downgrade could result from operational difficulties or a decision to increase the leverage of the company.

Ratings List

Terasen Gas Inc.

	To	From
Ratings Raised And Removed From CreditWatch		
Corporate credit rating	A/Stable/—	BBB/Watch Pos/—
Senior secured debt	AA-	A-/Watch Pos
Senior unsecured debt	A	BBB

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

STANDARD & POOR'S

RatingsDirect®

December 20, 2007

Terasen Gas Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Table Of Contents

Terasen Gas Inc.

Major Rating Factors

Strengths:

- Monopoly position in its market
- Highly predictable earnings due to cost-of-service regulation
- Transparent and fair regulatory framework

Weaknesses:

- Below-average financial metrics relating to high leverage

Corporate Credit Rating
A/Stable/NR

Rationale

The ratings on British Columbia-based Terasen Gas Inc. reflect the company's low-risk, regulated natural gas distribution business; its sound operational record; and its free cash generation capability. Somewhat high leverage levels partially offset these strengths.

Terasen Gas is the primary distributor of gas in mainland B.C. It is a wholly owned subsidiary of Terasen Inc. (BBB+/Stable/--), which is owned by Fortis Inc. (A-/Stable/--).

Terasen Gas' excellent business position benefits from its monopoly status; the supportive cost of service regulation; and additional regulatory mechanisms that mitigate major operating risks, such as commodity costs. Regulatory deferral accounts and quarterly rate adjustments essentially mitigate the major risks of volatile gas commodity costs and unpredictable weather. The regulatory structure has supported very stable operating results.

Gas regulation within B.C. is well-established, and we view it as supportive of credit quality. Allowed ROE is determined as a premium to long-term bond yields. This resulted in a low calculated ROE of 8.37% for 2007--a rate that reflects in part the regulator's view that Terasen Gas has the lowest operating risk of all B.C. utilities. The regulator has approved steps taken by Terasen to insulate Terasen Gas from the parent through conditions such as dividend restrictions if Terasen Gas doesn't maintain minimum equity levels (currently at 35%).

Terasen Gas benefits from a good operational track record. It has operated one of the more efficient gas distribution networks in Canada (as measured by operating margin, operating costs per customer, and customers per employee). Despite competition from low-cost electricity, Terasen Gas has good market penetration and should continue to increase its customer base. The competitive advantage of natural gas compared with electricity has narrowed significantly with elevated gas prices. We expect that increases in electricity prices in the next several years will help maintain the company's established customer base.

The company's free cash generation ability supports the rating. In the past five years, Terasen Gas has averaged more than C$60 million per year in free cash flow generation. The company's rate base has increased moderately, standing at about C$2.5 billion, and it has targeted capital expenditures of about C$100 million per year. Given expectations of funds from operations in excess of C$160 million per year, we expect that the company's stable operations will support, on average, similar levels of free cash flow in the next few years. Nevertheless, because of the potential for gas prices to spike, the company could occasionally encounter working capital volatility, as it might have to defer full recovery of gas costs to smooth customer rates. The company's policy of entering into preapproved contracts for gas purchases somewhat mitigates this risk--about 70% of winter gas costs are locked in through hedging and storage.

A primary operating risk for Terasen Gas is its reliance on the Spectra pipeline to source gas for its distribution network. In the event of a pipeline shutdown, Terasen Gas could source gas from storage and from the U.S., but the company would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the rating level. Furthermore, the company's affiliate (Terasen Gas Vancouver Island) is proceeding with a plan to build new liquid natural gas storage on Vancouver Island, a portion of which will be available to Terasen Gas.

Terasen Gas' financial risk profile is intermediate, and below-average financial metrics constrain the ratings. Terasen Gas' financial measures are primarily driven by regulatory directions with respect to allowed ROE (8.37% for 2007) and deemed equity layers (35%). The combination of a lower amount of equity in the capital structure and a low ROE results in elements of its financial profile, particularly interest coverages (funds from operations interest coverage of 2.6x) and leverage measures (debt-to-capital of 66%), that are somewhat weaker than those of higher rated U.S. peers. Partially mitigating this are Terasen Gas' consistency of free cash flow, satisfactory liquidity, and predictable financial policies.

Liquidity

Terasen Gas' liquidity is satisfactory.

- As at Sept. 30, 2007, Terasen had C$500 million in credit lines, with C$177 million available. Bank lines support working capital volatility due to seasonality and gas price volatility.
- The company typically produces free cash flow of about C$60 million per year. This will support a level of dividends similar to that of parent Terasen. Debt maturities are evenly spread out in the next few years. Terasen Gas continues to enjoy good access to Canadian debt markets.
- Fortis, which has access to both debt and equity markets, serves as a potential temporary liquidity provider. However, Terasen Gas is a primary source of cash flow to Fortis and would not likely be able to support if its difficulties appeared permanent.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance. Given that an improvement in its capital structure appears remote, an upgrade or a positive outlook is unlikely. A negative outlook or downgrade could result from operational difficulties or a decision to increase leverage.

Table 1

Terasen Gas Inc.--Peer Comparison*

Industry sector: Regulated utility

	--Average of past three fiscal years--		
(Mil. C$)	**Terasen Gas Inc.**	**Enbridge Gas Distribution Inc.**	**Gaz Metro L.P.**
Rating as of Dec. 19, 2007	A/Stable/--	A-/Stable/--	A-/Negative/--
Revenues	1,432.1	3,040.5	1,860.9
Net income from continuing operations	68.2	179.0	154.0

Table 1

Terasen Gas Inc.--Peer Comparison*(cont.)				
Funds from operations (FFO)	172.1		408.9	348.3
Capital expenditures	126.7		357.5	149.5
Debt	1,771.9		3,279.2	1,448.4
Equity	824.9		1,707.4	874.6
Adjusted ratios				
Operating income (before D&A)/revenues (%)	22.2		19.5	19.9
EBIT interest coverage (x)	2.0		2.1	2.5
EBITDA interest coverage (x)	2.7		2.8	3.9
Return on capital (%)	8.8		9.1	10.3
FFO/debt (%)	9.7		12.5	24.0
Debt/EBITDA (x)	5.7		5.5	3.9

*Fully adjusted (including postretirement obligations).

Table 2

Terasen Gas Inc.--Financial Summary*					
Industry sector: Regulated utility					
	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2006**	**2005**	**2004**	**2003**	**2002**
Rating history	BBB/Watch Neg/--	BBB/Negative/--	BBB/Stable/--	BBB/Stable/A-2	BBB+/Watch Neg/--
Revenues	1,525.3	1,465.9	1,305.2	1,305.6	1,246.4
Net income from continuing operations	68.4	65.3	70.8	70.4	67.1
Funds from operations (FFO)	184.2	167.1	164.9	159.0	156.8
Capital expenditures	108.0	153.7	118.4	115.6	145.8
Cash and investments	6.5	15.6	1.7	0.0	0.0
Debt	1,731.5	1,849.6	1,734.6	1,821.4	1,768.2
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	877.7	813.1	783.7	733.4	730.1
Debt and equity	2,609.2	2,662.8	2,518.2	2,554.8	2,498.3
Adjusted ratios					
EBIT interest coverage (x)	2.0	1.9	2.0	1.9	1.9
FFO interest coverage (x)	2.6	2.3	2.4	2.3	2.3
FFO/debt (%)	10.6	9.0	9.5	8.7	8.9
Discretionary cash flow/debt (%)	7.0	(4.9)	1.5	(2.1)	(1.1)
Net cash flow/capex (%)	133.5	69.7	88.7	68.4	52.7
Debt/debt and equity (%)	66.4	69.5	68.9	71.3	70.8
Return on common equity (%)	7.7	7.8	8.9	9.2	8.7
Common dividend payout ratio (unadjusted; %)	58.5	91.9	84.7	113.6	119.2

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Terasen Gas Inc. Reported Amounts With Standard & Poor's Adjusted Amounts*

--Fiscal year ended Dec. 31, 2006--								
Terasen Gas Inc. reported amounts (mil. C$)	**Debt**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	1,567.0	301.1	301.1	217.2	105.2	244.8	244.8	108.7
Standard & Poor's adjustments								
Operating leases	120.6	16.0	8.4	8.4	8.4	7.6	7.6	N/A
Postretirement benefit obligations	43.9	4.5	4.5	4.5	N/A	17.1	17.1	N/A
Capitalized interest	N/A	N/A	N/A	N/A	0.7	(0.7)	(0.7)	(0.7)
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	(84.6)	N/A
Total adjustments	164.5	20.5	12.9	12.9	9.1	24.0	(60.6)	(0.7)
Standard & Poor's adjusted amounts	**Debt**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	1,731.5	321.6	314.0	230.1	114.3	268.8	184.2	108.0

*Terasen Gas Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. N/A--Not applicable.

Ratings Detail (As Of December 20, 2007)*

Terasen Gas Inc.	
Corporate Credit Rating	A/Stable/NR
Senior Secured	
Local Currency	AA-
Senior Unsecured	
Local Currency	A
Corporate Credit Ratings History	
19-Jun-2007	A/Stable/NR
26-Feb-2007	BBB/Watch Pos/NR
30-May-2006	BBB/Watch Neg/NR
06-Dec-2005	BBB/Negative/NR
02-Aug-2005	BBB/Watch Neg/NR
11-Mar-2004	BBB/Stable/NR
26-Sep-2003	BBB/Stable/A-2
26-Jun-2003	BBB/Stable/--

Debt Maturities

2008 C$189 million
2009 C$61 million
2010 C$1 million
2011 C$1 million

Ratings Detail (As Of December 20, 2007)* **(cont.)**

Related Entities	
Cortez Capital Corp.	
Issuer Credit Rating	--/--/A-2
Commercial Paper	
Local Currency	A-2
Kinder Morgan Energy Partners L.P.	
Issuer Credit Rating	
Foreign Currency	BBB/Stable/--
Local Currency	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	
Local Currency	BBB
Knight Inc.	
Issuer Credit Rating	BB-/Stable/NR
Preferred Stock	
Local Currency	B-
Senior Secured	
Local Currency	BB-
Senior Unsecured	
Local Currency	BB-
MidCon LLC	
Issuer Credit Rating	BBB-/Stable/--
NGPL Pipe Co LLC	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	
Local Currency	BBB-
Rockies Express Pipeline LLC	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	
Local Currency	BBB
Terasen Inc.	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured	
Local Currency	BBB+
Subordinated	
Local Currency	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

RatingsDirect®

December 8, 2008

Terasen Gas Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Terasen Gas Inc.

Major Rating Factors

Strengths

- Monopoly position in its market
- Highly predictable earnings due to cost-of-service regulation
- Transparent and fair regulatory framework

Weaknesses

- Below-average financial metrics relating to high leverage

Corporate Credit Rating
A/Stable/NR

Rationale

The ratings on British Columbia-based Terasen Gas Inc. reflect Standard & Poor's Ratings Services' opinion of the company's low-risk, regulated natural gas distribution business; its sound operational record; and its free cash generation capability. We believe somewhat high leverage levels partially offset these strengths.

Terasen Gas is the primary distributor of gas in mainland B.C. It is a wholly owned subsidiary of Terasen Inc. (BBB+/Stable/--), which is itself owned by Fortis Inc. (A-/Stable/--).

In our opinion, Terasen Gas' excellent business position benefits from its monopoly status; the supportive cost of service regulation; and additional regulatory mechanisms that mitigate major operating risks, such as commodity costs. Regulatory deferral accounts and quarterly rate adjustments essentially mitigate the major risks of volatile gas commodity costs and unpredictable weather. The regulatory structure has supported very stable operating results.

Gas regulation within B.C. is well-established, and we view it as supporting credit quality. The regulator determines allowed return on equity (ROE) as a premium to long-term bond yields. This resulted in a low calculated ROE of 8.62% for 2008--which reflects, in part, the regulator's view that Terasen Gas has the lowest operating risk of all B.C. utilities. The regulator has approved steps that Terasen has taken to insulate Terasen Gas from the parent through conditions such as dividend restrictions if Terasen Gas doesn't maintain minimum equity levels (currently at 35%).

Terasen Gas benefits from a good operational track record. It has operated one of the more efficient gas distribution networks in Canada (as measured by operating margin, operating costs per customer, and customers per employee). Despite competition from low-cost electricity, we believe Terasen Gas has good market penetration and should continue to increase its customer base. The competitive advantage of natural gas compared with that of electricity narrowed significantly during the summer with elevated gas prices; subsequent declines in natural gas prices has restored the advantage. We expect that increases in electricity prices in the next several years will help maintain the company's established customer base.

The company's free cash generation ability supports the rating. In the past five years, Terasen Gas has averaged more than C$60 million per year in free cash flow generation. The company's rate base has increased moderately, standing at about C$2.5 billion, and it has targeted capital expenditures of about C$100 million per year. Given expectations of funds from operations exceeding C$160 million per year, we expect that the company's stable operations will support, on average, similar levels of free cash flow in the next few years. Nevertheless, because of the potential for gas prices to spike, Terasen Gas could occasionally encounter working-capital volatility, as it might have to defer full recovery of gas costs to smooth customer rates. The company's policy of entering preapproved contracts for gas purchases somewhat mitigates this risk--about 70% of winter gas costs are locked in through hedging and storage.

A primary operating risk for Terasen Gas is its reliance on the Spectra pipeline to source gas for its distribution network. In the event of a pipeline shutdown, the company could source gas from storage and the U.S., but it would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the rating level. Furthermore, the company's affiliate (Terasen Gas Vancouver Island) is proceeding with a plan to build a liquid natural gas storage on Vancouver Island, a portion of which will be available to Terasen Gas.

Terasen Gas' financial risk profile is intermediate, and below-average financial metrics constrain the ratings. Regulatory directions with respect to allowed ROE and deemed equity layers primarily influence the company's financial measures. The combination of lower equity in the capital structure and a low ROE results in elements of its financial risk profile, particularly interest coverages (EBITDA interest coverage of 2.6x) and leverage measures (debt-to-capital of 65%), that are somewhat weaker than those of higher rated U.S. peers. Partially mitigating this are Terasen Gas' consistency of free cash flow, satisfactory liquidity, and predictable financial policies.

Liquidity

Terasen Gas' liquidity is satisfactory, in our opinion.

- As at Sept. 30, 2008, Terasen had C$500 million in credit lines, with C$175 million available. Bank lines support working capital volatility due to seasonality and gas price volatility.
- The company typically produces free cash flow of about C$60 million per year. This will support a level of dividends similar to that of parent Terasen. There is one small debt maturity in 2009 with the next maturity in 2015. Terasen Gas has historically enjoyed good access to Canadian debt markets.
- Fortis, which has access to both debt and equity markets, serves as a potential temporary liquidity provider. However, Terasen Gas is a primary source of cash flow to Fortis and would not likely be able to support if its difficulties appeared permanent.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance. Given that an improvement in its capital structure appears remote, an upgrade or a positive outlook is unlikely. A negative outlook or downgrade could result from operational difficulties or a decision to increase leverage.

Table 1

Terasen Gas Inc.--Peer Comparison*

Industry Sector: Gas

	--Average of past three fiscal years--		
(Mil. C$)	**Terasen Gas Inc.**	**Enbridge Gas Distribution Inc.**	**Gaz Metro Inc.**
Rating as of Dec. 8, 2008	A/Stable/--	A-/Stable/--	A-/Stable/--
Revenues	1,505.3	2,949.8	2,041.3
Net income from continuing operations	70.6	164.5	36.9

Table 1

Terasen Gas Inc.--Peer Comparison* (cont.)			
Funds from operations (FFO)	163.5	386.8	308.0
Capital expenditures	88.7	365.4	138.3
Debt	1,796.2	3,364.2	1,950.9
Equity	849.2	1,742.1	620.7
Adjusted ratios			
Operating income (before D&A)/revenues (%)	21.0	18.8	19.1
EBIT interest coverage (x)	2.0	2.0	1.7
EBITDA interest coverage (x)	2.6	2.7	2.7
Return on capital (%)	8.7	8.0	9.5
FFO/debt (%)	9.1	11.5	15.8
Debt/EBITDA (x)	5.8	6.1	5.0

*Fully adjusted (including postretirement obligations). D&A--Depreciation and amortization.

Table 2

Terasen Gas Inc.--Financial Summary*					
Industry Sector: Gas					
	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2007**	**2006**	**2005**	**2004**	**2003**
Rating history	A/Stable/--	BBB/Watch Neg/--	BBB/Negative/--	BBB/Stable/--	BBB/Stable/A-2
Revenues	1,524.6	1,525.3	1,465.9	1,305.2	1,305.6
Net income from continuing operations	78.2	68.4	65.3	70.8	70.4
Funds from operations (FFO)	152.9	176.7	160.8	159.6	154.1
Capital expenditures	4.5	108.0	153.7	118.4	115.6
Cash and short-term investments	5.6	6.5	15.6	1.7	0.0
Debt	1,807.6	1,731.5	1,849.6	1,734.6	1,821.4
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	856.6	877.7	813.1	783.7	733.4
Debt and equity	2,664.2	2,609.2	2,662.8	2,518.2	2,554.8
Adjusted ratios					
EBIT interest coverage (x)	2.0	2.0	1.9	2.0	1.9
FFO interest coverage (x)	2.3	2.5	2.3	2.3	2.2
FFO/debt (%)	8.5	10.2	8.7	9.2	8.5
Discretionary cash flow/debt (%)	0.5	6.5	(5.3)	1.2	(2.4)
Net cash flow/capex (%)	943.0	126.6	65.6	84.1	64.1
Debt/debt and equity (%)	67.8	66.4	69.5	68.9	71.3
Return on common equity (%)	8.7	7.7	7.8	8.9	9.2
Common dividend payout ratio (unadjusted; %)	141.8	58.5	91.9	84.7	113.6

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Terasen Gas Inc. Reported Amounts With Standard & Poor's Adjusted Amounts*

	--Fiscal year ended Dec. 31, 2007--							
Terasen Gas Inc. reported amounts (mil. C$)	**Debt**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	1,645.6	293.0	293.0	214.5	106.8	117.9	117.9	N/A
Standard & Poor's adjustments								
Operating leases	118.3	15.6	8.0	8.0	8.0	7.6	7.6	5.3
Postretirement benefit obligations	43.7	2.5	2.5	2.5	N/A	(0.1)	(0.1)	N/A
Capitalized interest	N/A	N/A	N/A	N/A	0.8	(0.8)	(0.8)	(0.8)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	8.0	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	28.3	N/A
Total adjustments	162.0	18.1	10.5	18.5	8.8	6.7	35.0	4.5
Standard & Poor's adjusted amounts	**Debt**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	1,807.6	311.1	303.5	233.0	115.6	124.6	152.9	4.5

*Terasen Gas Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Ratings Detail (As Of December 8, 2008)*

Terasen Gas Inc.	
Corporate Credit Rating	A/Stable/NR
Senior Secured (2 Issues)	AA-
Senior Unsecured (4 Issues)	A
Corporate Credit Ratings History	
19-Jun-2007	A/Stable/NR
26-Feb-2007	BBB/Watch Pos/NR
30-May-2006	BBB/Watch Neg/NR
06-Dec-2005	BBB/Negative/NR
02-Aug-2005	BBB/Watch Neg/NR
11-Mar-2004	BBB/Stable/NR
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured (7 Issues)	A
FortisAlberta Inc.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A-

Ratings Detail (As Of December 8, 2008)*(cont.)	
Fortis Inc.	
Issuer Credit Rating	A-/Stable/--
Preferred Stock (2 Issues)	BBB
Canadian Preferred Stock Rating (2 Issues)	P-2
Senior Unsecured (1 Issue)	A-
Terasen Inc.	
Issuer Credit Rating	BBB+/Stable/NR
Subordinated (1 Issue)	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

RatingsDirect®

July 10, 2009

Summary:
Terasen Gas Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Summary:

Terasen Gas Inc.

Credit Rating: A/Stable/NR

Rationale

The ratings on British Columbia-based Terasen Gas Inc. reflect Standard & Poor's Ratings Services' opinion of the company's low-risk, regulated natural gas distribution business; its sound operational record; and its free cash generation capability. We believe somewhat high leverage levels partially offset these strengths.

Terasen Gas is the primary distributor of gas in mainland B.C. It is a wholly owned subsidiary of Terasen Inc. (BBB+/Stable/--), which is itself owned by Fortis Inc. (A-/Stable/--).

In our opinion, Terasen Gas' excellent business position benefits from its monopoly status; the supportive cost of service regulation; and additional regulatory mechanisms that mitigate major operating risks, such as commodity costs. Regulatory deferral accounts and quarterly rate adjustments essentially mitigate the major risks of volatile gas commodity costs and unpredictable weather. The regulatory structure has supported what we view as very stable operating results.

Gas regulation within B.C. is well established, and we view it as supporting credit quality. The regulator determines allowed return on equity (ROE) as a premium to long-term bond yields. This resulted in a low calculated ROE of 8.62% for 2008--which reflects, in part, the regulator's view that Terasen Gas has the lowest operating risk of all B.C. utilities. The regulator has approved steps that Terasen has taken to insulate Terasen Gas from the parent through conditions such as dividend restrictions if Terasen Gas doesn't maintain minimum equity levels (currently at 35%).

Terasen Gas benefits from a good operational track record. In our view, it has operated one of the more efficient gas distribution networks in Canada (as measured by operating margin, operating costs per customer, and customers per employee). Despite competition from low-cost electricity, we believe Terasen Gas has good market penetration and should continue to increase its customer base.

The company's free cash generation ability supports the rating. In the past five years, Terasen Gas has averaged more than C$60 million per year in free cash flow generation. The company's rate base has increased moderately, standing at about C$2.5 billion, and it has targeted capital expenditures of about C$100 million per year. Given expectations of funds from operations exceeding C$160 million per year, we expect that the company's stable operations will support, on average, similar levels of free cash flow in the next few years. Nevertheless, because of the potential for gas prices to spike, Terasen Gas could occasionally encounter working-capital volatility, as it might have to defer full recovery of gas costs to smooth customer rates. The company's policy of entering preapproved contracts for gas purchases somewhat mitigates this risk--about 70% of winter gas costs are locked in through hedging and storage.

A primary operating risk for Terasen Gas is its reliance on the Spectra pipeline to source gas for its distribution network. In the event of a pipeline shutdown, the company could source gas from storage and the U.S., but it would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the rating level. Furthermore, the company's affiliate (Terasen Gas Vancouver Island) is proceeding with a plan to build a liquid natural gas storage on Vancouver Island, a portion of which will be available to Terasen Gas.

Terasen Gas' financial risk profile is intermediate, and below-average financial metrics constrain the ratings. Regulatory directions with respect to allowed ROE and deemed equity layers primarily influence the company's financial measures. The combination of lower equity in the capital structure and a low ROE results in elements of its financial risk profile, particularly interest coverages (EBITDA interest coverage of 2.6x) and leverage measures (debt-to-capital of 65%), that are somewhat weaker than those of higher rated U.S. peers. Partially mitigating this are Terasen Gas' consistency of free cash flow, satisfactory liquidity, and predictable financial policies.

Liquidity

Terasen Gas' liquidity is satisfactory, in our opinion.

- As at March 31, 2009, Terasen had C$500 million in credit lines, with C$388 million available. Bank lines support working capital volatility due to seasonality and gas price volatility.
- The company typically produces free cash flow of about C$60 million per year. This will support a level of dividends similar to that of parent Terasen. There are no near-term debt maturities.
- Fortis, which has access to both debt and equity markets, serves as a potential temporary liquidity provider. However, Terasen Gas is a primary source of cash flow to Fortis and would not likely be able to support if its difficulties appeared permanent.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance. Given that an improvement in its capital structure appears remote, an upgrade or a positive outlook is unlikely. A negative outlook or downgrade could result from operational difficulties or a decision to increase leverage.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

December 21, 2009

Terasen Gas Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Terasen Gas Inc.

Major Rating Factors

Corporate Credit Rating

A/Stable/NR

Strengths

- Monopoly position in its market
- Highly predictable earnings due to cost-of-service regulation
- Transparent and fair regulatory framework

Weaknesses

- Below-average financial metrics relating to high leverage

Rationale

The ratings on British Columbia-based Terasen Gas Inc. reflect Standard & Poor's Ratings Services' opinion of the company's low-risk, regulated natural gas distribution business; its sound operational record; and its free cash generation capability. We believe somewhat high leverage levels partially offset these strengths.

Terasen Gas is the primary distributor of gas in mainland B.C. It is a wholly owned subsidiary of Terasen Inc. (BBB+/Stable/--), which is itself owned by Fortis Inc. (A-/Stable/--).

In our opinion, Terasen Gas' excellent business position benefits from its monopoly status; the supportive cost of service regulation; and additional regulatory mechanisms that mitigate major operating risks, such as commodity costs. Regulatory deferral accounts and quarterly rate adjustments essentially mitigate the major risks of volatile gas commodity costs and unpredictable weather. The regulatory structure has supported very stable operating results.

Gas regulation within B.C. is well-established, and we view it as supporting credit quality. The regulator determines allowed return on equity (ROE) as a premium to long-term bond yields. This resulted in a low calculated ROE of 8.47% for 2009--which reflects, in part, the regulator's view that Terasen Gas has the lowest operating risk of all B.C. utilities. The British Columbia Utilities Commission increased Terasen Gas' 2010 ROE to 9.5%. The regulator has approved steps that Terasen has taken to insulate Terasen Gas from the parent through conditions such as dividend restrictions if Terasen Gas doesn't maintain minimum equity levels (currently at 35% but will increase to 40% in 2010).

Terasen Gas benefits from a good operational track record. It has operated one of the more efficient gas distribution networks in Canada (as measured by operating margin, operating costs per customer, and customers per employee). Despite competition from low-cost electricity, we believe Terasen Gas has good market penetration and should continue to increase its customer base (at about 1% per annum). However, the competitive advantage of natural gas compared with that of electricity can be quite volatile, because natural gas prices have experienced sharp fluctuations in the past decade. Furthermore, British Columbia's government has enacted legislation that mandated material reductions in greenhouse gas emissions by 2020. At this time, it is not clear how the act will affect natural gas usage in the province.

The company's free cash generation ability supports the rating. In the past five years, Terasen Gas has averaged more than C$80 million per year in free cash flow generation (before dividends). The company's rate base has increased moderately, standing at about C$2.5 billion, and it has targeted capital expenditures of about C$100 million per year. Given expectations of funds from operations exceeding C$180 million per year, we expect that the company's stable operations will support, on average, similar levels of free cash flow in the next few years. Nevertheless, because of the potential for gas prices to spike, Terasen Gas could occasionally encounter working-capital volatility, as it might have to defer full recovery of gas costs to smooth customer rates. The company's policy of entering preapproved contracts for gas purchases somewhat mitigates this risk--about 70% of winter gas costs are locked in through hedging and storage.

A primary operating risk for Terasen Gas is its reliance on the Spectra pipeline to source gas for its distribution network. In the event of a pipeline shutdown, the company could source gas from storage and the U.S., but it would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the rating level. Furthermore, the company's affiliate (Terasen Gas Vancouver Island) is proceeding with a plan to build a liquid natural gas storage on Vancouver Island, a portion of which will be available to Terasen Gas.

Terasen Gas' financial risk profile is intermediate, and below-average financial metrics constrain the ratings. Regulatory directions with respect to allowed ROE and deemed equity layers primarily influence the company's financial measures. The combination of lower equity in the capital structure and a low ROE results in elements of its financial risk profile, particularly interest coverages (funds from operations interest coverage of 2.5x) and leverage measures (debt-to-capital of 65%), that are somewhat weaker than those of higher rated U.S. peers. Partially mitigating this is Terasen Gas' consistency of free cash flow, satisfactory liquidity, and predictable financial policies.

Liquidity

Terasen Gas' liquidity is satisfactory, in our opinion.

- At Sept. 30, 2009, Terasen had C$500 million in credit lines, with C$304 million available. Bank lines support working capital volatility due to seasonality and gas price volatility.
- The company typically produces free cash flow of about C$80 million per year.
- Debt maturities are well-spread and there are none in the next few years. Terasen Gas has historically enjoyed good access to Canadian debt markets.
- Fortis, which has access to both debt and equity markets, serves as a potential temporary liquidity provider. However, Terasen Gas is a primary source of cash flow to Fortis and would not likely be able to support if its difficulties appeared permanent.

Accounting

Standard & Poor's adjusts Terasen Gas' financial statements for operating leases and pension and postretirement obligations. The adjustment includes adding a debt equivalent, interest expense, and depreciation to the company's reported financial statements. As a result, we add debt equivalents of C$107 million for Terasen Gas' operating leases and C$59 million for pension and postretirement obligations.

Due to the distortions in leverage and cash flow metrics that the substantial seasonal working-capital requirements of gas utilities cause, Standard & Poor's adjusts Terasen Gas' inventory and debt balances by netting the value of inventory against the short-term debt outstanding. This adjustment provides a more accurate view of the company's financial performance by reducing seasonality where there is a very high likelihood of recovery. As inventories are depleted and accounts receivable are monetized with support from commodity pass-through mechanisms, these funds reduce the utility's short-term borrowings.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance. Given that a significant improvement in its capital structure appears remote, an upgrade or outlook revision to positive is unlikely. A negative outlook or downgrade could result from operational difficulties or a decision to increase leverage.

Table 1

Terasen Gas Inc.--Peer Comparison*

Industry Sector: Gas

	--Average of past three fiscal years--		
(Mil. C$)	**Terasen Gas Inc.**	**Enbridge Gas Distribution Inc.**	**Gaz Metro L.P.**
Rating as of Dec. 21, 2009	A/Stable/--	A-/Stable/--	A-/Stable/--
Revenues	1,571.5	3,025.0	2,123.4
Net income from continuing operations	79.4	176.2	145.2
Funds from operations (FFO)	167.5	395.5	400.4
Capital expenditures	77.9	392.3	138.1
Cash and short-term investments	8.4	33.3	34.7
Debt	1,599.0	2,820.8	1,888.4
Preferred stock	0.0	50.0	0.0
Equity	858.0	1,752.4	824.7
Debt and equity	2,457.0	4,573.2	2,713.1
Adjusted ratios			
EBIT interest coverage (x)	2.0	2.0	2.2
FFO interest coverage (x)	2.4	2.8	4.4
FFO/debt (%)	10.5	14.0	21.2
Discretionary cash flow/debt (%)	2.2	(2.4)	7.1
Net cash flow/capex (%)	107.8	66.4	182.0
Total debt/debt plus equity (%)	65.1	61.7	69.6
Return on common equity (%)	8.9	9.8	15.6
Common dividend payout ratio (unadjusted; %)	105.4	77.3	102.6

*Fully adjusted (including postretirement obligations).

Table 2

Terasen Gas Inc.--Financial Summary*

Industry Sector: Gas

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2008**	**2007**	**2006**	**2005**	**2004**
Rating history	A/Stable/--	A/Stable/--	BBB/Watch Neg/--	BBB/Negative/--	BBB/Stable/--
Revenues	1,664.6	1,524.6	1,525.3	1,465.9	1,305.2
Net income from continuing operations	91.5	78.2	68.4	65.3	70.8
Funds from operations (FFO)	173.0	152.9	176.7	160.8	159.6
Capital expenditures	121.1	4.5	108.0	153.7	118.4
Cash and short-term investments	13.1	5.6	6.5	15.6	1.7

Table 2

Terasen Gas Inc.--Financial Summary* (cont.)					
Debt	1,613.6	1,620.2	1,563.2	1,671.7	1,583.1
Equity	839.7	856.6	877.7	813.1	783.7
Debt and equity	2,453.3	2,476.8	2,440.9	2,484.9	2,366.7
Adjusted ratios					
EBIT interest coverage (x)	1.9	2.0	2.0	1.9	2.0
FFO interest coverage (x)	2.4	2.2	2.5	2.3	2.3
FFO/debt (%)	10.7	9.4	11.3	9.6	10.1
Discretionary cash flow/debt (%)	(0.9)	0.6	7.2	(5.8)	1.3
Net cash flow/capex (%)	60.2	943.0	126.6	65.6	84.1
Debt/debt and equity (%)	65.8	65.4	64.0	67.3	66.9
Return on common equity (%)	10.3	8.7	7.7	7.8	8.9
Common dividend payout ratio (unadjusted; %)	109.3	141.8	58.5	91.9	84.7

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Terasen Gas Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

	--Fiscal year ended Dec. 31, 2008--								
Terasen Gas Inc. reported amounts	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	1,640.2	875.0	291.9	291.9	213.6	110.4	198.5	198.5	122.1
Standard & Poor's adjustments									
Operating leases	107.1	N/A	15.6	7.6	7.6	7.6	7.9	7.9	N/A
Postretirement benefit obligations	58.6	(35.3)	2.1	2.1	2.1	N/A	0.8	0.8	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	1.0	(1.0)	(1.0)	(1.0)
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(33.3)	N/A
Other	(192.3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	(26.6)	(35.3)	17.7	9.7	9.7	8.6	7.8	(25.5)	(1.0)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	1,613.6	839.7	309.6	301.6	223.3	119.0	206.3	173.0	121.1

*Terasen Gas Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Ratings Detail (As Of December 21, 2009)*	
Terasen Gas Inc.	
Corporate Credit Rating	A/Stable/NR
Senior Secured (2 Issues)	AA-
Corporate Credit Ratings History	
19-Jun-2007	A/Stable/NR
26-Feb-2007	BBB/Watch Pos/NR
30-May-2006	BBB/Watch Neg/NR
06-Dec-2005	BBB/Negative/NR
02-Aug-2005	BBB/Watch Neg/NR
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A/Negative/--
Senior Unsecured (8 Issues)	A
Cortez Capital Corp.	
Issuer Credit Rating	--/--/A-3
FortisAlberta Inc.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (8 Issues)	A-
Fortis Inc.	
Issuer Credit Rating	A-/Stable/--
Preferred Stock (2 Issues)	BBB
Canadian Preferred Stock Rating (2 Issues)	P-2
Senior Unsecured (1 Issue)	A-
Kinder Morgan Energy Partners L.P.	
Issuer Credit Rating	
Foreign Currency	BBB/Negative/--
Local Currency	BBB/Negative/A-3
Commercial Paper	
Local Currency	A-3
Senior Unsecured (19 Issues)	BBB
Kinder Morgan G.P. Inc.	
Preferred Stock (1 Issue)	BB+
Kinder Morgan Inc.	
Issuer Credit Rating	BB/Stable/NR
Preferred Stock (5 Issues)	B
Senior Secured (10 Issues)	BB
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured (7 Issues)	A
Terasen Inc.	
Issuer Credit Rating	BBB+/Stable/NR

Ratings Detail (As Of December 21, 2009)*(cont.)	
Senior Unsecured (1 Issue)	BBB+
Subordinated (1 Issue)	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

September 23, 2010

Research Update:

Terasen Inc. And Terasen Gas Inc. Unsolicited Ratings Affirmed Then Withdrawn Due To Lack Of Market Interest

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Secondary Contact:
Gavin MacFarlane, Toronto;gavin_macfarlane@standardandpoors.com

Table Of Contents

Research Update:

Terasen Inc. And Terasen Gas Inc. Unsolicited Ratings Affirmed Then Withdrawn Due To Lack Of Market Interest

Rationale

On Sept. 23, 2010 Standard & Poor's Ratings Services affirmed its unsolicited ratings, including its long-term corporate credit ratings, on Terasen Inc. and subsidiary Terasen Gas Inc. Standard & Poor's then withdrew the ratings on both companies due to a lack of sufficient market interest.

Terasen Inc. is a wholly owned subsidiary of Fortis Inc. (A-/Stable/--).

Ratings List

Ratings Affirmed

Terasen Inc.	
Corporate credit rating	BBB+/Stable/--
Senior unsecured debt	BBB+
Subordinated debt	BBB
Terasen Gas Inc.	
Corporate credit rating	A/Stable/--
Senior secured debt	AA-
Senior unsecured debt	A

Ratings Withdrawn

	To	From
Terasen Inc.		
Corporate credit rating	NR	BBB+/Stable/--
Senior unsecured debt	NR	BBB+
Subordinated debt	NR	BBB
Terasen Gas Inc.		
Corporate credit rating	NR	A/Stable/--
Senior secured debt	NR	AA-
Senior unsecured debt	NR	A

NR--Not rated.

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Summary of FortisBC Energy Inc. changes in Credit Ratings from 2002-2012

Unsecured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	A

Rating Agency	Report Date	Rating Action	Rating
Moody's	January 2002	Ongoing	A2
Moody's	December 2005	Downgraded	A3

Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	BBB+
S&P	June 2003	Downgraded	BBB
S&P	Early 2004	Discontinued	BBB

Secured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	A

Rating Agency	Report Date	Rating Action	Rating
Moody's	January 2002	Ongoing	A1
Moody's	December 2005	Downgraded	A2
Moody's	August 2009	Upgraded	A1

Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	BBB+
S&P	June 2003	Downgraded	BBB
S&P	Early 2004	Discontinued	BBB+

Note: (*) Rating was unsolicited as of early 2004 dbrs **Press Release** Dominion Bond Rating Service

Date of Release: May 30, 2006

Industry : Energy

DBRS Places Ratings of Terasen Inc. "Under Review with Negative Implications"

Terasen Inc.

Rating	Trend	Rating Action	Debt Rated
R-2 (high)	--	Under Review - Negative	Commercial Paper
BBB (high)	--	Under Review - Negative	Medium-Term Note Debentures
BBB	--	Under Review - Negative	Unsecured Subordinated Debentures

Dominion Bond Rating Service ("DBRS") has today placed the ratings of Terasen Inc. ("Terasen" or the "Company") "Under Review with Negative Implications", changed from Negative trends assigned on December 22, 2005.

The rating actions are pursuant to the proposal by Richard Kinder, the Chairman of Kinder Morgan Inc. ("KMI"), and others, including management (the "acquirer"), to acquire all of the outstanding shares of KMI for US$100 per share in cash in a US$21.8 billion transaction, including assumed debt estimated at approximately US$7.6 billion. The transaction is expected to close by year-end, pending KMI's independent directors' review and recommendation, as well as shareholder and regulatory approvals. (See concurrent DBRS press releases on KMI and Terasen subsidiaries)

DBRS's review will focus on the following:

(1) The effects of the proposed buyout on the Company's business risk and financial profile, going forward, resulting from uncertainties with respect to the potential financial policies of the new private company. Other issues will also be examined, including execution risk and tax, legal, and regulatory issues related to the potential sale of the Company's 100%-owned Trans Mountain pipeline system to Kinder Morgan Energy Partners, L.P., a 13%-owned affiliate of KMI.

(2) Ownership by a lower-rated entity could expose Terasen to increased dividend payments to support KMI's higher debt load as a result of this transaction. KMI was rated BBB by DBRS with a Negative trend prior to being concurrently placed "Under Review with Negative Implications" on announcement of the proposed buyout.

Note:

The Unsecured Subordinated Debentures securities contain certain unique covenants that give them some equity-like characteristics.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at: info@dbrs.com.

Michael R. Rao, CFA

416-593-5577 x2241
Senior Vice President
mrao@dbrs.com

Esther M. Mui
416-593-5577 x2295
Senior Vice President
emui@dbrs.com

Terasen Inc.

Report Date: September 11, 2006
Press Release: September 11, 2006
Previous Report: June 21, 2004

Esther M. Mui/Michael Rao, CFA
416-593-5577 x2295/x2241
emui@dbrs.com

Rating

Rating	Trend	Rating Action	Debt Rated
BBB (high)	--	Under Review – Negative	Medium-Term Note Debentures
BBB	--	Under Review – Negative	Unsecured Subordinated Debentures
R-2 (high)	--	Under Review – Negative	Commercial Paper

Rating History

Rating History	Current	2005	2004	2003	2002	2001	2000
Medium-Term Note Debentures	BBB (high)	BBB (high)	A (low)	A (low)	A (low)	A (low)	NR
Unsecured Subordinated Debentures	BBB	BBB	BBB (high)y	BBB (high)y	BBB (high)y	BBB (high)y	NR
Commercial Paper	R-2 (high)	R-2 (high)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Rating Update

The ratings of Terasen Inc. (Terasen or the Company) as outlined above and those of its parent, Kinder Morgan, Inc., (KMI) remain Under Review with Negative Implications where they were placed on May 30, 2006, after the proposed management buyout (MBO) of KMI for US$22 billion. The transaction is expected to close by early 2007, subject to regulatory approvals. The negative implications reflect the following: (1) Uncertainties surrounding the newly private company's financial policies. (2) Potential impact on Terasen, should increased dividends be required to support KMI's high debt load. (3) Ownership by a lower rated entity, particularly if KMI is downgraded (currently rated BBB, Under Review – Negative) on consummation of the mostly debt funded (67%) MBO. (4) To a lesser extent, Terasen's substantial development projects, estimated at $3.1 billion to 2010, which could entail execution and financial risks. In December 2005, the ratings of Terasen were downgraded for similar reasons, following its $5.9 billion leveraged buyout by KMI (80% debt funded). Presently, Terasen's financial profile remains unchanged as the debt used to acquire Terasen was financed at an intermediate holding company with a KMI guarantee, and no dividends have been made to KMI.

Terasen's consolidated operations remain stable, underpinned by its regulated businesses in crude oil pipelines in the growing oil sands regions in western Canada, and a strong gas distribution franchise in British Columbia. Most revenues are covered on a cost-of-recovery basis with incentive sharing, or by long-term contracts, ensuring stability of cash flow. Future prospects are driven by substantial pipeline projects to 2010 and beyond, which would see capacity doubling at its two main pipelines. DBRS expects most of the development projects to be supported by long-term commitments. The intended transfer of Terasen Pipelines (Trans Mountain) Inc. (TM) to Kinder Morgan Energy Partners, L.P. (KMP), a major operated affiliate of KMI, on its MBO closing would reduce capex considerably. Timing of expansions at Terasen Pipelines (Corridor) Inc. (Corridor) is tied to the economics of the oil sands expansion project sponsored by Shell Canada Limited, currently under review due to cost pressures. (Continued on page 2.)

Rating Considerations

Strengths

- Non-consolidated and consolidated financial metrics remain reasonable, and modest holdco debt
- Increased diversification provides greater stability to dividend income and operating cash flows
- Majority of assets are rate regulated
- Substantial growth projects in the regulated segments

Challenges

- Financial and business risk associated with purchase by KMI and pending the KMI MBO
- Significant financing requirements for growth projects
- Gas distribution operations sensitive to changes in interest rates through allowed ROE

Financial Information

	6 months	6 months	Rolling 12 mos.	For the year ended December 31			
Consolidated Basis	June 30, 2006	June 30, 2005	June 30, 2006	2005	2004	2003	2002
Net income before extra. items/prefs. ($ millions)	89.2	94.0	151.5	156.2	155.3	139.4	116.6
Operating cash flow ($ millions)	140.0	159.9	278.6	298.5	295.2	289.3	232.4
Return on average common equity	12.2%	12.9%	10.9%	11.7%	11.1%	10.4%	11.2%
% adj. debt in capital structure (1)	65.0%	67.9%	65.0%	69.2%	66.0%	67.6%	66.8%
Cash flow/total adj. debt (1)	0.10	0.11	0.10	0.10	0.10	0.10	0.09
% adj. debt in capital structure - **unconsolidated** (1)	n.a.	n.a.	n.a.	35.5%	32.5%	28.1%	17.9%
Cash flow/total adj. debt - **unconsolidated** (times) (1)	n.a.	n.a.	n.a.	0.13	0.09	0.29	0.29
Fixed-charges coverage (times)	2.23	2.24	2.06	2.06	2.12	1.88	1.79
Gas distribution throughputs (bcf) (2)	n.a.	n.a.	n.a.	176.9	172.9	187.3	187.3
Oil pipeline throughputs (thousands bbl/day) - TM	227.7	206.2	n.a.	220.9	236.1	201.2	201.2
Dividend income from subs. ($ millions)	-	-	-	104.8	73.8	176.1	92.7

(1) Capital securities of $125 million treated as debt by DBRS. (2) Incl. sales and transportation volumes only. n.a. = not available.

The Company

Terasen is a holding company that wholly owns the following: (1) Natural gas distribution mainly through Terasen Gas Inc. (2) Crude oil pipelines through TM (from Alberta into British Columbia and the U.S. Northwest), and Corridor (to transport diluted bitumen within Alberta). Terasen also has a one-third interest in Express/Platte Pipeline System (Express) (from Alberta to the U.S. Midwest).

Authorized Commercial Paper Amount

Limited to $300 million.

Notes: All figures are in Canadian dollars unless otherwise noted.
The Unsecured Subordinated Debentures contain certain unique covenants that give them equity-like characteristics.

RATING UPDATE (Continued from page 1.)

On an unconsolidated basis, dividend earnings should be more than sufficient to cover Terasen's modest debt and other obligations, with gas distribution as a steady contributor (40% to 45% of earnings), and increasing importance of Express Pipeline due to recent expansions. Contributions from TM, accounting for about 33% of earnings in the past five years, however, could be limited in the medium term as cash flow is deployed for project developments to 2010. TM will likely access the public debt market for funding, after its full exit in 2005, barring the transfer to KMP.

In order to maintain its current financial standing, Terasen's key challenge is to manage the funding mix for its largest-ever growth projects, without overleveraging, or assuming undue construction risks. Appropriate funding of its equity portion is important. This could reach the $750 million to $900 million level based on a 25% to 30% equity component attached to other new pipeline projects in Canada. Financing could effectively be undertaken at the KMI level as in the case of the Terasen acquisition with no direct impact on Terasen, or through other arrangements, such as asset monetization.

RATING APPROACH

(1) The rating of Terasen is based on the strength of the non-consolidated balance sheet and cash flows, the diverse business mix with good geographic spread on a consolidated basis, and the creditworthiness of the following wholly owned operating subsidiaries (see separate reports):

- Terasen Gas Inc. (Terasen Gas) – R-1 (low) and A
- TM – rated A (low) prior to rating discontinuation in late 2005 on full repayment of public debt
- Corridor – (R-1 (low) and A)
- Terasen Gas (Vancouver Island) Inc. (TGVI) – not rated

Other investments: primarily Express (33% interest) – A (low)

(2) The rating of Terasen also reflects its status as a holdco and the potential impact of its ownership by KMI.

Capital Projects

Projects, 2006-2010	Capacity	Projected Cost ($ million)	Completion Period	Comments
Trans Mountain Expansion				
-Pump station expansion	35kbd	230	Q2 2007	] Both covered by Incentive Tolling Settlement with shippers. Loop project with
-Anchor Loop	45kbd	365	2008	] NEB filing in early 2006 for approval expected by year end.
-TMX 2	100kbd	900	2010	Loop between Valemont and Kamloops in B.C. and back to Edmonton.
				Open season for prospective shippers in progress.
Corridor expansion*	200kbd	1,600	TBD	Diluent/bitumen pipeline from Muskeg River Mine to Edmonton region.
		3,095		Tied to expansion plans for AOSP under review.
Potential Projects				
TMX3	300kbd	900	2011	Loop between Kamloops and Lower Mainland.
TMX North	400kbd	2,000	TBD	Northern line between Valemont & Kitimat, British Columbia.

*Revised from previous estimate of $1.0 billion.

- Growth projects totalling $2.5 billion are in different stages of development, except the Corridor expansion, which is driven by the Athabasca Oil Sands Project (AOSP) currently under review by its contracted shippers, Shell Canada Limited (60% interest), Chevron Canada Resources Limited (20%) and Western Oil Sands Inc. (20%).

RATING CONSIDERATIONS

Strengths

(1) Terasen's financial profile remains reasonable, both on a non-consolidated and consolidated basis, given the regulated nature of its relatively low risk and stable business. Non-consolidated adjusted debt-to-capital was at 36% with fixed charge coverage at 3.3 times in 2005. Cash flow-to-debt at 0.13 times (close to 0.30 times prior to 2004) was adversely affected by debt repayments at TM, limiting dividend distributions in 2005 (also in 2004). Dividend earnings are more than adequate to service Terasen's modest debt load. Consolidated metrics are in line with the deemed capital structure approved by the regulators.

(2) The various acquisitions and investments made by Terasen over the past few years have significantly increased the diversification of its asset base and earnings, thus increasing the stability in its dividend income and operating cash flows. While Terasen Gas has always been a significant and stable contributor of dividends (average of 45% in the past five years), the dividend flow from TM, Terasen's second-largest subsidiary, has been significant (33%), but has been much more volatile during periods of debt repayments (all debt was repaid in 2005).

(3) Virtually all of Terasen's asset base is rate regulated, which provides a high degree of long-term stability to Terasen's consolidated balance sheet, earnings, and cash flows.

(4) Future prospects are driven by substantial growth projects to 2010, predominantly in pipeline developments, which in most instances would be supported by long-term commitments, ensuring continued stability.

Challenges

(1) The pending KMI MBO presents both business and financial risks for Terasen. There are uncertainties surrounding the newly private company's financing strategies and potentially higher dividend payments required of Terasen to help service its parent's higher debt load. MBO debt of $7.5 billion could be added to $2.1 billion of Terasen acquisition debt, resulting in debt-to-capital estimated at 67% on a pro forma basis with minimal cash flow protection, at least in the initial years when capital spending is high.

(2) Significant financing requirements associated with Terasen's largest-ever capital projects could strain the balance sheet, particularly in a highly competitive environment in western Canada.

(3) The Company's gas distribution earnings and cash flows are sensitive to changes in long-term interest rates through allowed ROEs. The low interest rate environment over the past years has resulted in low allowed ROEs for Terasen Gas (8.29% in 2006 versus 9.03% in 2005). Further, it is increasingly difficult to achieve productivity improvements and efficiencies under the new rate plan. However, the adverse impact of these factors on performance should be partly offset by Terasen Gas' relatively low cost base and growing customer base in a strong market.

EARNINGS AND OUTLOOK

Earnings Section

Income Statement (Consolidated)	6 months	6 months	Rolling 12 mos.	For the year ended December 31			
($ millions)	June 30, 2006	June 30, 2005	June 30, 2006	2005	2004	2003	2002
Net revenues	458.8	454.0	893.6	888.8	897.3	854.5	807.5
EBITDA	271.3	269.8	516.8	515.3	524.3	499.8	452.1
Depreciation and amortization	72.6	70.7	144.5	142.6	147.1	133.4	110.7
EBIT	198.7	199.1	372.3	372.7	377.2	366.4	341.4
Net interest expense	89.1	88.8	180.8	180.5	167.7	176.0	160.8
Pre-tax income	109.6	110.3	191.5	192.2	209.5	190.4	180.6
Net Income (before extras. and pfd.)	89.2	94.0	151.5	156.2	155.3	139.4	116.6
Return on average common equity (bef. extras.)	12.2%	12.9%	10.9%	11.7%	11.1%	10.4%	11.2%

Segmented Earnings (Consolidated)	6 months	6 months	Rolling 12 mos.	For the year ended December 31			
($ millions)	June 30, 2006	June 30, 2005	June 30, 2006	2005	2004	2003	2002
EBIT							
Gas distribution				284.4	272.4	277.7	276.7
Petroleum transportation	not available on interim basis			83.3	101.1	92.0	56.4
Other				(33.0)	(2.7)	(3.3)	3.4
Corporate adjustment for non-recurring items BT				38.0	6.4	-	4.9
Total EBIT	198.7	199.1	372.3	372.7	377.2	366.4	341.4
Net Income							
Gas distribution	40.6	63.4	78.0	100.8	95.9	95.4	92.4
Petroleum transportation	34.2	33.6	72.2	71.6	70.9	56.2	29.3
Other	0.5	(13.7)	(35.0)	(49.2)	(20.3)	(12.2)	(9.2)
Corporate adjustment for non-recurring items AT	13.9	10.7	36.3	33.0	8.8	-	4.1
Net Income (before extras.)	89.2	94.0	151.5	156.2	155.3	139.4	116.6
Extraordinary/unusual items	(26.5)	1.8	(83.4)	(55.0)	-	-	(4.1)
Preferred dividends/capital sec. dist'n	-	-	-	-	6.6	6.7	6.7
Net income (available to common)	62.7	95.8	68.1	101.2	148.7	132.7	105.8

Summary

2005 Consolidated Basis:

- Terasen continued to record stable performance as net income before extraordinary items rose marginally to $156 million. Higher earnings from gas distribution due to the strong housing market in British Columbia and expansion at Express were more than offset by lower earnings and throughput at TM caused by temporary production outages due to the Suncor fire and refinery turnarounds at Syncrude (strong activities resumed in 2006).
- Net income of $101 million (down 32%) was affected by non-recurring charges, totalling $55 million, primarily related to the acquisition by KMI in late 2005 and redemption premium on retiring TM's remaining debt of $35 million debentures.

6 months to June 30, 2006 (Q2 2006):

Lower net earnings before extraordinary items (-5%) were primarily affected by the lower allowed ROE (8.80% versus 9.03% in Q2 2005) for gas distribution, despite the higher deemed equity thickness.

Outlook

Consolidated Basis:

Incremental rise in earnings is likely supported by growth projects as outlined under the Capital Projects section. The key driver is the TM staged expansions expected to be in service in Q2 2007 and year-end 2008, increasing capacity by 33% to accommodate the rising oil sands demand.

- Over the medium term, incremental earnings growth is expected. Near term, the anticipated growth in pipeline capacity coupled with higher deemed equity thickness at gas distribution (to 35% and 40% for Terasen Gas and TGVI from 33% and 35%, respectively) and amended ROE formula with slightly higher risk premium will likely offset the negative earnings impact of Terasen Gas' low allowed ROE (8.29% vs. 9.03% in 2005).

- Longer term prospects are dependent on the large scale TMX2 with open season in progress to secure potential long-term commitments and TMX North, and Corridor expansions under review by its contracted shippers.

Non-Consolidated Basis:

- Net income through dividend distributions could be limited due to expansions at TM and Corridor. The adverse impact should be partly mitigated by stable distributions from gas distribution supplemented by distributions from Express.

FINANCIAL PROFILE

Consolidated Basis	6 months	6 months	Rolling 12 mos.	For the year ended December 31			
($ millions)	June 30, 2006	June 30, 2005	June 30, 2006	2005	2004	2003	2002
EBITDA	72.6	70.7	144.5	142.6	147.1	133.4	110.7
Net income (bef. extras., after prefs.)	89.2	94.0	151.5	156.2	148.7	132.7	109.9
Depreciation & amortization	72.6	73.2	142.0	142.6	147.1	133.4	110.7
Non-cash adjustments	(21.8)	(7.3)	(14.8)	(0.3)	(0.6)	23.2	11.8
Operating Cash Flow	140.0	159.9	278.6	298.5	295.2	289.3	232.4
Capital expenditures	(110.1)	(126.9)	(197.9)	(214.7)	(154.4)	(222.9)	(395.7)
Common dividends	0.0	(47.4)	(47.7)	(95.1)	(93.0)	(86.1)	(59.8)
Gross Free Cash Flow	29.9	(14.4)	33.0	(11.3)	47.8	(19.7)	(223.1)
Changes in working capital & rate stabilization acc't	148.6	17.8	77.8	(53.0)	45.7	(19.5)	74.1
Net Free Cash Flow	178.5	3.4	110.8	(64.3)	93.5	(39.2)	(149.0)
Net investments	122.6	(2.9)	164.5	39.0	52.1	(2.3)	(315.2)
Net debt financing	(335.3)	65.5	(251.2)	149.6	(85.0)	234.5	(11.9)
Net capital securities financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net equity financing/other	4.6	5.6	21.0	22.0	14.7	10.1	474.2
Net change in cash	(29.6)	71.6	45.1	146.3	75.3	203.1	(1.9)
Total debt	2,762	3,019	2,762	3,093	2,831	2,907	2,672
% adj. debt in capital structure (1)	65.0%	67.9%	65.0%	69.2%	66.0%	67.6%	66.8%
Cash flow/total adj. debt (times) (1)	0.10	0.11	0.10	0.10	0.10	0.10	0.09
Fixed-charges coverage (times)	2.23	2.24	2.06	2.06	2.12	1.88	1.79
% debt in capital structure - **unconsolidated**	n.a.	n.a.	n.a.	35.5%	0	28.1%	17.9%
Cash flow/total adj. debt (times) -**unconsolidated** (1)	n.a.	n.a.	n.a.	0.13	n.a.	0.29	0.29

(1) The $125 million capital securities are treated as debt DBRS. n.a. = not available.

Summary

Net free cash flow improved in Q2 2006 with the completion of the Express expansion in 2005, resulting in lower capital expenditures. There was no dividend distribution to KMI with surplus funds from operations and the sale of the water and utilities business primarily used to retire $100 million of maturing bonds at Terasen.

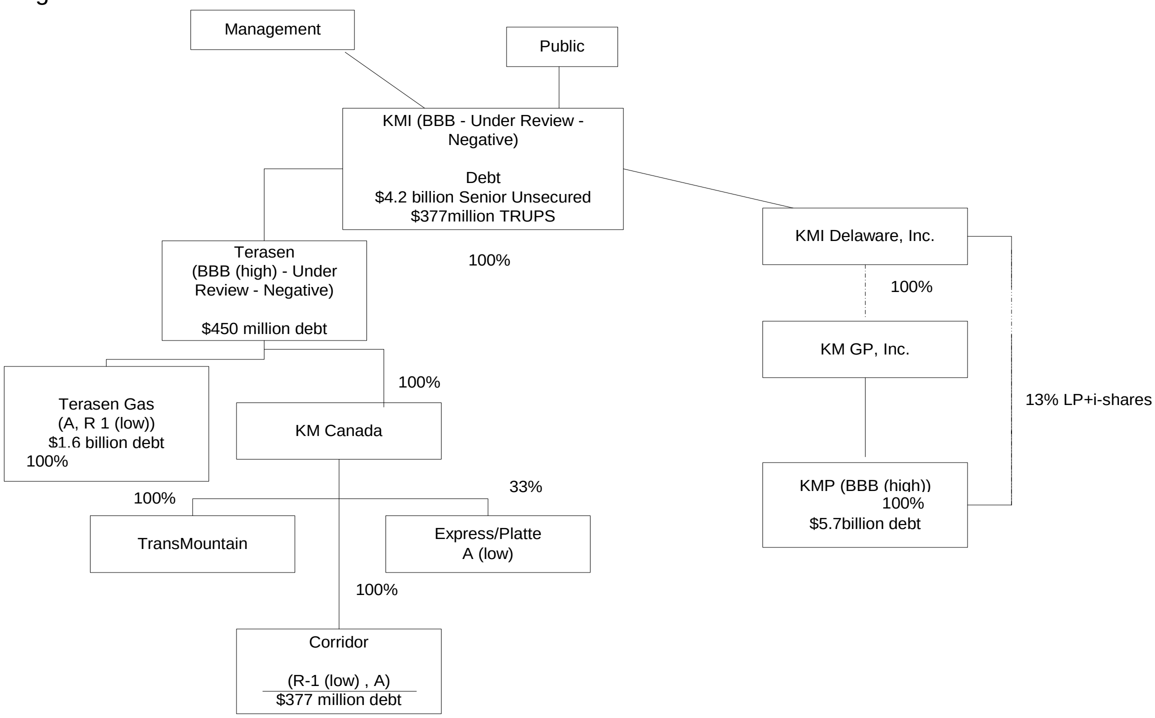
- As a result, key financial metrics on a consolidated basis improved, particularly cash flow-to-debt (as debt level has stablized at the $3 billion level) and fixed charge coverage.
- On an unconsolidated basis, debt-to-capital remained acceptable at 35% in 2005, although increased from previous years. Cash flow/debt coverage was low at 0.13 times versus 0.29 times in 2002 and 2003, mainly attributable to lower earnings at TM due to temporary production outages and refinery turnarounds (strong activities resumed in 2006). With a modest debt level at the holdco, Terasen can manage dividend distributions from the operating companies to service or repay its debt.

Outlook

- Operating cash flows should remain generally stable with a gradual rising trend from 2006 underpinned by the Express expansion (+60% capacity) in 2005, and $600 million of TM growth projects in progress on a cost-of-recovery basis. Further TM and Corridor expansions are currently under review.
- The trend for the Canadian regulators to raise the deemed equity thickness for utilities as seen in Terasen Gas and TGVI would enhance cash flow, even in a low interest rate environment.
- In order to maintain its current financial standing, one of Terasen's key challenges is to manage the funding mix for its largest-ever growth projects estimated at $3.1 billion (over three phases), without overleveraging, or assuming undue construction risks. Appropriate funding of the equity portion for these projects is important. This could reach the $750 million to $900 million level based on a 25% to 30% equity component attached to other new pipeline projects in Canada.

- Financing could be undertaken at the Terasen level, or through a special financing vehicle as in the case of KMI's acquisition bearing the latter's guarantee, with no direct impact on Terasen's balance sheet. Alternative financing could include asset monetization.
- Should the MBO proceed, KMI intends to transfer TM to KMP, a 13% affiliate which it manages, to lighten the looming financing requirements (over 60% reduction estimated). This would result in Terasen operating as a stable regulated business, although with much reduced growth prospects.

Organization Structure



- All major subsidiaries are self financing. Terasen's financing needs are mainly to meet the equity portion of any expansions or growth projects at its subsidiaries and to service its own debt obligations. DBRS considers the holdco debt as manageable, given its modest level and the diverse source of dividends for servicing.

Bank Lines

As at March 31, 2006, the Company had in place credit facilities totalling $1.565 billion (approximately $600 million utilized) including backup lines for commercial paper programs. Facilities for Terasen and its subsidiaries have been re-negotiated for a longer term with common financial covenants and events of default provisions.

(1) Terasen – $450 million three-year facility due May 2009.

(2) Terasen Gas – $500 million three-year facility due June 2009, extendible annually.
(3) Terasen Pipelines (Corridor) Inc. – $225 million 364-day revolving facility and $20 million 364-day non-revolver.
(4) TGVI – $350 million five-year facility due January 2011 and $20 million seven-year facility due January 2013.

Other Debt: $2.4 billion of notes and debentures at Terasen and its subsidiaries

Debt Maturities - Consolidated

As of December 31, 2005	2006*	2007	2008	2009	Beyond	Total
(US$ millions)	398	252	390	95	1,958	3,093
% total	13%	8%	13%	3%	63%	100%

*$100 million repaid in 2006.

- Terasen (non-consolidated) has only one $200 million maturity in 2008, which is manageable from a refinancing perspective with two $125 million notes due in 2014 and 2040, respectively.
- All subsidiaries, except TM, are self-financing. TM's only $35 million debt was repaid through Terasen in 2005, following the KMI acquisition. It is likely that the Company will re-institute a borrowing program at TM, should the company not be transferred to KMP as planned.

Description of Operations & Regulation

Terasen is a holding company whose principal operating subsidiaries are involved in regulated natural gas distribution and regulated oil pipeline businesses. The Company's operating businesses consist of the following (including loss-making water and utilities business sold in early 2006):

(1) Retail natural gas distribution (85% of EBIT)
Terasen Gas Inc. (wholly owned by Terasen)

- The largest natural gas distributor in British Columbia, serving approximately 892,000 customers or 95% of the province's natural gas users.
- Regulated by the British Columbia Utilities Commission (BCUC) and operates under a performance-based rate plan for the period from 2004 to 2007. Improved equity component (35% from 33%) and ROE formula was approved in March 2006.
- Key components of the plan include the following:
  - Operating and maintenance costs and base capital expenditures are subject to an incentive formula, reflecting increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years of the plan.
  - 50/50 sharing with customers of earnings above or below the allowed ROE.
  - Ten year service quality measures designed to ensure the maintenance of service levels, as well as setting out the requirements for an annual review process.
  - Deferral accounts were established for insurance premiums and pension costs incurred by Terasen Gas, further increasing the longer term stability of earnings and cash flows.
- Allowed ROE is set annually according to the following formula:
  - 390 basis points (bp) above forecast long-term Government of Canada bond yield (from 350 bp over yield of 6% or lower).
  - The formula also provides for annual adjustments capturing 75% of the change in yields (from 80% of forecast yields higher than 6%).
- Deemed equity is 35% (from 33%) of total capital.

(2) Kinder Morgan Canada Inc. (25% of 2005 EBIT) operates through three crude oil pipeline systems.
a. Terasen Pipelines (Trans Mountain) Inc. (TM) (wholly owned by Terasen)

- Oil pipeline system (currently 1,260 kilometres with a sustainable capacity of 225,000 b/d) transporting crude oil and refined products from Alberta and northeastern British Columbia to the west coast, servicing refineries in Vancouver and Washington State.
  - TM also owns and operates Westridge Marine Terminal in Vancouver harbour, where crude oil is loaded aboard ocean-going vessels and aviation fuel is landed and stored.
- TM owns another pipeline (41 kilometres) that transports aviation fuel from the Westridge Marine Terminal and refineries and distribution terminals in the Burnaby area to the Vancouver International Airport.

Regulation: TM is regulated by three separate regulatory bodies: (1) The Canadian portion of the crude oil and refined product pipeline system by the National Energy Board (NEB). (2) The U.S. portion of the pipeline by Federal Energy Regulatory Commission (FERC) on a complaint basis. (3) The aviation turbine fuel pipeline by the BCUC.

- The Canadian portion of the pipeline system currently operates under a renewal incentive toll settlement, from 2006 to 2010.
  - Tolls are fixed for throughputs between 179,265 b/d and 201,280 bbl/d (28,500 and 32,000 cubic metres/day) and are not adjusted for inflation unless the Canadian inflation rate rises above 3.5%.
  - Shippers are responsible for revenue shortfall if average annual throughputs fall below 179,254 bbl/d; there is 50/50 sharing with shippers if average annual throughputs are above 201,280 bbl/d.
  - TM benefits 100% from operating and efficiency improvements.
  - 10.75% ROE on 45% equity (no change).

Expansions: TM is currently undertaking a pump station expansion and anchor loop project (estimated cost $665 million or $560 million equivalent) to raise capacity by 35,000 b/d and 40,000 b/d, respectively, to reach total capacity of 300,000 b/d by late 2008.

- Southern expansions through TMX-2 (estimated cost $1.3 billion) to raise capacity by 100,000 b/d for completion by 2010 is on the drawing board. TMX-3, for additional 300,000 b/d of capacity, is a potential project with major parameters to be determined.

b. Terasen Pipelines (Corridor) Inc. (Corridor) (wholly owned by Terasen)

- Corridor, operated by TM, owns a 493-kilometre (307-mile) diluted bitumen dual pipeline system that links two major components of the AOSP, the Muskeg River Mine (north of Fort McMurray) and the Scotford Upgrader in Fort Saskatchewan, Alberta, near Edmonton. It also connects the upgrader to refineries and pipeline terminals in the Edmonton area (including the Trans Mountain Pipeline), and provides storage facilities.
- The AOSP is jointly owned by Shell Canada Limited (60%), Chevron Canada Resources Limited (20%), and Western Oil Sands Inc. (20%), and Corridor is backed by long-term ship-or-pay contracts with these three entities on a pro-rata basis.
- Revenue requirements are governed by the associated contracts and are subject to regulation by the Alberta Energy and Utilities Board.

c. Express/Platte Pipeline System (one-third interest)

- The Express system consists of the Express Pipeline and the Platte Pipeline, transporting crude oil from Hardisty, Alberta, to the Wood River, Illinois, area.

Regulation: The Express system is regulated by three separate regulatory bodies: (1) The Canadian segment of the Express Pipeline is regulated by the National Energy Board (NEB). Most of its throughput capacity is contracted long-term with tolls determined thereunder. Tolls on uncommitted volumes are regulated by the NEB in Canada and by the FERC in the United States on a complaint basis only. (2) The Platte Pipeline has no contracts, and tolls are regulated by FERC on a complaint basis. (3) Petroleum transportation on the Platte Pipeline within the state of Wyoming is regulated by the Wyoming Public Service Commission, with tolls regulated on a similar basis to those of the NEB and the FERC.

Terasen Inc.

(Consolidated)

Balance Sheet

($ millions)	Jun. 30	For the year ended December 31			Jun. 30	For the year ended December 31	
Assets	2006	2005	2004	**Liabilities & Equity**	2006	2005	2004
Cash	37	79	20	Short-term debt	381	681	694
Accounts receivable	249	468	349	A/P + accrueds	458	537	434
Inventories	197	206	189	L.t.d. due in one year	134	398	417
Prepaids + other	82	97	38	**Current Liabilities**	973	1,617	1,545
Current Assets	565	851	596	Long-term debt	2,247	2,013	1,721
Net fixed assets	3,946	4,018	3,893	Def'd income taxes	82	89	69
Long-term rec. + investments	249	252	219	Other long-term liab.	175	182	141
Goodwill	76	76	128	Capital securities	0	125	125
Deferred charges	127	119	135	Shareholders' equity	1,487	1,291	1,371
Total	4,963	5,316	4,971	**Total**	4,963	5,316	4,971

Ratio Analysis	6 months	6 months	Rolling 12 mos.	For the year ended December 31				
Liquidity Ratios	June 30, 2006	June 30, 2005	June 30, 2006	2005	2004	2003	2002	2001
Current ratio	58.0%	44.8%	58.0%	52.6%	38.6%	39.0%	35.4%	39.9%
% debt in capital structure	65.0%	67.9%	65.0%	68.6%	65.4%	67.0%	66.2%	74.5%
% adj. debt in capital structure (1)	65.0%	67.9%	65.0%	69.2%	66.0%	67.6%	66.8%	75.3%
% debt in capital structure - **unconsolidated** (1)	n.a.	n.a.	n.a.	35.5%	32.5%	28.1%	17.9%	24.0%
Cash flow/total debt -**unconsolidated** (1)	n.a.	n.a.	n.a.	0.13	0.09	0.29	0.29	0.34
Cash flow/total debt	10.1%	10.6%	10.1%	9.7%	10.4%	10.0%	8.7%	7.7%
Cash flow/total adj.debt (1)	10.1%	10.6%	10.1%	9.6%	10.3%	9.9%	8.6%	7.6%
Adj. debt/EBITDA	5.09	5.59	5.34	6.05	5.45	5.87	5.97	6.36
Cash flow/capital expenditures	1.27	1.26	1.41	1.39	1.91	1.30	0.59	0.40
Cash flow/capex (Terasen Gas)	n.a.	n.a.	n.a.	1.00	1.61	1.27	1.34	0.98
Cash flow/capex (Trans Mountain)	n.a.	n.a.	n.a.	n.a.	2.23	n.m.	2.11	0.78
Cash flow-dividends/capex	1.27	0.89	1.17	0.95	1.31	0.91	0.44	0.30
Common dividend payout (before extras.)	0.0%	50.4%	31.5%	60.9%	62.5%	59.8%	54.4%	58.9%
Coverage Ratios								
EBIT interest coverage	2.23	2.24	2.06	2.06	2.25	1.98	1.90	1.80
EBITDA interest coverage	3.04	3.04	2.86	2.85	3.13	2.71	2.52	2.38
Fixed-charges coverage	2.23	2.24	2.06	2.06	2.12	1.88	1.79	1.69
EBIT interest coverage (unconsolidated)	n.a.	n.a.	n.a.	3.33	3.49	8.86	6.49	11.10
Fixed-charges coverage (unconsolidated)	n.a.	n.a.	n.a.	3.33	2.38	5.78	3.83	5.03
Profitability Ratios								
EBIT margin	20.1%	23.4%	20.5%	22.2%	25.2%	24.5%	24.3%	20.8%
EBIT margin, excludes cost of natural gas	43.3%	43.9%	41.7%	41.9%	42.0%	42.9%	42.3%	44.5%
Net margin (before extraordinary items)	19.5%	20.7%	16.9%	17.6%	17.3%	16.3%	14.4%	13.7%
Return on average common equity	12.2%	12.9%	10.9%	11.7%	11.1%	10.4%	11.2%	12.1%
Operating Efficiency and Statistics								
Throughputs – gas distribution (bcf) (2)	n.a.	n.a.	n.a.	176.9	172.9	187.3	187.3	164.7
- Oil pipeline (thousands bbl/day) (3)	227.7	206.2	n.a.	220.9	236.1	201.2	201.2	209.3
- U.S. deliveries (incl. in oil pipeline) (thousands bbl/day) (3)	95.2	59.6	n.a.	74.6	91.7	47.8	47.8	73.4
- Jet fuel (thousands bbl/day)						18.5	18.5	19.3
Approved ROE (Terasen Gas)	8.80%	9.03%	n.a.	9.03%	9.15%	9.42%	9.13%	9.25%

(1) The $125 million capital securities are treated as debt by DBRS.

(2) Throughputs include sales volumes and transportation volumes only.

(3) Throughput for Trans Mountain pipleines only. n.a. = not available.

Rating Report
Report Date:
May 20, 2008

Previous Report:
September 11, 2006

DBRS
Insight beyond the rating.

Terasen Inc.

Analysts

Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

Roshan Thiru
+1 416 597 7357
rthiru@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

The Company

Terasen Inc. is a holding company with primary investments in Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions

April 22, 2008
Commercial Paper Rating Discontinued

November 30, 2007
Confirmed with Stable Trend

Rating

Debt	Rating	Trend
Medium-Term Note Debentures	BBB (high)	Stable
Unsecured Subordinated Debentures	BBB	Stable

Rating Rationale

The ratings of Terasen Inc. (Terasen or the Company) reflect the low business risk profile of its regulated utility subsidiaries and their strong and stable cash flows. The ratings also reflect the strength of Terasen's owner, Fortis Inc. (Fortis, rated BBB (high)), which has a stronger credit profile than the previous owner, Knight, Inc. (formerly Kinder Morgan Inc., rated BB). These favourable credit considerations are offset in part by the reduced earnings and diversification resulting from the sale of Terasen's pipeline operations prior to the Fortis acquisition. DBRS confirmed Terasen's ratings following Fortis's acquisition of all of its outstanding shares in May 2007.

Terasen remains the holding company of natural gas distribution utilities Terasen Gas Inc. (TGI, rated "A" and R-1 (low)), Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGWI; collectively, the Utilities), as well as a 30% interest in the service provider CustomerWorks LP. Following the Fortis acquisition, Terasen no longer owns relatively higher risk and more capital-intensive refined products and crude oil pipeline assets. Although Terasen has lower earnings and less diversification post-sale (as the pipeline operations had contributed approximately 22% to 25% of consolidated operating income), expected substantial increases in capital expenditures were largely eliminated as the pipeline operations would have required significant investment going forward.

Terasen's current business model should provide for a stable credit profile due to (1) the Company's relatively lower business risk as gas distribution operations account for almost all earnings and cash flows and (2) the reduction in capital expenditure funding requirements (and project execution risk) resulting from the sale of the pipeline assets. Terasen's natural gas distribution businesses operate in a constructive regulatory environment, have limited exposure to commodity risk and benefit from favourable regulatory deferral mechanisms. (Continued on page 2.)

Rating Considerations

Strengths

(1) Investments primarily in low-risk gas distribution utilities, providing stable earnings, cash flows and credit metrics
(2) Strong unconsolidated cash flows and solid credit metrics
(3) Improved credit profile of new owner

Challenges

(1) Lower ROEs due to lower long-term interest rates; regulatory risk
(2) Strong regulatory ring-fencing protection at TGI and TGVI
(3) Structural subordination to debt at TGI and TGVI

Financial Information

Terasen Inc.	12 mos. ended	Year ended December 31				
Consolidated	Mar. 31, 2008	2007	2006 (R)	2005	2004	2003
EBIT ($ millions)	288	281	283	373	377	366
Adj. operating cash flow ($ millions)	155	154	196	291	295	289
% adj. debt in capital structure (1)	64.2%	64.9%	45.8%	68.6%	65.4%	67.0%
Cash flow/total adj. debt (1)	6.5%	6.2%	6.9%	9.4%	10.4%	10.0%
EBIT interest coverage (times)	1.67x	1.65x	1.91x	2.04x	2.25x	1.98x
Return on average common equity	5.8%	6.9%	8.2%	11.2%	11.1%	10.4%

(1) Intercompany sub-debt treated as equity

Rating Rationale (Continued from page 1.)

On a consolidated basis, Terasen's credit metrics are expected to remain adequate for the current ratings, with the metrics anticipated to approximate consolidated debt-to-capital of 65%, EBIT interest coverage of 1.8 times and cash flow-to-debt of 7%. Non-consolidated metrics also support ratings, with interest coverage expected at more than 3.0 times (senior) and more than 2.0 times (total). While these values are lower than historical levels due to the loss of the pipeline operations, they remain adequate for the ratings. Dividend payments from TGI alone are expected to be more than sufficient to cover Terasen's non-consolidated annual interest obligations on a going-forward basis.

TGVI is expected to require equity support from Terasen to finance the equity component of its $175 million to $200 million liquefied natural gas storage facility, with an in-service date of 2011. DBRS would expect Terasen to fund any sizable TGVI equity injection related to this project with a contribution from Fortis. Aside from this project and barring any major new developments, we anticipate the Utilities will not require any material equity support from Terasen, while managing their respective capital structures within regulatory-approved levels.

Terasen's Commercial Paper rating was recently discontinued as the Company has discontinued use of the program.

Rating Considerations Details

Strengths

(1) Terasen is a holding company with investments in a low-risk portfolio of wholly owned gas distribution subsidiaries, with TGI providing approximately 75% of Terasen's earnings. The Utilities operate in a supportive regulatory environment, generate reasonable returns on investments with limited exposure to commodity price risk and volume risk and provide long-term earnings and cash flow stability.

(2) On both a consolidated and non-consolidated basis, Terasen's financial profile remains solid, reflecting reasonable credit metrics for the rating category.

(3) The May 2007 sale of Terasen to Fortis reduced the Company's business and financial risks as follows: (a) Fortis has a stronger credit profile than the previous owner; (b) the transfer of pipeline assets improved its business risk profile (albeit with less diversified earnings); and (c) substantial capital expenditure requirements associated with the pipeline businesses were eliminated.

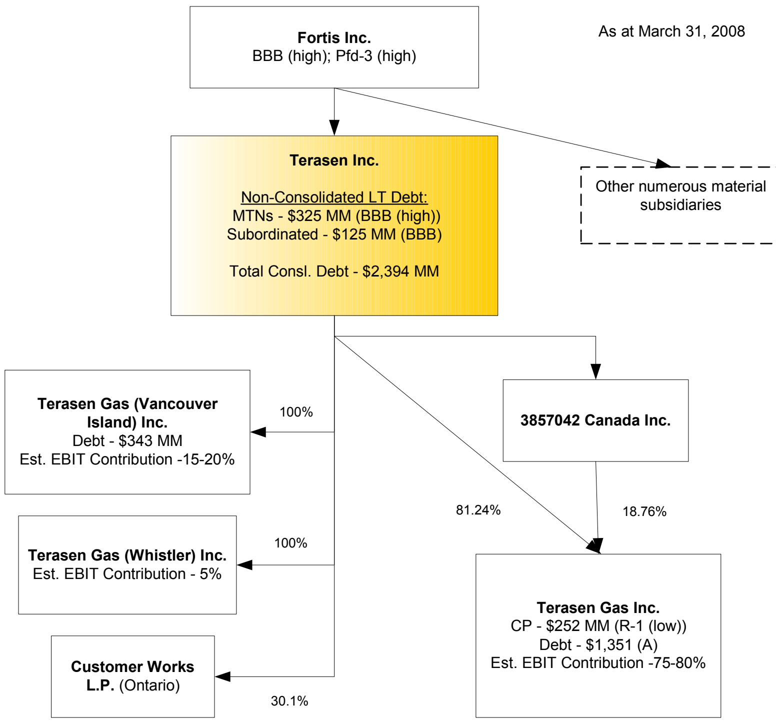
Challenges

(1) Regulated earnings at Terasen's gas distribution utilities are formula-based, linked to the government of Canada's long-term bonds. As rates have declined over the last several years, regulatory approved returns on equity (ROEs) have generally decreased, impacting earnings and cash flows. However, approved 2008 ROEs for TGI and TGVI did increase slightly to 8.62% (from 8.37% in 2007) and to 9.32% (from 9.07% in 2007), respectively. While these levels are considered low relative to U.S.-based utilities, they are not out of line with Canadian utilities. While operating in a stable regulatory framework, the Utilities are subject to modest regulatory lag with respect to the recovery of certain costs. Any adverse regulatory changes in the future could negatively impact the financial stability of the Utilities. Furthermore, TGVI currently receives between $40 million and $60 million in royalties from the provincial government, which will be eliminated by the end of 2011, potentially impacting TGVI's earnings and cash flow. This impact should be partially mitigated by cash flows from the proposed gas storage project that is expected to be in operation in 2011.

(2) Strong regulatory ring-fencing protection at TGI and TGVI restricts Terasen's ability to upstream cash flow. These conditions include the following: (a) maintaining appropriate capital structures within the approved levels; (b) obtaining regulatory approval if the payment of dividends can be reasonably expected to increase leverage above approved levels; and (c) no loans or loan guarantees to Terasen.

(3) Terasen's debt is structurally subordinate to the debt at TGI and TGVI.

Simplified Organizational and Debt Chart



Consolidated Earnings Profile

Income Statement	12 mons. ended	For the year ended December 31				
($ millions)	Mar. 31, 2008	2007	2006 (R)	2005	2004	2003
Net revenues	638	640	666	889	897	855
EBITDA	388	381	388	515	524	500
EBIT	288	281	283	373	377	366
Total adj. interest expense	173	171	148	184	182	168
Pre-tax income	117	112	136	192	210	190
Core Net Income (before extras)*	70	68	96	149	155	139
Return on common equity	5.8%	6.9%	8.2%	11.2%	11.1%	10.4%

* *Before intercompany subordinated debt expense for 2006 and a portion of 2007 and tax-adjusted*

Segmented EBIT	12 mons. ended	For the year ended December 31				
($ millions)	Mar. 31, 2008	2007	2006 (R)	2005	2004	2003
Gas distribution	289	283	282	274	272	278
Petroleum transportation	0	0	0	83	101	92
Other	(1)	(2)	1	(33)	(3)	(3)
Adjustment for non-recurring	0	0	0	48	6	0
Total EBIT	288	281	283	373	377	366

(R) = Restated by Terasen

Summary

- Terasen's current consolidated earnings are derived almost exclusively from its gas distribution Utilities, which have historically maintained stable levels of EBIT. TGI's earnings (accounting for approximately 75% of Terasen's earnings) remain stable, reflecting modest additions to its customer base and rate base and an increased approved equity component, all largely offset by declining ROE levels.
- Interest expense (excluding interest expense on the inter-company subordinated debt, which no longer exists) remained stable in the more comparable years of 2006 and 2007.
- The reduced earnings for 2006 (restated) and 2007 exclude the pipeline assets.

Terasen Inc.

Report Date:
May 20, 2008

Outlook

- As the owner of three mature gas distribution utilities, earnings are expected to be relatively stable over the medium term, with some variability due to allowed ROE levels, population growth, new housing starts and customer conversions.
- In the longer term, the Utilities' earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While natural gas has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should prices increase significantly for a prolonged period of time, potentially having a negative impact on the Utilities' financial and credit profiles.

Consolidated Financial Profile

Consolidated Basis	12 mos. ended	For the year ended December 31				
($ millions)	Mar. 31, 2008	2007	2006 (R)	2005	2004	2003
Core net income before extras	70	68	96	149	149	133
Depreciation & amortization	100	100	106	143	147	133
Non-cash adjustments	(15)	(14)	(6)	(0)	(1)	23
Operating Cash Flow	155	154	196	291	295	289
Capital expenditures	(182)	(175)	(148)	(215)	(154)	(223)
Interest on Intercompany sub-debt*	(8)	(31)	(98)	0	0	0
Common dividends	(50)	0	0	(95)	(93)	(86)
Gross Free Cash Flow	(85)	(52)	(50)	(19)	48	(20)
Changes in w/c & rate stabil. acc't	26	(10)	84	(58)	46	(20)
Net Free Cash Flow	(59)	(61)	34	(77)	93	(39)
Business acquisitions, net of cash	0	0	0	0	(58)	(207)
Divestitures	(207)	(163)	119	19	66	0
Net investments/Other	75	84	(7)	(54)	(12)	(2)
Cash flow before financing	(192)	(140)	146	(111)	89	(248)
Net debt financing	81	12	(222)	150	(85)	235
Net equity	0	0	0	21	15	10
Advances from parent	115	135	9	0	0	0
Net change in cash	5	7	(68)	59	19	(4)

R = Restated by Terasen   * Estimated after-tax value

Consolidated Financial Ratios	12 mos. ended	For the year ended December 31				
	Mar. 31, 2008	2007	2006 (R)	2005	2004	2003
EBITDA interest coverage*	2.25x	2.23x	2.62x	2.83x	3.13x	2.71x
EBIT interest coverage*	1.67x	1.65x	1.91x	2.04x	2.25x	1.98x
Cash flow/total debt*	6.4%	6.2%	6.8%	9.3%	10.3%	9.9%
Debt-to-capital*	64.2%	64.9%	45.8%	68.6%	65.4%	67.0%
Dividend payout ratio	71.2%	0.0%	0.0%	63.9%	59.9%	61.8%
Total debt/EBITDA*	6.18x	6.46x	7.33x	6.00x	5.40x	5.82x

* Intercompany sub-debt treated as equity

(R) = Restated by Terasen

Summary

- In 2006 and 2007, the Company's cash flow from operations was generally sufficient to cover capital expenditures.
- Credit metrics have weakened modestly compared with levels prior to the loss of the pipeline assets. However, Terasen's consolidated credit ratios remain within our current rating category.

Outlook

- Terasen's underlying Utilities are expected to continue to generate reasonably stable levels of cash flow.
- Minimal to modest free cash flow deficits on a consolidated basis are expected over the medium term at the Utilities. TGVI is expected to incur free cash deficits driven by construction of its $175 million to $200 million gas storage facility. DBRS would expect any material equity contribution to TGVI to be financed with a contribution from Fortis.
- Terasen's financial profile is expected to remain relatively stable over the medium term as the Utilities are expected to manage their balance sheets within the regulatory-approved debt-to-capital confines.
- Longer term, under reasonable gas and electricity price assumptions, it is expected that the Utilities will remain competitive relative to alternative energy sources.

Terasen Inc.

Report Date:
May 20, 2008

Non-Consolidated Financial Profile

- Terasen's non-consolidated profile is supported by the very stable and predictable financial performances of its underlying Utilities.
- The Company currently has two outstanding debentures, totaling $325 million, as well as $125 million of subordinated debentures (Capital Securities) and $135 million in short-term funding from Fortis. These fixed-rate obligations result in modest annual interest charges of $20 million (senior) and $30 million (total), which are well covered by dividend income from TGI alone, which has averaged $70 million annually over the past five years.
- The $200 million of Terasen-level debentures will mature in December 2008. DBRS anticipates that this maturity will be refinanced with a loan from Fortis.
- Fortis holds all of Terasen's $1.2 billion of preferred shares, which resulted from the acquisition. These preferred shares have no stated dividend or maturity, are retractable and are treated as equity by DBRS.

Debt and Liquidity

Long-Term Debt Schedule:

	Maturity	
Terasen Inc		
Medium term Note Debentures	Dec-08	204
Medium term Note Debentures	Sep-14	130
Capital Securities	Apr-40	125
		459
Terasen Gas Inc.		
Purchase Money Mortgages	Sep-15	75
Purchase Money Mortgages	Sep-16	200
Debentures and MTNs	Jun-09	60
	Jun-08	188
	Sep-29	150
	May-31	150
	Feb-35	150
	Sep-36	120
	Oct-37	250
Obligations under leases		9
		1,351
Terasen (Vancouver Island) Inc.		
Syndicate credit facility		93
Medium term Note Debentures	Feb-38	250
Other		0
		343
Total long-term debt		**2,153**
Less: Current LT debt due in 1 year		404
		1,750

Debt Maturity Schedule:

	Terasen	TGI	TGVI	Total
2008	214	190	0	404
2009	0	62	0	62
2010	0	2	0	2
2011	0	2	0	2
2012	0	2	0	2
Thereafter	255	1,095	354	1,704
Total	**469**	**1,351**	**354**	**2,174**

as at March 31, 2008

- Senior long-term debt at the Terasen level consists of $200 million in Medium-Term Note Debentures (MTNs) due in 2008 and $125 million in MTNs due in 2014. There are no covenants in the Debt Indenture restricting the issuance of new debt by Terasen. The $125 million in Unsecured Subordinated Debentures are subordinate to the MTNs, and the payment of interest can be deferred for five years and can be settled in cash or common shares. DBRS treats these securities as 80% equity and 20% debt.

Terasen Inc.

Report Date:
May 20, 2008

Liquidity

Credit Facilities ($ millions)	Type	Amount commited	Amount drawn	LCs	CP	Amount Available	Expiry
Terasen Inc.	5 year, revolving	100	0	0	0	100	Jan. 2009
Terasen Gas Inc.	5 year, revolving	500	0	44	252	204	Aug. 2012
TGVI	5 year, revolving	350	93	0	0	257	2011
Total		950	93	44	252	561	

(as at March 31, 2008)

- Terasen's liquidity requirements were reduced substantially with the sale of pipeline assets; as such, the Company reduced its bank facilities to $100 million. This is viewed as adequate as most of the liquidity requirements are at the regulated subsidiaries, which have their own bank facilities and strong operating cash flows. Furthermore, Fortis is a source of short-term liquidity, as demonstrated by its current $135 million advance to Terasen. Terasen's Commercial Paper rating was discontinued April 22, 2008, as the program is not active.
- Subsequent to the 2007 year-end, TGVI issued $250 million in long-term debt.

Regulation

Overview

The Utilities are regulated by the British Columbia Utility Commission (BCUC). The ability of the Utilities to generate earnings and cash flow to sustain and grow their businesses is largely influenced by the regulatory regime in which they function. DBRS believes that the regulatory framework in British Columbia has remained reasonable over the past several years, reflecting the following factors:

(1) Strong incentive in the form of 50-50 sharing of earnings above and below the allowed ROE provided for under the Performance-Based Rate Plan (2004 to 2007). TGVI operates under the cost-of-service regime, with a subsidy from the government from the costs of building pipelines.

(2) Limited exposure to commodity price risk since all gas supply costs are passed through to the customers, subject to a reasonable recovery lag (quarterly adjustments).

(3) Reasonable returns on equity, albeit declining due to lower long-term interest rates.

See DBRS report on TGI for additional regulatory detail.

Terasen Inc.

Report Date:
May 20, 2008

Terasen Inc.
(Consolidated)

Balance Sheet

($ millions)

Assets	As at Mar. 31, 2008	As at December 31 2007	2006 (R)	**Liabilities & Equity**	As at Mar. 31, 2008	As at December 31 2007	2006 (R)
Cash	31	18	11	S.t. debt (incl. owed to parent)	463	440	565
Accounts receivable	490	348	337	L.t.d. due in one year	404	471	286
Inventories	69	203	190	Other	462	433	635
Prepaids + other	26	84	147	**Current Liabilities**	1,328	1,344	1,486
Current Assets	616	654	684	Long-term debt	1,528	1,549	1,997
Net fixed assets	2,864	2,844	4,377	Capital securities	125	125	125
Long-term investments	0	0	481	Other long-term liab.	207	202	431
				Subordinate debt (parent)	0	0	2,491
Goodwill	824	824	1,590	Preferred shares	1,180	1,180	0
Deferred charges	93	105	151	Common equity	30	28	753
Total	4,397	4,427	7,282	**Total**	4,397	4,427	7,282

(R) = Restated by Terasen

Ratio Analysis	12 mons. ended Mar. 31, 2008	For the year ended December 31 2007	2006 (R)	2005	2004	2003
Current ratio	0.46	0.49	0.46	0.53	0.39	0.39
Cash flow/total debt*	6.4%	6.2%	6.8%	9.3%	10.3%	9.9%
Cash flow/senior debt*	6.5%	6.2%	6.9%	9.4%	10.4%	10.0%
Senior debt in capital structure*	64.2%	64.9%	45.8%	68.6%	65.4%	67.0%
Dividend payout ratio	71.2%	0.0%	0.0%	63.9%	59.9%	61.8%
Coverage Ratios						
EBITDA Interest Coverage*	2.25x	2.23x	2.62x	2.83x	3.13x	2.71x
EBIT Interest Coverage*	1.67x	1.65x	1.91x	2.04x	2.25x	1.98x
Fixed-charges coverage*	1.67x	1.65x	1.91x	2.01x	2.04x	2.12x
Total debt/EBITDA*	6.18x	6.46x	7.33x	6.00x	5.40x	5.82x
Profitability Ratios						
EBIT margin	16.4%	16.1%	16.3%	22.2%	25.2%	24.5%
EBIT margin, excludes cost of gas	45.1%	43.9%	42.5%	41.9%	42.0%	42.9%
Net margin	11.0%	10.6%	14.4%	16.7%	17.3%	16.3%
Return on common equity	5.8%	6.9%	8.2%	11.2%	11.1%	10.4%
Approved ROE (Terasen Gas)	8.62%	8.37%	8.80%	9.03%	9.15%	9.42%
Approved ROE (TGVI)	9.32%	9.07%	9.50%	9.53%	9.65%	9.92%

* Intercompany sub-debt treated as equity

Terasen Inc.

Report Date:
May 20, 2008

Rating Table

Debt	Rating	Trend
Medium-Term Note Debentures	BBB (high)	Stable
Unsecured Subordinated Debentures	BBB	Stable

Rating History

Debt	Current	2007	2006	2005	2004	2003
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	A (low)	A (low)
Unsecured Subordinated Debentures	BBB	BBB	BBB	BBB	BBB (high)y	BBB (high)y
Commercial Paper	Discontinued	R-2 (high)	R-2 (high)	R-2 (high)	R-1 (low)	R-1 (low)

Related Research

Terasen Gas Inc., May 20, 2008.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report
Report Date:
October 22, 2009

Previous Report:
May 20, 2008

Terasen Inc.

Analysts
Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

Darryl Brown
+1 416 597 7459
dbrown@dbrs.com

The Company
Terasen Inc. is a holding company with primary investments in Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable
Unsecured Subordinated Debentures	BBB	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating for the Medium-Term Note Debentures and Unsecured Subordinated Debentures of Terasen Inc. (Terasen or the Company) at BBB (high) and BBB, respectively. The trend for both ratings is Stable. The ratings of Terasen reflect the low business risk profile of its regulated utility subsidiaries and their stable cash flows. The ratings also reflect the modest amount of external debt at the Terasen level, as well as the strength of owner Fortis Inc. (Fortis, rated BBB (high)). Terasen is the holding company of natural gas distribution utilities Terasen Gas Inc. (TGI, rated “A” and R-1 (low)), Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGWI; collectively, the Utilities), as well as a 30% interest in the customer service provider Customer Works L.P., and 100% of Terasen Energy Services (provider of alternative energy solutions).

The regulatory environment for Terasen’s regulated subsidiaries remains stable and provides for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. The Utilities recently filed a joint application to review their allowed return on equity (ROE) and TGI’s capital structure. TGI and TGVI have also filed new revenue requirement applications for 2010 and 2011 with the continuation of the numerous deferral accounts. Earnings and cash flows have been impacted by lower allowed ROEs and deemed equity components relative to peers. In the case of TGI (which provides 75% to 80% of Terasen’s earnings), its allowed ROE has been in general decline (8.47% in 2009 as opposed to 9.42% in 2003) because of the low interest rate environment, however, the impact on earnings and cash flow has been modest and is largely offset by increases in the rate base, a small increase in approved equity thickness in the capital structure in 2006, incentive earnings (which will end in 2009), and stable levels of debt. (Continued on page 2.)

Rating Considerations

Strengths
(1) Investments primarily in low-risk gas distribution utilities, providing stable earnings, cash flows and credit metrics
(2) Reasonable unconsolidated cash flows and credit metrics
(3) Credit profile and support of strong parent

Challenges
(1) Lower ROEs due to lower long-term interest rates and lower equity thickness
(2) Strong regulatory ring-fencing protection at TGI and TGVI
(3) Structural subordination to debt at TGI and TGVI
(4) Loss of PBR incentive earnings upon expiry in 2009

Financial Information

Terasen Inc.	12 mos. ended	Year ended December 31		
Consolidated	June 30, 2009	2008	2007	2006
EBIT ($ millions)	289	292	281	283
Adj. operating cash flow ($ millions)	212	201	154	196
% adj. debt in capital structure (1)	64.9%	65.9%	64.9%	45.8%
Cash flow/total adj. debt (1)	8.5%	7.7%	6.2%	6.9%
EBIT interest coverage (times)	1.72x	1.72x	1.65x	1.91x
Return on average common equity	8.7%	8.3%	6.9%	8.2%

(1) Intercompany sub-debt treated as equity

Rating Rationale (Continued from page 1.)

TGI continues to produce stable results, reflecting the regulated nature of its operations and its limited gas-cost exposure. Going forward, DBRS expects lower customer growth and throughput than in the past few years due to a slowing economy, fewer new housing starts, and a shift in the housing mix to more multi-family dwellings. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs.

In 2008, TGVI received final approval from the British Columbia Utilities Commission (BCUC) to construct and operate a $200 million liquefied natural gas (LNG) facility currently under construction with an expected in-service date of 2011. While this will increase TGVI's rate base, TGI is contracting for at least two-thirds of the storage capacity, providing incremental earnings and cash flows not sourced from TGVI's existing customer base.

Minimal to modest free cash flow deficits are expected at TGI and TGVI over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. On a consolidated basis, Terasen's overall credit metrics are expected to remain reasonably consistent and adequate for the current ratings, with the metrics in the area of debt-to-capital of 65%, EBIT interest coverage of 1.7 times and cash flow-to-debt of 8%. The latter two metrics are generally lower than Terasen's peer group, largely due to lower levels at TGI. Non-consolidated metrics also support ratings, with dividend payments from TGI alone expected to be more than sufficient to cover Terasen's non-consolidated annual interest obligations.

Rating Considerations Details

Strengths
(1) Terasen is a holding company with investments in a low-risk portfolio of wholly owned gas distribution subsidiaries, with TGI providing approximately 75% to 80% of Terasen's earnings. The Utilities operate in a stable regulatory environment with limited exposure to commodity price risk and volume risk, and provide long-term earnings and cash flow stability.

(2) On both a consolidated and non-consolidated basis, Terasen's financial profile remains solid, reflecting credit metrics that are reasonable for the rating category but are, however, weaker relative to peers.

(3) The financial profile of Fortis gives it the ability to provide short-term funding to Terasen as required. This was most recently demonstrated when Fortis provided Terasen with intercompany financing with which Terasen refinanced a $200 million medium-term note (MTN) debenture that matured in 2008.

Challenges
(1) TGI's approved ROE of 8.47% for 2009 (8.62% in 2008) is low and has been in gradual decline in recent years due to the low interest rate environment. Despite a modestly growing rate base at TGI ($2.5 billion in 2008 compared with $2.3 billion in 2004), earnings and cash flow have remained flat, largely as a result of the lower ROE. Under the current adjustment mechanism, approved ROEs could trend even lower in the future depending on Government of Canada bond yields.

(2) Strong regulatory ring-fencing protection at TGI and TGVI restricts Terasen's ability to upstream cash flow. These conditions include the following: (a) maintaining appropriate capital structures within the approved levels; (b) obtaining regulatory approval if the payment of dividends can be reasonably expected to increase leverage above approved levels; and (c) no loans or loan guarantees to Terasen.

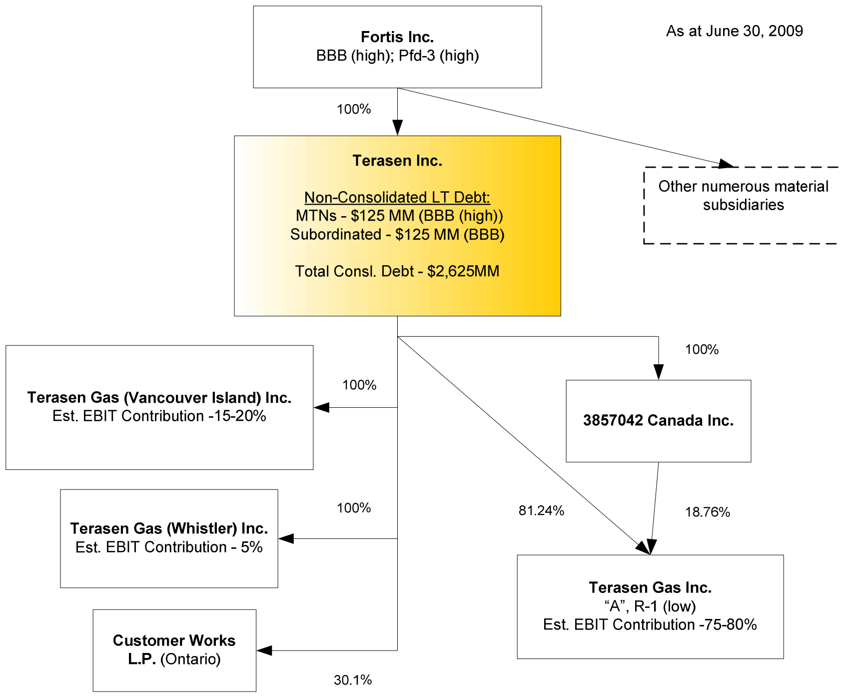
(3) Terasen's debt is structurally subordinate to the debt at TGI and TGVI.

(4) Under the PBR, TGI shares earnings above or below the allowed ROE on a 50/50 basis with customers. This sharing mechanism will expire along with the PBR in 2009, which will likely exert some downward pressure on earnings as TGI's incentive earnings averaged approximately $9 million to $10 million per year in 2007 and 2008.

Terasen Inc.

Report Date:
October 22, 2009

Simplified Organizational and Debt Chart



Note: Fortis's 2007 acquisition of Terasen from Kinder Morgan Inc. did not include Terasen's former petroleum transportation business. Terasen has restated the petroleum business as discontinued and, therefore, results prior to 2006 are less relevant for comparative purposes.

Consolidated Earnings Profile

Income Statement	12 mos. ended	For the year ended December 31		
($ millions)	June 30, 2009	2008	2007	2006
Net revenues	660	654	640	666
EBITDA	395	396	381	388
EBIT	289	292	281	283
Total adj. interest expense	168	170	171	148
Pre-tax income	123	124	112	136
Core Net Income (before extras)*	106	102	68	96
Return on common equity	8.7%	8.3%	6.9%	8.2%

* *Before intercompany subordinated debt expense for 2006 and a portion of 2007 and tax-adjusted*

Summary

Terasen's consolidated earnings are derived almost exclusively from its gas distribution Utilities, which have historically maintained stable levels of EBIT. TGI's earnings (accounting for approximately 75% of Terasen's earnings) remain stable, reflecting modest additions to its customer base and rate base and an increased approved equity component in 2006 (35% from 33% previously), all largely offset by declining ROE levels.

Earnings stability is further supported by the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract.

As expected, given the stability of the underlying Utilities, Terasen's consolidated EBITDA, EBIT and interest expense have all remained fairly stable. Though in recent years housing starts in British Columbia have been strong, the increase in multi-family housing continues to have an impact on net additions, as natural gas is less prevalent in this type of dwelling.

Terasen Inc.

Report Date:
October 22, 2009

Outlook

As the owner of three gas distribution utilities, earnings are expected to be relatively stable over the medium term, with some variability due to allowed ROE levels, population growth, new housing starts and customer conversions. DBRS expects that Terasen will see lower customer growth than in the past few years due to a slowing economy and fewer new housing starts. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs. The expiry of TGI's Performance-Based Rate Plan (PBR) in 2009 will have an impact on TGI's earnings, as the incentive earnings averaged approximately $9 million to $10 million per year in 2007 and 2008.

While it can be noted that the current level of gas prices is very low, in the longer term, the Utilities' earnings will largely depend on the competitiveness of natural gas relative to electricity. While natural gas maintains a competitive operating cost advantage in terms of pricing compared with electricity, this is offset by higher initial capital costs for equipment and installation. Additionally, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on the Utilities' financial and credit profiles. TGVI currently receives between $40 million and $60 million annually in royalties from the provincial government, which will be eliminated by the end of 2011, impacting rates and competitiveness compared to alternative sources.

Consolidated Financial Profile

Consolidated Basis	12 mos. ended	For the year ended December 31		
($ millions)	June 30, 2009	2008	2007	2006 (R)
Core net income before extras	106	102	68	96
Depreciation & amortization	107	104	100	106
Non-cash adjustments	(1)	(5)	(14)	(6)
Operating Cash Flow	212	201	154	196
Capital expenditures	(231)	(213)	(175)	(148)
Interest on Intercompany sub-debt*	0	0	(31)	(98)
Common dividends	(70)	(77)	0	0
Gross Free Cash Flow	(89)	(89)	(52)	(50)
Changes in w/c & rate stabil. acc't	86	55	(10)	84
Net Free Cash Flow	(3)	(34)	(61)	34
Business acquisitions, net of cash	0	0	0	0
Divestitures	0	14	(163)	119
Net investments/Other	23	(116)	84	(7)
Cash flow before financing	20	(136)	(140)	146
Net debt financing	(245)	(184)	12	(222)
Net equity	0	0	0	0
Advances from parent	259	335	135	9
Net change in cash	35	15	7	(68)

R = Restated by Terasen   * Estimated after-tax value

Consolidated Financial Ratios	12 mos. ended	For the year ended December 31		
	June 30, 2009	2008	2007	2006 (R)
EBITDA interest coverage*	2.35x	2.33x	2.23x	2.62x
EBIT interest coverage*	1.72x	1.72x	1.65x	1.91x
Cash flow/total debt*	8.4%	7.6%	6.2%	6.8%
Debt-to-capital*	64.9%	65.9%	64.9%	45.8%
Dividend payout ratio	65.8%	75.7%	0.0%	0.0%
Total debt/EBITDA*	6.33x	6.61x	6.46x	7.33x

* Intercompany sub-debt treated as equity for 2006

(R) = Restated by Terasen

Summary

The Company has experienced very modest cash flow deficits in recent years, which can be primarily attributed to increased capital expenditures. Fortis has provided Terasen with intercompany loans, which Terasen has used to refinance maturing external debt, support its own Utilities, and acquire preferred shares of a Fortis affiliate.

Credit metrics have weakened modestly compared with levels prior to the loss of the pipeline assets, but have stabilized at lower levels.

Outlook

Terasen's underlying Utilities are expected to continue to generate reasonably stable levels of cash flow; however, the loss of incentive earnings is expected to reduce the baseline level of cash flow. Minimal to modest free cash flow deficits on a consolidated basis are expected over the medium term at the Utilities. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility ($397 million available at June 30, 2009), TGVI's $350 million facility ($251 million available at June 30, 2009) and long-term debt issuance. TGVI is expected to incur free cash deficits driven by construction of its $200 million gas storage facility. DBRS would expect any material equity contribution to TGVI to be financed with a contribution from Fortis.

Terasen's financial profile should remain relatively stable over the medium term, as the Utilities are expected to manage their balance sheets within the regulatory-approved debt-to-capital confines. In the longer term, under reasonable gas and electricity price assumptions, it is expected that the Utilities will remain competitive relative to alternative energy sources on an operating cost basis.

Non-Consolidated Financial Profile

Terasen's non-consolidated profile is supported by the very stable and predictable financial performances of its underlying Utilities. In addition to intercompany loans from Fortis, the Company has minimal external debt, with one outstanding MTN totalling $125 million, as well as $125 million of subordinated debentures (Capital Securities). These obligations result in modest annual interest charges that are well covered by dividend income from TGI alone, which has averaged $62 million annually over the past five years.

Fortis holds all of Terasen's $1.2 billion of preferred shares, which resulted from the acquisition. These preferred shares have no stated dividend or maturity, are retractable and are treated as equity by DBRS.

External Debt and Liquidity

Long-Term Debt Schedule*:

	Maturity	
Terasen Inc		
Medium term Note Debentures	Sep-14	125
Capital Securities**	Apr-40	125
		250
Terasen Gas Inc.		
Purchase Money Mortgages	Sep-15	75
Purchase Money Mortgages	Sep-16	200
Debentures & MTN's	Sep-29	150
Debentures & MTN's	May-34	150
Debentures & MTN's	Feb-35	150
Debentures & MTN's	Sep-36	120
Debentures & MTN's	Oct-37	250
Debentures & MTN's	Oct-38	250
Debentures & MTN's	Feb-39	100
Obligations under leases		12
		1,456
Terasen (Vancouver Island) Inc.		
Medium term Note Debentures	Feb-38	250
		250
Total long-term debt		**1,956**
Less: Current LT debt due in 1 year		15
		1,941

Debt Maturity Schedule:

	Terasen	TGI	TGVI	Total
2009	0	0	0	0
2010	0	1	0	1
2011	0	2	0	2
2012	0	2	0	2
2013	0	2	0	2
Thereafter	255	1,448	248	1,951
Total	**255**	**1,453**	**248**	**1,956**

** Excludes bank debt and intercompany loans*
*** Can be redeemed at par in April 2010*
as at June 30, 2009

External long-term debt at the Terasen level consists of $125 million in MTNs due in 2014, and $125 million of Unsecured Subordinated Debentures due in 2040, which can be redeemed at par in April 2010. The Unsecured Subordinated Debentures are subordinate to the MTNs, and the payment of interest can be deferred for five years and settled in cash or common shares. In addition to external debt, Terasen also has debt due to its parent, Fortis, which is unsecured and ranks pari passu to their external MTNs ($512.5 million outstanding at June 30, 2009).

Liquidity

Credit Facilities ($ millions)	Type	Amount commited	Amount drawn	LCs	CP	Amount Available	Expiry
Terasen Inc.	5 year, revolving	30	0	0	0	30	May 2011
Terasen Gas Inc.	5 year, revolving	500	57	46	0	397	Aug. 2012
TGVI	5 year, revolving	350	99	0	0	251	2011
Total		880	156	46	0	678	

(as at June 30, 2009)

Terasen-level liquidity requirements were reduced substantially when it sold its pipeline assets; as such, the Company reduced its bank facilities to $30 million in May 2009 from $180 million at June 2007. This is viewed as adequate as most of the liquidity requirements are at the regulated subsidiaries, which have their own bank facilities and strong operating cash flows.

Regulation

The Utilities are regulated by the BCUC. The ability of the Utilities to generate earnings and cash flow to sustain and grow their businesses is largely influenced by the regulatory regime in which they function. DBRS believes that the regulatory relationship in British Columbia has remained reasonable over the past several years, reflecting the following factors:

(1) For TGI, strong incentive received in the form of 50/50 sharing of earnings above and below the allowed ROE provided for under the PBR expires in 2009. TGVI operates under the cost-of-service regime, with a subsidy from the Province to support competitiveness.

(2) Limited exposure to commodity price risk since all gas supply costs are passed through to the customers, subject to a reasonable recovery lag (quarterly adjustments).

(3) Declining returns on equity, due to lower long-term interest rates. The Utilities recently filed a joint application to review their allowed return on equity (ROE) and TGI's capital structure. TGI and TGVI have also filed new revenue requirement applications for 2010 and 2011 with the continuation of the numerous deferral accounts.

See the May 27, 2009, DBRS report on TGI for additional regulatory detail.

Terasen Inc.

Report Date:
October 22, 2009

Terasen Inc.
(Consolidated)

Balance Sheet
($ millions)

	June 30	As at December 31	
Assets	2009	2008	2007
Cash	52	33	18
Accounts receivable	187	393	348
Inventories	116	212	203
Prepaids + other	135	80	84
Current Assets	489	717	654
Net fixed assets	3,042	2,985	2,844
Long-term investments	150	150	0
Goodwill	824	818	824
Deferred charges	400	88	105
Total	4,904	4,759	4,427

	June 30	As at December 31	
Liabilities & Equity	2009	2008	2007
S.t. debt (incl. owed to parent)	669	824	440
L.t.d. due in one year	15	79	471
Other	499	563	433
Current Liabilities	1,183	1,465	1,344
Long-term debt	1,816	1,717	1,549
Capital securities	125	125	125
Other long-term liab.	555	220	202
Preferred shares	1,180	1,180	1,180
Common equity	45	53	28
Total	4,904	4,759	4,427

(R) = Restated by Terasen

Ratio Analysis	12 mons. ended		For the year ended December 31			
	June 30, 2009	2008	2007	2006 (R)	2005	2004
Current ratio	0.41	0.49	0.49	0.46	0.53	0.39
Cash flow/total debt*	8.4%	7.6%	6.2%	6.8%	9.3%	10.3%
Cash flow/senior debt*	8.5%	7.7%	6.2%	6.9%	9.4%	10.4%
Senior debt in capital structure*	64.9%	65.9%	64.9%	45.8%	68.6%	65.4%
Dividend payout ratio	65.8%	75.7%	0.0%	0.0%	63.9%	59.9%
Coverage Ratios						
EBITDA Interest Coverage*	2.35x	2.33x	2.23x	2.62x	2.83x	3.13x
EBIT Interest Coverage*	1.72x	1.72x	1.65x	1.91x	2.04x	2.25x
Fixed-charges coverage*	1.72x	1.72x	1.65x	1.91x	2.01x	2.04x
Total debt/EBITDA*	6.33x	6.61x	6.46x	7.33x	6.00x	5.40x
Profitability Ratios						
EBIT margin	15.7%	15.3%	16.1%	16.3%	22.2%	25.2%
EBIT margin, excludes cost of gas	43.8%	44.6%	43.9%	42.5%	41.9%	42.0%
Net margin	16.1%	15.6%	10.6%	14.4%	16.7%	17.3%
Return on common equity	8.7%	8.3%	6.9%	8.2%	11.2%	11.1%
Approved ROE (Terasen Gas)			8.37%	8.80%	9.03%	9.15%
Approved ROE (TGVI)			9.07%	9.50%	9.53%	9.65%

* Intercompany sub-debt treated as equity in 2006

Terasen Inc.

Report Date:
October 22, 2009

Ratings

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable
Unsecured Subordinated Debentures	BBB	Confirmed	Stable

Rating History

Debt	Current	2008	2007	2006	2005	2004
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	A (low)
Unsecured Subordinated Debentures	BBB	BBB	BBB	BBB	BBB	BBB (high)

Related Research

- Terasen Gas Inc., May 27, 2009.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report
Report Date:
December 23, 2010

Previous Report:
October 22, 2009

DBRS

Insight beyond the rating.

Terasen Inc.

Analysts

Yean (Kit) Kitnikone
+1 416 597 7325
kkitnikone@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

The Company

Terasen Inc. is a holding company with primary investments in Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating for the Medium-Term Note Debentures (MTNs) of Terasen Inc. (TER or the Company) at BBB (high). The trend is Stable. The rating of TER reflects the low business risk profile and stable cash flows of its regulated utility subsidiaries, stable credit metrics and the strong parental support of its parent, Fortis Inc. (FTS, rated A (low)). The rating also reflects the regulatory ring-fencing and structural subordination considerations at its subsidiaries as well as the long-term competitiveness of natural gas vis-à-vis alternative energy sources. TER is the holding company of three natural gas distribution utilities, Terasen Gas Inc. (TGI, rated A and R-1 (low)), Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGWI), collectively referred to as the Utilities, as well as a 30% interest in Customer Works L.P. (a customer service provider), and 100% of Terasen Energy Services (an alternative energy solutions provider).

The regulatory environment for TER's regulated subsidiaries remains stable and continues to provide for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In late 2009, TGI (which contributes to ~75% to 80% of TER's earnings) executed a negotiated settlement agreement (NSA) that established rates for 2010 and 2011. The settlement excluded the performance-based rate (PBR) mechanism, under which TGI had operated since 2004. The PBR had allowed TGI the opportunity to share earnings above the allowed return on equity (ROE) with customers on a 50/50 basis and had been beneficial to TGI as it had provided, on average, over $11 million per year in earnings in 2008 and 2009. While the loss of PBR income would have potentially negatively affected TGI's financial results, the British Columbia Utilities Commission's (BCUC) December 2009 cost of capital decision largely offset the potentially adverse impact by increasing TGI's allowed ROE to 9.50% from 8.47% and equity thickness to 40.00% from 35.01%, effective July 2009. TGVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. As a result, TGI and TGVI continue to generate stable returns, reflecting the regulated nature of their operations and their limited exposure to gas cost. (Continued on page 2.)

Rating Considerations

Strengths

(1) Investments comprised primarily of low-risk gas distribution utilities, providing stable earnings, cash flows and credit metrics
(2) Continued reasonable cash flow and credit metrics despite loss of PBR earnings
(3) Credit profile and support of strong parent

Challenges

(1) Strong regulatory ring-fencing protection at TGI and TGVI
(2) Structural subordination to debt at TGI and TGVI
(3) ROE levels and loss of PBR incentive
(4) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

Terasen Inc. *(Consolidated)*	**LTM**		**FYE Dec. 31st**	
	Sept. 30/10	**2009**	**2008**	**2007**
EBIT ($ MM)	305.1	281.5	291.8	281.1
Adj. CFO ($ MM)	218.6	205.2	203.1	153.7
Adj. Debt/Capital	69.1%	66.0%	65.9%	64.9%
Cash Flow/Adj.Debt	7.6%	7.6%	7.8%	6.2%
EBIT/Interest Expense	2.0x	1.7x	1.7x	1.6x
Return on Avg. Common Equity	9.5%	8.1%	10.2%	4.9%

Rating Rationale (Continued from page 1.)

DBRS anticipates that the trend of lower customer growth at TGI and TGVI will continue given fewer new housing starts in their respective service territories and a shift in the housing mix to more multi-family dwellings that do not typically utilize natural gas. This trend is expected to be mitigated by a focus on retaining customers through expanded energy conservation and efficiency programs.

TGVI's $200 million Mt. Hayes liquefied natural gas (LNG) storage facility which commenced construction in 2008 is nearing completion with an expected in-service date of Q2 2011. While the project will increase TGVI's rate base upon completion, TGI is contracting for two-thirds of the storage capacity, providing incremental earnings and cash flows not sourced from TGVI's existing customer base.

Minimal-to-modest free cash flow deficits continue to be expected at TGI and TGVI over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is anticipated to go into the rate base in a timely manner), and modest customer growth. On a consolidated basis, TER's overall credit profile is anticipated to remain reasonably consistent and adequate for its current ratings, with metrics in the range of debt-to-capital of 65%, EBIT-to-interest expense of 2.0x and CFO-to-debt of 8%. Modest improvements with TGI, and thus TER's credits metrics may be attributed to the recent approved regulatory decisions. TER's EBIT-to-interest expense and CFO-to-debt ratios are generally lower than those of its peers primarily due to lower figures at TGI. Non-consolidated metrics also support ratings, with dividend payments from TGI alone expected to be more than sufficient to cover TER's non-consolidated annual interest obligations.

Rating Considerations Details

Strengths

(1) TER is a holding company with investments in a low-risk portfolio of wholly-owned gas distribution subsidiaries, with TGI providing approximately 75% to 80% of TER's earnings. The Utilities operate in a stable, supportive regulatory environment with limited exposure to commodity price risk and volume risk, and provide long-term earnings and cash flow stability.

(2) On both a consolidated and non-consolidated basis, TER's financial profile remains solid with recent modest improvements, reflecting credit metrics that are appropriate for its current rating category but are, however, weaker relative to peers.

In late 2009, TGI executed a Negotiated Settlement Agreement (NSA) that concurrently established rates for 2010 and 2011 and excluded the PBR mechanism under which the Company had operated under since 2004. The PBR had allowed TGI to share earnings above the authorized ROE with customers on a 50/50 basis which was beneficial to TGI as it provided, on average, over $11 million per year in earnings in 2008 and 2009. While the loss of PBR income would have potentially negatively affected TGI's financial results, the BCUC's decision to increase TGI's allowed ROE to 9.50% from 8.47% and equity thickness to 40.00% from 35.01% largely offset any potentially adverse impact to TGI's credit profile. TGVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. As a result, TGI and TGVI continue to generate stable returns, reflecting the regulated nature of their operations in a supportive regulatory regime.

(3) The financial profile of TER's parent, FTS, allows it the flexibility to provide short-term funding to TER as required. This was most recently demonstrated when FTS provided TER with intercompany financing that TER utilized to redeem its $125 million of Capital Securities in April 2010. FTS also provided TER with intercompany funding, with which the Company utilized as an equity injection into TGI to align TGI's new capital structure to the 40% deemed equity approved by the BCUC in December 2009. DBRS anticipates that the remaining $125 million MTN at TER will also be refinanced via intercompany financing when the note matures in April 2014.

Challenges

(1) Regulatory ring-fencing conditions imposed on TGI and TGVI in the BCUC's 2007 order that approved the acquisition of TER by FTS restricts TER's ability to upstream cash flow. These provisions include:

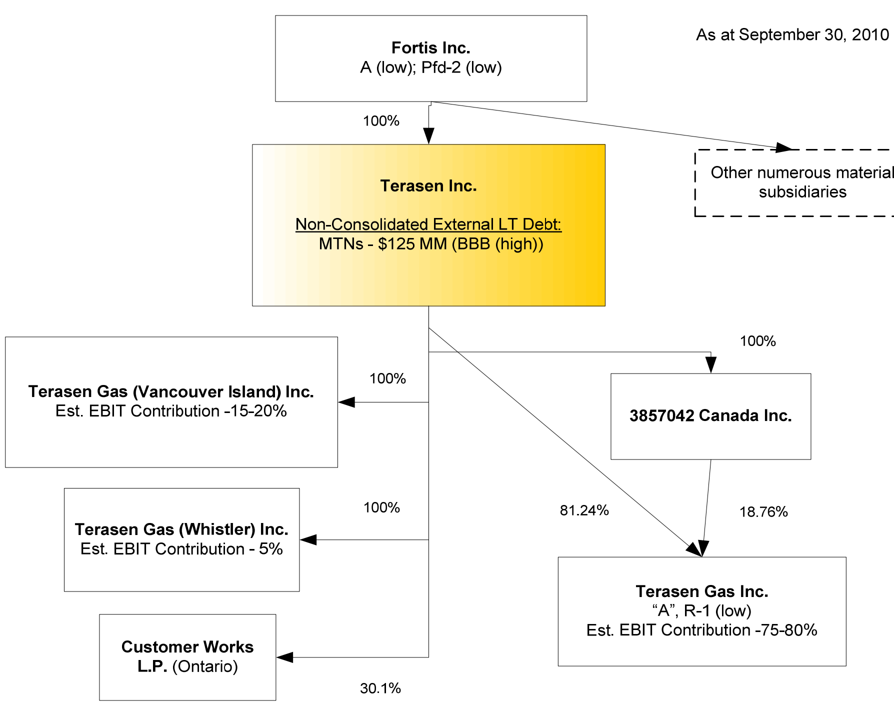
(a) maintaining the appropriate capital structures at TGI and TGVI within approved levels;
(b) obtaining regulatory approval if dividend payments are expected to increase leverage above approved levels; and
(c) refraining from providing loans or loan guarantees to TER.

(2) TER's debt is structurally subordinate to the debt at TGI and TGVI.

(3) Although the BCUC terminated use of the automatic ROE adjustment formula in its December 2009 cost of capital decision while concurrently increasing TGI's approved ROE level TGI to 9.50% (effective July 1, 2009), the Company's ROE had been below 9% for a number of years, consequently adversely impacting earnings and cash flows. Additionally, under the PBR mechanism, TGI had shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of this mechanism appears to have largely offset the credit metric upside of TGI's ROE increase since the PBR incentive earnings averaged more than $11 million annually in 2008 and 2009. Discontinuation of the adjustment formula without a clear replacement or alternate mechanism injects a level of uncertainty as to how ROE levels will be determined in the medium- to long-term. The ROE level as determined in the decision will apply until further review by the BCUC, however, DBRS notes that the BCUC had tasked TGI to investigate the use of alternative mechanisms and report back by the end of 2010. A report has subsequently been submitted to the BCUC.

(4) The earnings and financial profiles of TGI and TGVI, and thus the earnings and financial profile of TER, over the long term, will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. In the past, despite significant increases in natural gas prices throughout 2008, natural gas maintained a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected under reasonable gas price assumptions that natural gas in British Columbia will remain competitive relative to electricity given that, according to British Columbia Hydro & Power Authority (BC Hydro), electricity prices are expected to rise gradually in the medium term.

Simplified Organizational and Debt Chart



Consolidated Earnings Profile

Income Statement *($ MM)*	**LTM**		**FYE Dec. 31st**	
	Sept. 30/10	**2009**	**2008**	**2007**
Net Revenue	702.0	664.7	653.7	639.9
EBITDA	417.8	389.9	395.8	380.8
EBIT	305.1	281.5	291.8	281.1
Total Adj. Interest Expense	153.3	162.8	169.6	170.6
Pre-tax Income	155.0	121.9	124.3	111.9
Core Net Income (before extra.)*	120.8	99.7	101.7	67.7
Return on Common Equity	9.5%	8.1%	10.2%	4.9%

**Before intercompany subordinated debt expense for a portion of 2007 and tax-adjusted*

Summary

TER's consolidated earnings are derived almost exclusively from its gas distribution utilities, which have historically maintained predictable levels of EBIT. TGI's earnings (which account for roughly 75% to 80% of TER's earnings) remain stable with modest recent improvements, reflecting modest annual additions to its customer base and rate base and an increased approved ROE (9.50% from 8.47%) and equity component (40% from 35.01%), all largely offset by the loss of PBR incentive earnings. Consequently, given the stability of the underlying Utilities, TER's consolidated EBITDA, EBIT and interest expense have all remained relatively stable.

Outlook

As the holding company of three regulated gas distribution utilities located in British Columbia, TER's earnings are expected to remain relatively stable over the medium term, with some variability due to population growth, new housing starts and customer conversions. DBRS expects that TER will see lower customer growth than in previous years due to fewer new housing starts and a shift in the housing mix to more multi-family dwellings that do not typically utilize natural gas. This trend is expected to be mitigated by a focus on retaining customers through expanded energy conservation and efficiency programs.

While the loss of PBR income would have potentially negatively affected TGI's financial results, the BCUC largely offset the potential adverse impact of the PBR expiry by increasing TGI's allowed ROE and equity thickness, effective July 2009. Discontinuation of the adjustment formula without a clear replacement or alternate mechanism injects a level of uncertainty as to how ROE levels will be determined in the medium-to long-term, however, the BCUC has directed TGI to investigate the use of alternative mechanisms and report back by the end of 2010.

While it is noted that the current level of gas prices is relatively low, in the longer term, the Utilities' earnings will largely depend on the competitiveness of natural gas relative to electricity. Although natural gas maintains a competitive operating cost advantage in terms of pricing vis-à-vis electricity, this is offset by higher initial capital costs for equipment and installation. Additionally, TER's competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on the Utilities' financial and credit profiles. TGVI currently receives between approximately $20 million and $30 million annually in royalties from the provincial government, which will be eliminated by the end of 2011, thereby impacting rates and the competitiveness of natural gas relative to alternative sources.

Consolidated Financial Profile

Cash Flow Statement *(C$ MM)*	LTM Sept. 30/10	2009	FYE Dec. 31st 2008	2007
Core Net Income (before extra.)	121	100	102	67.7
Depreciation & Amortization	113	108	104	99.7
Non-cash Adjustments	(15)	(3)	(3)	(13.7)
Operating Cash Flow	219	205	203	153.7
CapEx	(237)	(231)	(199)	(174.6)
Interest on Intercompany Sub-debt*	0	0	0	(30.7)
Common Dividends	(50)	(70)	(77)	0.0
Gross Free Cash Flow	(68)	(96)	(73)	(51.6)
Changes in W/C & Rate Stabil. Accoun	(64)	39	55	(9.5)
Net Free Cash Flow	(133)	(57)	(18)	(61.1)
Business Acquisitions, Net of Cash	0	0	0	0.0
Divestitures	0	0	14	(163.2)
Net investments/Other	5	(3)	(132)	84.0
Cash Flow Before Financing	(127)	(60)	(136)	(140.3)
Net External Debt Financing	(83)	44	(184)	11.6
Net Equity	0	0	0	0.0
Advances from Parent	202	25	335	135.3
Net Change in Cash	(8)	9	15	6.6

** Estimated after-tax value*

	LTM Sept. 30/10	2009	FYE Dec. 31st 2008	2007
EBITDA/Interest Expense	2.7x	2.4x	2.3x	2.2x
EBIT/Interest Expense	2.0x	1.7x	1.7x	1.6x
Cash Flow/Total Debt	7.6%	7.6%	7.7%	6.2%
Adj. Debt/Capital	69.1%	66.0%	65.9%	64.9%
Dividend/Net Income	41.4%	70.2%	75.7%	0.0%
Total Debt/EBITDA	6.9x	6.9x	6.6x	6.5x

Summary

The Company has experienced very modest cash flow deficits in recent years, which can be primarily attributed to increased capital expenditures. FTS has provided TER with intercompany loans, which TER utilized to redeem $125 million of Capital Securities, align TGI's new capital structure to the 40% deemed equity approved by the BCUC and support its own Utilities. Overall, TER's credit metrics have improved modestly compared with historical levels as a result of the recent regulatory decisions to allow an increase in ROE and capital structure.

Outlook

TER's underlying Utilities are expected to continue to generate reasonably stable levels of cash flow, however, the loss of incentive earnings may reduce the baseline level of cash flow if the BCUC determines in future decisions that a lower allowed ROEs is appropriate or employs an alternate adjustment mechanism that would yield unfavourable consequences for the Utilities. Minimal-to-modest free cash flow deficits on a consolidated basis are expected over the medium term at the Utilities. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility ($320 million available at September 30, 2010), TGVI's $300 million facility ($98 million available at September 30, 2010) and long-term debt issuance. TGVI is expected to continue to incur free cash deficits in the near term due to construction of its $200 million Mt. Hayes gas storage facility. DBRS would expect any material equity contribution to TGVI to be financed with a contribution from FTS.

TER's financial profile should remain relatively constant over the near- to medium-term, as the Utilities are expected to manage their balance sheets within the regulatory-approved debt-to-capital confines. In the long term, under reasonable gas and electricity price assumptions, it is projected that the Utilities will remain competitive relative to alternative energy sources on an operating cost basis.

Non-Consolidated Financial Profile

TER's non-consolidated profile is supported by the stable and predictable financial performances of its underlying Utilities. Moreover, other than intercompany loans from FTS, TER has minimal external debt, with one outstanding MTN totalling $125 million. These obligations result in modest annual interest charges that are well covered by dividend income from TGI alone.

FTS continues to hold all of TER's $1.2 billion preferred shares, which resulted from the acquisition. Since these preferred shares have no stated dividend or maturity and are retractable, they are treated as equity by DBRS.

External Debt and Liquidity

TER's consolidated long-term debt is primarily comprised of the long-term debt of TGI and TGVI. TER-level long-term obligations are limited to $125 million of MTNs due in 2014, and debt owed to its parent, FTS ($714 million outstanding as of September 30, 2010), which is unsecured and ranks parri passu with the external MTNs.

Liquidity

Credit Facilities *($ MM)*	**Type**	**Amount Commited**	**Amount Drawn**	**LCs**	**Amount Available**	**Expiry Date**
Terasen Inc.	2 year, revolving	30	0	0	30	May-11
Terasen Gas Inc.	5 year, revolving	500	135	45	320	Aug-13
TGVI*	2 year, revolving	300	202	0	98	Apr-12
Total		**830**	**337**	**45**	**448**	

**Excludes $20 MM bilateral facility utilized solely for purposes of refinancing annual prepayments on non-interest bearing government contributions. Outstanding borrowings are included in Current Portion of LTD.*

Regulation

The Utilities are located in the province of British Columbia and are regulated by the BCUC. The ability of the Utilities to generate earnings and cash flow to sustain and grow their businesses is largely influenced by the regulatory regime in which they function. DBRS believes that the regulatory relationship in British Columbia has continued to be reasonable and equitable over the past several years providing for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame.

In December 2009, in response to a joint application made by the Utilities regarding reviews of ROEs and capital structures, the BCUC set the ROE for TGI at 9.50% (retroactive to July 1, 2009), an increase from the 8.43% that the automatic adjustment mechanism would have otherwise produced for 2010. TGI's common equity component in the capital structure was also increased, to 40.00% from 35.01%, effective January 1, 2010. In the decision, the BCUC stated that it took into consideration its jurisdiction, the fair return standard and TGI's business risk, credit ratings and metrics. The BCUC also determined that the automatic adjustment mechanism previously used to determine the ROE for TGI will no longer apply as it would not have provided TGI with an ROE for 2010 that would meet the fair return standard. The ROE level as determined in the decision will apply until further review by the BCUC, with the BCUC also directing TGI to complete its study of alternative mechanisms and report back by the end of 2010. TGVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%.

The BCUC decision is viewed as supportive of TGI's current ratings. However, while the decision is intended to result in an improvement in TGI's credit metrics, DBRS notes that a large portion of the positive benefits of the increased ROEs will effectively be negated with the PBR expiry. Unlike the PBR, the NSA under which TGI will operate for 2010 and 2011 does not include a provision for earning (and sharing) incentive earnings. Consequently, going forward, improvements in TGI's credit metrics will more likely be driven by the increased common equity component.

Terasen Inc.

Report Date:
December 23, 2010

Terasen Inc.

(Consolidated)

Balance Sheet *($ MM)*

Assets	As at Sept. 30/10	As at Dec. 31st 2009	2008	Liabilities & Equity	As at Sept. 30/10	As at Dec. 31st 2009	2008
Cash	28	42	33	ST Debt (incl. owed to parent)	981	855	824
Accounts Receivable	169	313	393	LT Debt Due in One Year	18	19	79
Inventories	182	159	212	Other	451	504	563
Prepaid & Other	203	109	80	**Current Liabilities**	1,449	1,378	1,465
Current Assets	582	623	717	Long-Term Debt	1,887	1,817	1,717
Net Fixed Assets	3,101	3,010	2,863	Capital Securities	0	125	125
Long-Term Investments	150	150	150	Other Long-Term liabilities	587	568	220
Goodwill	824	824	818	Preferred Shares	1,180	1,180	1,180
Deferred Charges	555	542	209	Common Equity	108	82	52
Total	5,212	5,149	4,758	**Total**	5,212	5,149	4,758

Ratio Analysis	**LTM Sept. 30/10**	**FYE Dec. 31st 2009**	**2008**	**2007**
Liquidity Ratios				
Current Ratio	0.4x	0.5x	0.5x	0.5x
Cash Flow/Total Debt	7.6%	7.6%	7.7%	6.2%
Cash Flow/Senior Debt	7.6%	7.6%	7.8%	6.2%
Senior Debt in Capital Structure	69.1%	66.0%	65.9%	64.9%
Dividend/Net Income	41.4%	70.2%	75.7%	0.0%
Cash Flow/CapEx	0.92	0.89	1.02	0.88
Coverage Ratios				
EBITDA/Interest Expense	2.7x	2.4x	2.3x	2.2x
EBIT/Interest Expense	2.0x	1.7x	1.7x	1.6x
Fixed-Charge Coverage	2.0x	1.7x	1.7x	1.6x
Total Debt/EBITDA	6.9x	6.9x	6.6x	6.5x
Profitability Ratios				
EBIT margin	19.4%	16.9%	15.3%	16.1%
EBIT margin, excl. cost of gas	43.5%	42.3%	44.6%	43.9%
Net margin	17.2%	15.0%	15.6%	10.6%
Return on common equity	9.5%	8.1%	10.2%	4.9%
Approved ROE (Terasen Gas Inc.)	9.50%	8.47%	8.37%	8.80%
Approved ROE (TGVI)	10.00%	9.17%	9.07%	9.50%

Terasen Inc.

Report Date:
December 23, 2010

Ratings

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2009	2008	2007	2006	2005
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	Discontinued	BBB	BBB	BBB	BBB	BBB

Related Research

- Terasen Gas Inc., Rating Report, July 22, 2010.
- Recent Regulatory Developments for Canadian Pipeline and Utility Companies, Industry Study, February 10, 2010

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report
Report Date:
September 19, 2011

Previous Report:
December 23, 2010

Insight beyond the rating.

FortisBC Holdings Inc.

Analysts

Yean (Kit) Kitnikone
+1 416 597 7325
kkitnikone@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

The Company

FortisBC Holdings Inc. (FHI or the Company, rated BBB (high)) is a holding company with primary investments in FortisBC Energy Inc. (FEI, rated A), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions

September 16, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

On September 16, 2011, DBRS confirmed the Medium-Term Note Debentures (MTNs) ratings of FortisBC Holdings Inc. (FHI or the Company) at BBB (high). The trend is Stable. The rating of FHI reflects the low business risk profile and stable cash flows of its regulated utility subsidiaries, stable credit metrics and the strong parental support of its parent, Fortis Inc. (FTS, rated A (low)). The rating also reflects the regulatory ring-fencing and structural subordination considerations at its subsidiaries as well as the long-term competitiveness of natural gas vis-à-vis alternative energy sources. FHI is the holding company of three natural gas distribution utilities, FortisBC Energy Inc. (FEI, rated “A”), FortisBC Gas (Vancouver Island) Inc. (FEVI) and FortisBC Gas (Whistler) Inc. (FEW), collectively referred to as the Utilities, as well as a 30% interest in Customer Works L.P. (a customer service provider), and 100% of FortisBC Alternative Energy Services (an alternative energy solutions provider).

The Utilities are expected to file an application in the Fall of 2011 to amalgamate the three companies under FHI. The amalgamation will require the British Columbia Utilities Commission’s (BCUC) approval and the Government of British Columbia’s consent to proceed. FEI’s current contribution to FHI’s overall earnings is approximately 75% and as such, it’s anticipated that the bulk of the amalgamated entity’s earnings will continue to be derived from FEI. At this time, DBRS anticipates that the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI provided that there are no material changes that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model. Furthermore, DBRS anticipates that the potential amalgamation will not impact FHI’s consolidated or nonconsolidated financial profile. (Continued on page 2.)

Rating Considerations

Strengths

(1) Investments comprised primarily of low-risk gas distribution utilities, providing stable earnings, cash flows and credit metrics
(2) Continued reasonable cash flow and credit metrics despite loss of performance-based rate (PBR) earnings
(3) Credit profile and support of strong parent

Challenges

(1) Strong regulatory ring-fencing protection at FEI and FEVI
(2) Structural subordination to debt at FEI and FEVI
(3) ROE levels and loss of PBR incentive
(4) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

Consolidated	*LTM Jun. 30th*	*For the year ended December 31st*			
	2011	**2010**	**2009**	**2008**	**2007**
EBIT (C$ million)	310.4	303.2	281.5	291.8	281.1
Adj. CFO (C$ million)	222.9	222.0	205.2	203.1	123.0
Adj. Debt/Capital	62.2%	61.1%	66.0%	65.9%	64.9%
Cash Flow/Adj.Debt	8.1%	8.6%	7.6%	7.8%	5.0%
EBIT/Interest Expense	1.9x	2.0x	1.7x	1.7x	1.3x
Return on Avg. Common Equity	7.2%	8.1%	8.0%	8.3%	2.9%

Rating Rationale (Continued from page 1.)

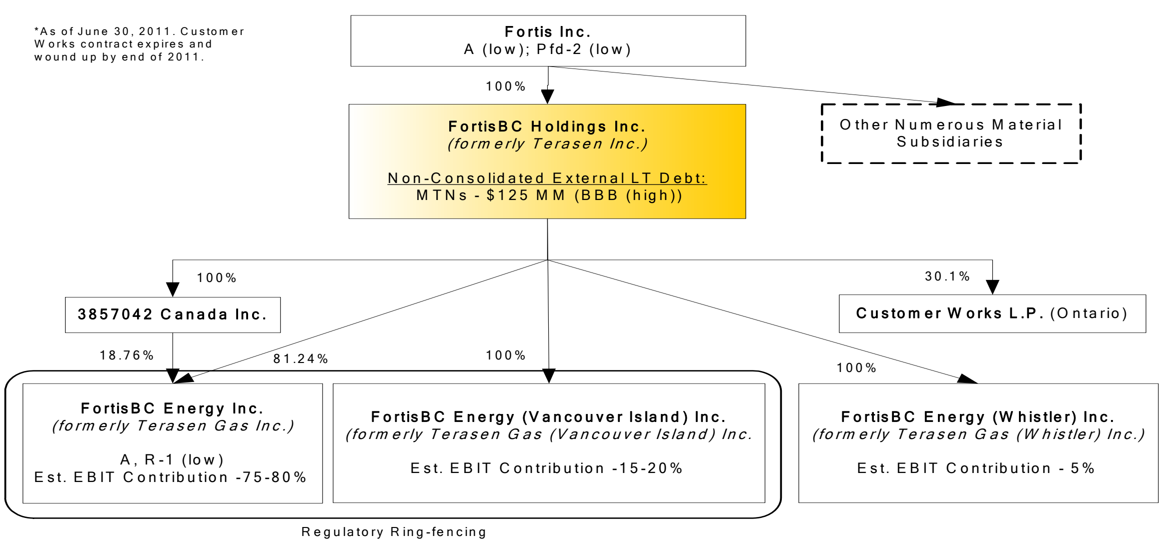
FEVI's $213 million Mt. Hayes liquefied natural gas (LNG) storage facility was completed on time, on budget and commenced commercial operations in June 2011. While the project is expected to increase FEVI's rate base, FEI is contracting for two-thirds of the storage capacity, providing incremental earnings and cash flows not sourced from FEVI's existing customer base. In early July 2011, the BCUC approved the option for the Chemainus and Cowichan First Nations to invest up to 15% of the equity component of the facility, that if exercised, will take place at the beginning of January 2012.

The regulatory environment in which FHI's regulated subsidiaries operate remains stable and continues to provide for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In May 2011, the Utilities filed their 2012-2013 Revenue Requirements and Delivery Rate Application (RRA) in which FEI forecasted customer rate increases of approximately 2.8% to 3.0% based on an average rate base of roughly $2,740 million to $2,790 million while FEVI requested 2012-2013 rates to remain unchanged on a rate base of approximately $790 million to $815 million. The decisions are anticipated in the first quarter of 2012.

Over the medium term, minimal-to-modest free cash flow deficits continue to be expected at FEI and FEVI, attributable to the replacement and refurbishment of existing infrastructure (which is anticipated to go into the rate base in a timely manner), and modest customer growth. On a consolidated basis, FHI's overall credit profile is anticipated to remain reasonably consistent and adequate for its current ratings. Modest improvements with FEI, and thus FHI's credit metrics may be attributed to the 2009 regulatory decision, however, key credit metrics at FHI are anticipated to remain generally lower than those of its peers primarily due to lower metrics from FEI. On a non-consolidated basis, FHI's metrics also support its ratings, with the expectation that dividend payments from FEI alone will continue to be more than sufficient to cover FHI's non-consolidated annual interest obligations.

FHI and the Utilities, in conjunction with their ultimate parent Fortis Inc. (FTS, rated A (low)), intend to transition to U.S. GAAP, as opposed to IFRS, in January 2012. The BCUC has approved FHI's request to adopt U.S. GAAP to be used for regulatory reporting purposes from January 1, 2012 to December 31, 2014 but has directed the Company to re-apply by September 1, 2014 for approval of its regulatory accounting standard effective January 1, 2015. DBRS anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis.

Simplified Organizational Chart*



Rating Considerations Details

Strengths

(1) FHI's portfolio consists of investments in low-risk, wholly-owned gas distribution subsidiaries, with FEI generating approximately 75% of FHI's earnings. Furthermore, the Utilities operate in a stable regulatory environment with limited exposure to commodity price risk and volume risk, which provide long-term earnings and cash flow stability.

(2) FHI's financial profile remains solid with modest improvements on both a consolidated and non-consolidated basis, reflecting credit metrics that are appropriate for its current rating category but remain weaker relative to its peers.

In late 2009, FEI executed a Negotiated Settlement Agreement (NSA) that concurrently established rates for 2010 and 2011 and excluded the PBR mechanism under which the Company had operated since 2004. The PBR had allowed FEI to share earnings above the authorized return on equity (ROE) with customers on a 50/50 basis which was beneficial to FEI as it had provided, on average, over $11 million per year in earnings in 2008 and 2009. While the loss of PBR income would have potentially negatively affected FEI's financial results, the BCUC's December 2009 cost of capital decision to increase FEI's allowed ROE to 9.50% from 8.47% and equity thickness to 40.00% from 35.01% largely offset any potentially adverse impact to FEI's credit profile. FEVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. As a result, FEI and FEVI continue to generate stable returns, reflecting the regulated nature of their operations in a stable regulatory regime.

(3) The financial strength and credit profile of FHI's parent, FTS, allows FHI to access short-term funding from FTS when required. This support was demonstrated in April 2010, when FTS provided FHI with intercompany financing that FHI utilized to redeem its $125 million of Capital Securities. FTS also provided FHI with intercompany funding that the Company utilized as an equity injection into FEI's capital structure to align it with the 40% deemed equity approved by the BCUC in December 2009. DBRS anticipates that the remaining $125 million MTN at FHI will also be refinanced via intercompany financing when the note matures in 2014.

Challenges

(1) The regulatory ring-fencing imposed by the BCUC as a condition of the acquisition of FHI by FTS in April 2007 (a continuation of the ring fencing imposed upon acquisition of the former Terasen Inc. by KMI in December 2005) is intended to ensure that public interest is protected and that FEI and FEVI will continue to operate as separate, stand-alone entities without undue parental influence.

The BCUC decision requires, among other constraints, that FEI and FEVI: 1) must maintain the common equity in the capital structure at least at the deemed equity level (presently 40%) approved by the BCUC; 2) must obtain approval from the BCUC before paying dividends to its parent if the payment can be reasonably expected to increase leverage above the approved level; 3) will not be allowed to lend to, guarantee or financially support any affiliates of FHI or its non-regulated businesses; 4) will not be allowed to enter into a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC; 5) must maintain the continued independence of directors.

(2) FHI's externally held debt is structurally subordinate to the debt at FEI and FEVI. Only $125 million MTNs remain at the FHI level and DBRS expects that it will be refinanced by way of an intercompany loan upon its maturity in September 2014.

(3) Although the BCUC terminated use of the automatic ROE adjustment formula in its December 2009 cost of capital decision while concurrently increasing FEI's approved ROE level to 9.50%, the ROE at FHI's largest earnings contributor had been below 9% for a number of years prior to the decision, consequently adversely impacting earnings and cash flows. Additionally, under the now-expired PBR mechanism, FEI had shared earnings above or below the allowed ROE on a 50/50 basis with customers and the loss of this mechanism appears to have largely offset the credit metric upside of FEI's ROE increase since the PBR incentive earnings averaged more than $11 million annually in 2008 and 2009. The Utilities' ROE levels as determined in the decision will remain applicable until further review by the BCUC.

(4) Over the long term, FEI and FEVI's earnings and financial profiles, and consequently FHI's earnings and financial profile, will rely chiefly on the competitive position of natural gas relative to alternative energy sources (predominantly electricity) in British Columbia. Historically, despite significant increases in natural gas prices throughout 2008, natural gas has maintained a competitive advantage over electricity in terms of pricing. Although gas prices have since retreated, it is anticipated that under reasonable gas price assumptions, natural gas in British Columbia will remain competitive relative to electricity given that, according to the British Columbia Hydro & Power Authority (BC Hydro, rated AA (high)), electricity prices are forecasted to continue to gradually rise in the medium term.

Regulation

Regulatory Overview

Located in the province of British Columbia (B.C. or the Province, rated AA (high)), the Utilities are regulated by the BCUC under a rate-setting methodology which allows for full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. The Utilities' ability to generate earnings and cash flow to sustain and grow their businesses is largely influenced by the regulatory regime in which they function and DBRS believes that the regulatory relationship in B.C. continues to be reasonable as evidenced by a number of BCUC-approved deferral accounts.

FEI, which contributes to the bulk of FHI's earnings, is currently operating under a Negotiated Settlement Agreement (NSA), and a 2009 BCUC decision that increased the ROE for FEI to 9.50% from 8.43% and the common equity component in the capital structure to 40.00% from 35.01%. The decision, which was in response to a joint application made by the Utilities regarding reviews of ROEs and capital structures, also determined that the automatic adjustment mechanism previously used to determine the ROE for FEI would no longer apply as it would not have provided FEI with an ROE for 2010 that would meet the fair return standard. As determined in the decision, FEVI and FEW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. FEI's ROE level as well as those of FEVI and FEW will apply until further review by the BCUC.

The BCUC decision improved FEI's credit metrics and is viewed by DBRS as generally supportive of FEI's current ratings. However, DBRS notes that a large portion of the positive benefits of the increased ROEs has been effectively negated with the PBR expiry. Unlike the PBR, the NSA under which FEI will operate for 2010 and 2011 does not include a provision for earning (and sharing) incentive earnings. Consequently, going forward, improvements in FEI's credit metrics will more likely be driven by the increased common equity component.

Consolidated Earnings Profile

Income Statement

	LTM Jun. 30th	*For the year ended December 31st*			
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Net Revenue	732.2	710.1	664.7	653.7	639.9
EBITDA	423.0	417.8	389.9	395.8	380.8
EBIT	310.4	303.2	281.5	291.8	281.1
Total Adj. Interest Expense	161.4	153.9	162.8	169.6	223.9
Pre-tax Income	151.6	154.4	121.9	124.3	58.6
Core Net Income (before extra.)*	119.3	118.0	99.7	101.7	28.2
Return on Common Equity	7.2%	8.1%	8.0%	8.3%	2.9%

**Before intercompany subordinated debt expense for a portion of 2007 and tax-adjusted*

FortisBC Holdings Inc.

Report Date:
September 19, 2011

Summary

Earnings from the regulated Utilities, which have historically generated stable EBIT levels, continue to comprise the bulk of FHI's consolidated earnings. As FHI's largest subsidiary, FEI's earnings account for roughly 75% of FHI's earnings and remain relatively stable, reflecting modest annual additions to its customer base and rate base. The modest improvements in the metrics since 2009 are primarily attributed to the increased allowed ROE and equity components, which have been largely offset by the loss of PBR incentive earnings. Given the stability of the underlying Utilities, FHI's consolidated EBITDA, EBIT and interest expense have all remained relatively stable.

Outlook

FHI's earnings are expected to remain reasonably stable over the medium term, with modest variability driven by population growth, new housing starts and customer conversions. DBRS anticipates minimal-to-modest free cash flow as the Utilities continue to experience lower customer growth due to fewer new housing starts and a shift in the housing mix that favors multi-family types of dwellings that do not typically utilize natural gas. This trend continues to be mitigated by the Utilities' focus on retaining customers through expanded energy conservation and efficiency programs.

While the loss of PBR income would have potentially negatively affected FEI's financial results, the BCUC largely countered the potential adverse impact of the PBR expiry by increasing FEI's allowed ROE and equity thickness, effective July 2009. Furthermore, although discontinuation of the adjustment formula without a clear replacement or alternate mechanism injects a level of uncertainty as to how ROE levels will be determined in the medium- to long-term, DBRS believes that the stable regulatory regime in which the Utilities operate will continue to be reasonable and allow the subsidiaries to earn a reasonable rate of return.

Over the long term, the Utilities' earnings will largely depend on the competitiveness of natural gas relative to electricity. Although natural gas maintains a competitive operating cost advantage in terms of pricing vis-à-vis electricity, this is offset by higher initial capital costs for equipment and installation. Additionally, FHI's competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on the Utilities' financial and credit profiles.

Consolidated Financial Profile

Cash Flow Statement

	LTM Jun. 30th	*For the year ended December 31st*			
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Core Net Income (before extra.)	119	118	100	102	28.2
Depreciation & Amortization	113	115	108	104	99.7
Non-cash Adjustments	(9)	(11)	(3)	(3)	(4.9)
Operating Cash Flow	223	222	205	203	123.0
CapEx	(218)	(217)	(227)	(199)	(174.6)
Common Dividends	(87)	(82)	(70)	(77)	0.0
Gross Free Cash Flow	(82)	(77)	(92)	(73)	(51.6)
Changes in W/C & Rate Stabil. Account	51	(34)	39	55	(9.5)
Net Free Cash Flow	(31)	(111)	(53)	(18)	(61.1)
Business Acquisitions, Net of Cash	0	0	0	0	0.0
Divestitures	0	0	0	14	(163.2)
Net investments/Other	2	(11)	(6)	(132)	84.0
Cash Flow Before Financing	(29)	(121)	(60)	(136)	(140.3)
Net External Debt Financing	(26)	(99)	44	(184)	11.6
Net Equity	0	0	0	0	0.0
Advances from Parent	53	221	25	335	135.3
Net Change in Cash	(1)	1	9	15	6.6

	LTM Jun. 30th 2011	For the year ended December 31st 2010	2009	2008	2007
EBITDA/Interest Expense	2.6x	2.7x	2.4x	2.3x	1.7x
EBIT/Interest Expense	1.9x	2.0x	1.7x	1.7x	1.3x
Cash Flow/Total Debt	8.1%	8.6%	7.6%	7.7%	5.0%
Adj. Debt/Capital	62.2%	61.1%	66.0%	65.9%	64.9%
Dividend/Net Income	72.9%	69.5%	70.2%	75.7%	0.0%
Total Debt/EBITDA	6.5x	6.2x	6.9x	6.6x	6.5x

Summary

The Company continues to experience cash flow deficits which can be primarily attributed to increased capital expenditures. However, FTS continues to provide access to short-term funding to FHI by way of intercompany loans, which FHI has utilized to redeem $125 million of Capital Securities, align FEI's capital structure to the 40% deemed equity approved by the BCUC, and support its Utilities. Overall, FHI's key credit metrics have demonstrated modest improvement as a result of the 2009 regulatory decisions to allow an increase in the Utilities' ROEs and capital structures.

Outlook

Despite the minimal-to-modest free cash flow deficits that are expected on a consolidated basis over the medium term, DBRS anticipates that FHI's financial profile will remain relatively predictable given that the underlying subsidiaries are expected to continue to generate reasonably stable levels of cash flow and manage their balance sheets within the regulatory-approved capital structure. Any deficits are expected to be financed with a combination of bank debt and long-term debt issuance. In the long term, under reasonable gas and electricity price assumptions, DBRS believes that the Utilities will remain competitive relative to alternative energy sources on an operating cost basis.

Non-Consolidated Financial Profile

FHI's non-consolidated profile is supported by the stable and predictable financial performances of its underlying Utilities. Moreover, other than intercompany loans from FTS, FHI has minimal external debt, with one outstanding MTN totaling $125 million. These obligations result in modest annual interest charges that are well covered by dividend income from FEI alone.

FTS continues to hold all of FHI's $1.2 billion preferred shares, which resulted from the acquisition. Since these preferred shares have no stated dividend or maturity, they are treated as equity by DBRS.

External Long-Term Debt and Liquidity

DBRS views FHI's liquidity as sufficient for its funding requirements. The Company's consolidated long-term debt is primarily comprised of the long-term debt of FEI and FEVI. The long-term obligations at FHI are limited to $125 million of MTNs due in 2014, and debt owed to its parent, FTS (approximately $717 million outstanding as of June 30, 2011, including the December 31, 2010, $200 million promissory note), which is unsecured and ranks pari passu with the external MTNs.

Liquidity (as at June 30, 2011)

Credit Facilities *(C$ million)*	Type	Amount Committed	Amount Drawn	LCs	Amount Available	Expiry Date
FortisBC Holdings Inc.	2 year, revolving	30	0	0	30	May 2012
FortisBC Energy Inc.	5 year, revolving	500	40	48.2	411.8	Aug 2013
FEVI*	2 year, revolving	300	47	0.1	252.9	Apr 2012
Total		**830**	**87**	**48.3**	**694.7**	

**Excludes $20 MM bilateral facility utilized solely for purposes of refinancing annual prepayments on non-interest bearing government contributions. Outstanding borrowings are included in Current Portion of LTD.*

FortisBC Holdings Inc.

Report Date:
September 19, 2011

FortisBC Holdings Inc.

(Consolidated)

Balance Sheet

(C$ million)	*As at Jun. 30th*	*As at the year ended Dec. 31st*				*As at Jun. 30th*	*As at the year ended Dec. 31st*		
Assets	**2011**	**2010**	**2009**	**2008**	**Liabilities & Equity**	**2011**	**2010**	**2009**	**2008**
Cash	30	43	42	33	ST Debt (incl. owed to parent)	604	454	855	824
Accounts Receivable	257	338	313	393	LT Debt Due in One Year	39	18	19	79
Inventories	89	148	159	212	Other	554	600	504	563
Prepaid & Other	117	159	109	80	**Current Liabilities**	1,196	1,072	1,378	1,465
Current Assets	493	688	623	717	Long-Term Debt	2,118	2,117	1,817	1,717
Net Fixed Assets	3,186	3,125	3,015	2,863	Capital Securities	0	0	125	125
Long-Term Investments	450	150	150	150	Other Long-Term liabilities	587	539	570	220
Goodwill	824	824	824	818	Preferred Shares	1,180	1,180	1,180	1,180
Deferred Charges	626	589	539	209	Common Equity	498	468	82	52
Total	5,578	5,375	5,151	4,758	**Total**	5,578	5,375	5,151	4,758

Ratio Analysis	*LTM Jun. 30th*	*For the year ended December 31st*			
	2011	**2010**	**2009**	**2008**	**2007**
Liquidity Ratios					
Current Ratio	0.4x	0.6x	0.5x	0.5x	0.5x
Cash Flow/Total Debt	8.1%	8.6%	7.6%	7.7%	5.0%
Cash Flow/Senior Debt	8.1%	8.6%	7.6%	7.8%	5.0%
Senior Debt in Capital Structure	62.2%	61.1%	66.0%	65.9%	64.9%
Dividend/Net Income	72.9%	69.5%	70.2%	75.7%	0.0%
Cash Flow/CapEx	1.02x	1.02x	0.90x	1.02x	0.70x
Coverage Ratios					
EBITDA/Interest Expense	2.6x	2.7x	2.4x	2.3x	1.7x
EBIT/Interest Expense	1.9x	2.0x	1.7x	1.7x	1.3x
Fixed-Charge Coverage	1.9x	2.0x	1.7x	1.7x	1.3x
Total Debt/EBITDA	6.5x	6.2x	6.9x	6.6x	6.5x
Profitability Ratios					
EBIT margin	19.5%	19.5%	16.9%	15.3%	16.1%
EBIT margin, excl. cost of gas	42.4%	42.7%	42.3%	44.6%	43.9%
Net margin	16.3%	16.6%	15.0%	15.6%	4.4%
Return on common equity	7.2%	8.1%	8.0%	8.3%	2.9%
Approved ROE (FortisBC Energy Inc.)	9.50%	9.50%	8.99%	8.62%	8.37%
Approved ROE (FEVI)	10.00%	9.17%	9.17%	9.07%	9.50%

FortisBC Holdings Inc.

Report Date:
September 19, 2011

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2010	2009	2008	2007	2006
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	Discontinued	BBB	BBB	BBB	BBB	BBB

Related Research

- FortisBC Energy Inc., Rating Report, September 19, 2011.

Notes:
All figures are in Canadian dollars unless otherwise noted.

Rating Report
Report Date:
February 29, 2012
Previous Report:
September 19, 2011

DBRS
Insight beyond the rating.

FortisBC Holdings Inc.

Analysts
Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

The Company
FortisBC Holdings Inc. (FHI or the Company, rated BBB (high)) is a holding company with primary investments in FortisBC Energy Inc. (FEI, rated "A"), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions
September 16, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Medium-Term Note Debentures (MTNs) ratings of FortisBC Holdings Inc. (FHI or the Company) at BBB (high). The trend is Stable. The rating of FHI is based on the following factors:

(1) Strong dividends from its regulated utilities, FortisBC Energy Inc. (FEI, rated "A"), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW): The focus for DBRS is largely on FEI and FEVI, which accounted for nearly 90% of dividends received by the Company (DBRS estimates). These utilities have strong business risk profiles, with most of their cash flow generated from regulated natural gas transmissions, distributions and storage operations, within a reasonable regulatory framework in British Columbia.

(2) Strong non-consolidated credit metrics for the current rating category: FHI's total external debt-to-capital ratio of 6.3% (34% including debt owed to Fortis Inc.) and cash flow-to-interest coverage of near 18.33 times (x) (over 3.20x including all interest expenses).

(3) Strong financial support from the parent: At the end of 2011, over 80% of FHI's total debt ($899 million) was owed to its parent, Fortis Inc., rated A (low). External debt has been reduced substantially to $127 million from $459 million in 2007 by a loan provided by Fortis Inc.

FHI's rating, which is two notches lower than FEI's, reflects the following: (a) debt at FHI is structurally subordinate to debt at FEI; (b) debt at FHI is also structurally subordinate to the debt at FEVI and FEW, which have weaker credit worthiness than FEI due to their significantly smaller operations and customer base; and (3) there are strong ring-fencing conditions imposed on FEI and FEVI by the regulator, with respect to dividend payout to FHI and their capital structures.

However, DBRS notes that FHI's current parent, Fortis Inc., has a stronger credit profile than its previous parent (Kinder Morgan Kansas Inc., rated BBB (low)). DBRS believes that a stronger parent and lower debt levels are positive factors for FHI's credit quality.

Rating Considerations

Strengths
(1) Strong dividend flows from subsidiaries
(2) Strong non-consolidated credit metrics
(3) Credit profile and support of strong parent

Challenges
(1) Structural subordination to debt at FEI and FEVI
(2) Strong ring-fencing on FEI and FEVI

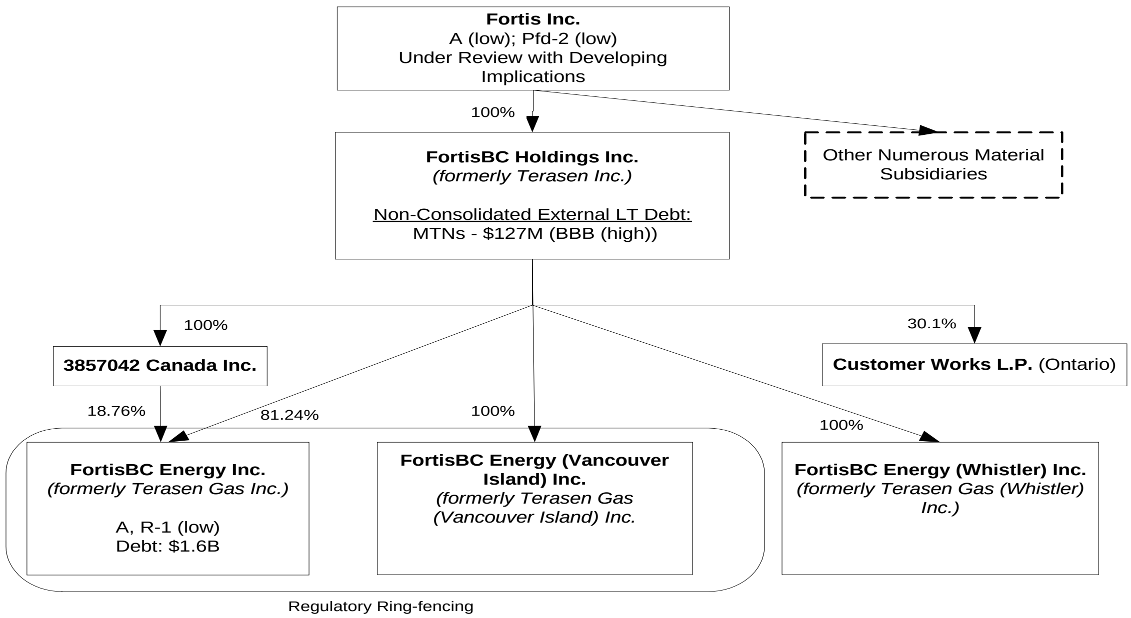
Financial Information

Non-consolidated FHI financials (*)

($ millions)	2011	2010	2009	2008	2007
External debt	127	128	254	255	459
Debt owed to Fortis Inc.	771	367	495	470	135
Cash flow before interest (CFBI)	130	120	98	123	132
External debt-to-capital	6.3%	6.0%	12.6%	13.0%	25.5%
Total debt-to-capital	34.8%	23.1%	37.3%	37.0%	33.0%
CFBI/External interest (x)	18.37	16.79	6.91	8.70	5.15
CFBI/Total interest (x)	3.23	2.80	2.01	2.60	3.13

(*) All the numbers are derived from consolidated numbers and/or estimated by DBRS.

Simplified Organizational Chart



Capital Structure*

Non-consolidated FHI Capital Structure ($ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
External debt	127	128	254	255	459
Promissory notes to Fortis Inc.	200	367	495	470	135
Demand loan owed to Fortis Inc.	571				
Preferred shares	1,180	1,180	1,180	1,180	1,180
Common equity	506	468	82	52	28
Total capital	2,585	2,142	2,011	1,957	1,802
External debt-to-total capital	6.3%	6.0%	12.6%	13.0%	25.5%
Total debt-to-total capital	34.8%	23.1%	37.3%	37.0%	33.0%

*All the numbers are derived from consolidated numbers.

- External debt declined substantially since Fortis Inc. acquired FHI in 2007.
- FHI does not have to pay dividends on preferred shares.
- $300 million of $571 million was a loan from Fortis Inc. to finance FHI's investment in preferred shares of another entity that was also owned by Fortis Inc.
- FHI's debt to capital remained very strong for the current rating category.

FortisBC Holdings Inc.

Report Date:
February 29, 2012

Cash Flow - Non-consolidated FHI

Dividend flow from subsidiaries	**2011**	**2010**	**2009**	**2008**	**2007**
($ millions)					
FEI	85	84	67	100	111
FEVI	22	25	20	16	20
FortisBC Energy (Whistler) Inc.	5	5	5	5	5
Dividends from FortisWest Inc.	23.1	10.1	10.1	6.7	
Total cash flow to FHI	135.1	124.1	102.1	127.7	136
Corporate expense at FHI	5	4.5	4.5	4.5	4.5
Cash flow before interest (CFBI)	130.1	119.6	97.6	123.2	131.5
Interest on external debt (on $127 million)	7.1	7.1	14.1	14.2	25.5
Interest on debt owed to Fortis Inc.	10.0	10.00	-	-	-
Interest on demand loan owed to Fortis Inc.	10.8	17.2	9.7	11.6	3.7
Interest from $300,000 borrowed in 2011	12.4				
Total interest	40.3	34.3	23.8	25.8	29.2
Cash flow available for dividends (CAFD)	89.8	85.3	73.8	97.4	102.3
Common share dividends	-90	-82	-70	-77	0
Preferred dividends	0	0	0	0	0
Net change in cash	-0.2	3.3	3.8	20.4	102.3
CAFD-to-interest (x)	3.23	3.48	4.10	4.78	4.50
CAFD-to-external interest (x)	18.37	16.79	6.91	8.70	5.15

(*) All the numbers are derived from consolidated numbers and/or estimated by DBRS.

Summary

- A substantial portion of cash flow was from FEI and FEVI, the two regulated gas distribution utilities, which generated stable earnings.
- Increased dividend income in 2011 reflected FHI's increased investment in preferred shares of a company that was owned by Fortis Inc.
- An increase in interest expense in 2011 was offset by an increase in dividend income.
- Cash flow-to-interest coverage remained very strong for the current rating category.

Liquidity

- At December 31, 2011, FHI had a $30 million unsecured credit facility, all available.
- This provides FHI with sufficient liquidity to finance its ongoing operational needs.

FortisBC Holdings Inc.

Report Date:
February 29, 2012

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2011	2010	2009	2008	2007
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	Discontinued	Discontinued	BBB	BBB	BBB	BBB

Related Research

- FortisBC Energy Inc., Rating Report, February 29, 2012.

Notes:
All figures are in Canadian dollars unless otherwise noted.

Rating Action: Terasen Inc.

MOODY'S REVIEWS KINDER MORGAN, INC. AND KINDER MORGAN ENERGY PARTNERS, L.P. FOR POSSIBLE DOWNGRADE

Over $15 Billion of Debt Placed Under Review

New York, May 30, 2006 -- Moody's Investors Service placed under review for possible downgrade the long- and short-term debt ratings of Kinder Morgan, Inc. (KMI, Baa2 senior unsecured) and Kinder Morgan Energy Partners, L.P. (KMP, Baa1 senior unsecured) and their supported obligations, including the Prime-2 commercial paper rating of Rockies Express Pipeline LLC and the Prime-1 commercial paper rating of Cortez Capital Corp. Moody's also placed under review for downgrade the ratings of KMI's new subsidiary Terasen Inc. (Baa2 senior unsecured), but affirmed with stable outlooks those of its subsidiaries Terasen Gas Inc. (A3 senior unsecured), Terasen Pipelines (Corridor) Inc. (A2 senior unsecured), and equity investments Express Pipeline Limited Partnership (Baa1 senior secured/Baa3 subordinated) and Express Pipeline LLC.

The review was prompted by KMI's announcement that its board of directors had received a proposal from a group of senior management and private equity investors of a leveraged buyout with an enterprise value estimated at $22 billion. The management group proposes to finance this transaction with $6.8 billion of new debt at KMI. The reviews of the debt of KMI and its affiliates reflect concerns of substantial debt being incurred in the transaction and the uncertainties surrounding its execution and financing. It is unknown how KMI may be restructured, what assets it will hold, and how it will ultimately be capitalized.

Considering the substantial amount of debt that KMI could incur, it is likely that KMI's debt ratings will fall into non-investment grade levels. Although KMP is not directly affected by KMI's leveraged buyout, it could be indirectly affected, though it is unlikely to fall below investment grade. The transaction would increase KMI's reliance on KMP to generate growing cash flows to help it serve the additional LBO-related debt. Furthermore, the management group proposes that KMI drop down its Trans Mountain Pipeline to KMP, subject to KMP's board approval. KMI and KMP have a common management, and we note that this transaction would mark a significant shift from its past financial policies for KMI.

Moody's notes that the proposal is not binding and that KMI's board could ultimately reject it. If the proposal is approved, it could be under terms different from what has been preliminarily proposed. The buyout group has yet to deliver a merger agreement to the board with its proposed terms. KMI's board has appointed a special committee of independent board members to evaluate such an agreement. The conclusion of Moody's rating review will depend on whether or not the board accepts this proposal and its final terms. The timing of the board's decision is uncertain, though its decision and, if it goes forward, the consummation of the transaction will likely occur by year end.

As currently proposed, the buyout of KMI's outstanding shares would cost $13.5 billion. Management members of the buyout group will roll over $2.8 billion of their KMI shares and private equity investors will invest $4.5 billion. The remainder of the buyout cost, including fees, will be financed with $6.8 billion of debt.

The commercial paper ratings of KMP's equity investments Rockies Express and Cortez are placed under review because of the potential for KMP's debt ratings being downgraded. KMP does not currently support Cortez's commercial paper obligations, but it could become obligated to do so after 12/31/06.

Terasen Inc.'s ratings are placed under review for downgrade in concert with KMI's, because KMI guarantees the acquisition debt raised to acquire Terasen Inc. Terasen Gas's ratings are affirmed because of the protections provided by the ring-fencing provisions in the British Columbia Utilities Commission's order approving the company's merger with KMI. Corridor and Express's ratings are on project finance obligations that are rated based on factors unaffected by Terasen's ownership.

On Review for Possible Downgrade:

..Issuer: Cortez Capital Corporation

....Commercial Paper, Placed on Review for Possible Downgrade, currently P-1

..Issuer: K N Capital Trust I

....Preferred Stock, Placed on Review for Possible Downgrade, currently Baa3

..Issuer: K N Capital Trust II

....Preferred Stock Shelf, Placed on Review for Possible Downgrade, currently (P)Baa3

..Issuer: K N Capital Trust III

....Preferred Stock, Placed on Review for Possible Downgrade, currently Baa3

..Issuer: Kinder Morgan Energy Partners, L.P.

....Senior Unsecured Bank Credit Facility, Placed on Review for Possible Downgrade, currently Baa1

....Senior Unsecured Commercial Paper, Placed on Review for Possible Downgrade, currently P-2

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Downgrade, currently Baa1

....Senior Unsecured Shelf, Placed on Review for Possible Downgrade, currently (P)Baa1

....Subordinated Shelf, Placed on Review for Possible Downgrade, currently (P)Baa2

..Issuer: Kinder Morgan Finance Company, ULC

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Downgrade, currently Baa2

..Issuer: Kinder Morgan, Inc.

....Junior Subordinated Regular Bond/Debenture, Placed on Review for Possible Downgrade, currently Baa3

....Senior Unsecured Bank Credit Facility, Placed on Review for Possible Downgrade, currently Baa2

....Senior Unsecured Commercial Paper, Placed on Review for Possible Downgrade, currently P-2

....Senior Unsecured Medium-Term Note Program, Placed on Review for Possible Downgrade, currently Baa2

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Downgrade, currently Baa2

....Senior Unsecured Shelf, Placed on Review for Possible Downgrade, currently (P)Baa2

....Subordinated Shelf, Placed on Review for Possible Downgrade, currently (P)Baa3

..Issuer: Rockies Express Pipeline LLC

....Senior Unsecured Commercial Paper, Placed on Review for Possible Downgrade, currently P-2

..Issuer: Terasen Inc.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Downgrade, currently Baa2

....Senior Unsecured Shelf, Placed on Review for Possible Downgrade, currently (P)Baa2

....Subordinated Regular Bond/Debenture, Placed on Review for Possible Downgrade, currently Baa3

....Subordinated Shelf, Placed on Review for Possible Downgrade, currently (P)Baa3

Outlook Actions:

..Issuer: Cortez Capital Corporation

....Outlook, Changed To Rating Under Review From Stable

..Issuer: K N Capital Trust I

....Outlook, Changed To Rating Under Review From Stable

..Issuer: K N Capital Trust II

....Outlook, Changed To Rating Under Review From Stable

..Issuer: K N Capital Trust III

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Kinder Morgan Energy Partners, L.P.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Kinder Morgan Finance Company, ULC

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Kinder Morgan, Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Rockies Express Pipeline LLC

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Terasen Inc.

....Outlook, Changed To Rating Under Review From Stable

Headquartered in Houston, Texas, Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. are midstream energy companies.

New York
John Diaz
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Mihoko Manabe
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Rating Action: Terasen Inc.

Moody's changes Terasen's review to review for possible upgrade

Approximately $450 million of debt securities affected

Toronto, March 08, 2007 -- Moody's Investors Service changed the review of Terasen Inc.'s ratings to under review for possible upgrade from under review for possible downgrade. Terasen Inc.'s (TER) senior unsecured rating is Baa2 and its subordinated unsecured rating is Baa3. Moody's also affirmed the ratings for TER's subsidiary, Terasen Gas Inc. (TGI), at A2 (senior secured) and A3 (senior unsecured). TGI's outlook is stable.

The change in the direction of TER's rating review follows the announcement that Fortis Inc. (FTS, not rated by Moody's) has agreed to acquire TER from Kinder Morgan, Inc (KMI) for approximately $3.7 billion including cash consideration of approximately $1.4 billion and assumed debt of approximately $2.3 billion. The acquisition has been structured in such a way that on the date of the acquisition, TER's only significant assets will be the gas distribution utilities (TGI, Terasen Gas Vancouver Island (TGVI) and Terasen Gas Whistler) and a 30% interest in CustomerWorks LP. Moody's expects to resolve the review of TER's ratings shortly after the closing of FTS' acquisition.

Since TER is not ring fenced from its parent, Moody's believes that TER's rating will tend to be equalized with that of its parent. Prior to the announcement of FTS's acquisition of TER, TER had been under review for possible downgrade due to the pending leveraged management buyout of KMI, TER's current owner. On November 14, 2006, Moody's assigned a (P)Ba2 to KMI's post-LBO debt and indicated that TER's rating would likely to fall to Ba2 as well due to the absence of ring fencing between TER from KMI. Although Moody's does not rate FTS, we believe that FTS' credit profile is stronger than KMI's post-LBO credit profile. Accordingly, Moody's believes that after the closing of the FTS' acquisition of TER, TER's rating is likely to remain Baa2 or increase to Baa1.

Moody's review will consider FTS' permanent financing strategy for the acquisition, the impact of the acquisition on FTS' financial profile and how FTS plans operate and finance TER after the acquisition. Moody's notes that FTS has committed financing in place to close the acquisition of TER and has pre-funded $1 billion of the approximately $1.4 billion cash consideration by way of an equity subscription receipt offering. Moody's notes that FTS has indicated that TER's gas distribution subsidiaries will be operationally and financially independent from FTS in the typical FTS model.

Terasen Inc. is a diversified energy holding company based in Vancouver, British Columbia.

New York
John Diaz
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Toronto
Allan McLean
Vice President - Senior Analyst
Corporate Finance Group
Moody's Canada Inc.
(416) 214-1635

Moody's Investors Service

Global Credit Research
Rating Action
30 JUL 2007

Rating Action: Terasen Inc.

Moody's confirms Terasen Inc's Baa2 rating, outlook is stable

Approximatley $450 million debt securities affected

Toronto, July 30, 2007 -- Moody's Investors Service has confirmed the Baa2 senior unsecured and Baa3 subordinate unsecured ratings of Terasen Inc. (TER). The outlook is stable. Moody's also affirmed the ratings of TER's subsidiary, Terasen Gas Inc. (TGI), at A2 (senior secured) and A3 (senior unsecured). TGI's outlook is stable. This concludes the review of TER's ratings for possible upgrade initiated March 8, 2007.

Moody's review was prompted by the announcement that Fortis Inc. (FTS, not rated by Moody's) planned to acquire TER and its gas LDC subsidiaries while TER's liquids pipelines would be sold to affiliates of TER's former owner, Kinder Morgan, Inc. (KMI). FTS acquisition of TER closed May 18, 2007 for approximately $3.7 billion including cash consideration of approximately $1.24 billion and assumed debt of approximately $2.46 billion. The acquisition was structured in such a way that on the date of the acquisition, TER's primary assets were the gas distribution utilities (TGI, Terasen Gas Vancouver Island Inc. and Terasen Gas Whistler Inc.) and a 30% interest in CustomerWorks, LP. FTS funded the cash component of the transaction with the proceeds of $1.15 billion of FTS installment receipts and drawings on FTS' committed bank credit facilities. The installment receipts automatically converted to FTS common shares on closing of the acquisition.

Moody's anticipates that under FTS' ownership, TER and its gas LDC subsidiaries will be financially and operationally independent from FTS and its utility and other operating subsidiaries. This approach would be consistent with FTS' approach to its other Moody's-rated utility subsidiaries, FortisAlberta Inc., FortisBC Inc. and Newfoundland Power Inc.

Since TER is not ring-fenced from FTS, Moody's believes that TER's rating will tend to be equalized with that of its parent. Prior to the announcement of FTS's acquisition of TER, TER had been under review for possible downgrade due to the then pending leveraged management buyout of KMI, TER's former owner. On November 14, 2006, Moody's assigned a (P)Ba2 to KMI's post-LBO debt and indicated that TER's rating would likely to fall to Ba2 as well due to the absence of ring-fencing between TER and KMI. Now that TER is a subsidiary of FTS, Moody's believes that TER's rating should reflect its ownership by FTS.

Although Moody's does not rate FTS, we have analyzed publicly available information as well as information provided by management of both FTS and TER and considered that information in the context of Moody's Diversified Gas rating methodology as well as Moody's existing ratings of a number of FTS' utility subsidiaries. In conducting our analysis, Moody's took the view that the historic results of FTS and TER are largely irrelevant because both companies have been dramatically transformed by the recent transactions. Consequently their future business and financial risk profiles and their future financial performance are expected to be substantially different from those of the past. Accordingly, Moody's analysis emphasized the companies' future performance as forecast by management. Based on our analysis, Moody's believes that TER's future business and financial risk profiles, in the context of the close credit linkage between TER and FTS, is most consistent with ratings of Baa2 senior unsecured and Baa3 subordinated unsecured at the TER level.

Moody's notes that both TGI and TER (on a consolidated basis) currently have weak liquidity positions. This reflects both the relatively heavy debt maturity schedule at TGI over the next twelve months and the decision to significantly reduce the size of TER's credit facilities from the $450 million that existed prior to FTS' acquisition of TER. This decision to downsize TER's credit facilities reflects i) the expectation that TER will have a significantly reduced scope of activities going forward and ii) FTS' plan to provide liquidity to TER from its own committed credit facilities if required. Provided that TGI is successful refinancing its two October, 2007 debt maturities totaling $250 million and that TER maintains a reasonable level of committed credit facilities in the order of the existing $100 million facility, the companies should then have sufficient liquidity to meet their operating and capital needs. If TGI is unable to refinance either of its October, 2007 debt maturities, TGI and TER could experience either a negative outlook or a rating downgrade.

Terasen Inc. is predominantly a regulated gas distribution utility holding company based in Vancouver, British Columbia. Terasen Inc. is wholly owned subsidiary of Fortis Inc., a diversified energy holding company based in St. John's, Newfoundland.

New York
John Diaz

Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Toronto
Allan McLean
Vice President - Senior Analyst
Corporate Finance Group
Moody's Canada Inc.
(416) 214-1635

Credit Opinion: Terasen Inc.

Terasen Inc.

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	**Phone**
Allan McLean/Toronto	416.214.3852
John Diaz/New York	212.553.1977

Key Indicators

Terasen Inc.

	[1]**LTM**	**2006**	**2005**	**2004**
Total Assets (C$ millions)	**$ 7,049.0**	**$ 5,528.3**	**$ 5,486.5**	**$ 5,158.7**
NPATBUI (C$ millions) [2]	**$ 145.2**	**$ 145.1**	**$ 103.9**	**$ 145.3**
EBIT/Interest	**2.1x**	**2.1x**	**1.8x**	**2.1x**
Debt/Book Capitalization (Excluding Goodwill)	**109.8%**	**67.2%**	**70.5%**	**71.1%**
RCF/Debt	**5.2%**	**9.1%**	**5.4%**	**7.8%**
ROE (NPATBUI)/Avg. Equity [2]	**15.4%**	**9.9%**	**7.6%**	**11.0%**

[1] To March 31, 2007 [2] Net Profit After-Taxes Before Unusual Items

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Terasen Inc. (TER, Baa2 senior unsecured, stable) is a holding company for regulated gas distribution utilities. TER's primary assets are its 100% equity interests in Terasen Gas Inc. (TGI), Terasen Gas Vancouver Island Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW) and its 30% interest in CustomerWorks, LP. The company's principal asset is TGI (A3 senior unsecured) the third largest gas distribution utility in Canada. TGI represents approximately 83% of TER's regulated rate base assets on a consolidated basis. TER's next largest subsidiary, TGVI, represents most of the balance of consolidated regulated rate base. CustomerWorks is an unregulated affiliate jointly owned with Enbridge Inc. CustomerWorks provides shared customer care services to TGI, TGVI and TGW as well as Enbridge's gas LDC subsidiary, Enbridge Gas Distribution.

The majority of TER's debt is issued by its subsidiaries TGI and TGVI. However, TER also has $450 million debt at the holding company level including $325 million MTNs maturing between 2008 and 2014 and $125 million Capital Securities due in 2040 but callable in 2010.

Prior to TER's acquisition by Fortis Inc. (FTS, not rated) in May, 2007, TER was 100% indirectly owned by Knight Inc. (formerly Kinder Morgan, Inc. (KMI)) and prior to KMI's acquisition of TER in November, 2005, TER had been a publicly traded company.

Recent Events

TER was acquired by FTS on May 17, 2007 for total consideration of $3.7 billion. Cash consideration paid by FTS was $1.24 billion and assumed debt was $2.46 billion. The cash consideration was substantially pre-funded with an offering of subscription receipts which automatically converted to common equity upon closing of the acquisition. The total gross proceeds of the subscription receipt offering were $1.15 billion including the greenshoe. The balance of the cash consideration was funded from FTS' committed credit facilities, $250 million of which matures in May, 2010 and $50 million of which matures in January, 2011.

The acquisition was structured in such a way that prior to its acquisition by FTS, TER disposed of its liquids pipeline interests. Trans Mountain Pipelines (Trans Mountain) was sold to Kinder Morgan Energy Partners, L.P., Express Pipeline (Express) was sold to KMI and Inter Pipeline Fund (Corridor) Inc. (formerly Terasen Pipelines (Corridor) Inc.) was sold to Inter Pipeline Fund. Accordingly, from the date of FTS' acquisition of TER, TER's main assets are the gas distribution utilities TGI, TGVI and TGW.

Moody's anticipates that under FTS' ownership, TER and its gas LDC subsidiaries will be financially and operationally independent from FTS and its other subsidiaries. This approach would be consistent with FTS' approach to its other Moody's rated utility subsidiaries, FortisAlberta, FortisBC and Newfoundland Power.

Rating Rationale

As a condition to its approval of KMI's acquisition of TER in 2005, the British Columbia Utilities Commission (BCUC) imposed a set of regulatory ring-fencing conditions on TER's regulated utilities (refer Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). Those regulatory ring-fencing conditions continue to exist and they allow Moody's to evaluate the credit profile of TGI substantially on a stand alone basis.

Since TER is ring-fenced from its subsidiary, TGI, but is not ring-fenced from its parent, FTS, Moody's believes that TER's rating will tend to be equalized with that of its FTS. Prior to the announcement of FTS's acquisition of TER, TER had been under review for possible downgrade due to the then-pending leveraged management buyout of KMI, TER's former owner. On November 14, 2006, Moody's assigned a (P)Ba2 to KMI's post-LBO debt and indicated that TER's rating would likely to fall to Ba2 as well due to the absence of ring-fencing between TER and KMI. Now that TER is a subsidiary of FTS, Moody's believes that TER's rating should reflect its ownership by FTS.

Although Moody's does not rate FTS, we have analyzed publicly available information as well as information provided by management of both FTS and TER and considered that information in the context of Moody's Diversified Gas rating methodology as well as Moody's existing ratings of a number of FTS' utility subsidiaries. In conducting our analysis, Moody's took the view that the historic results of FTS and TER are largely irrelevant because both companies have been dramatically transformed by the recent transactions. Consequently their future business and financial risk profiles and their future financial performance are expected to be substantially different from those of the past. Accordingly, Moody's analysis emphasized the companies' future performance as forecast by management. Based on our analysis, Moody's believes that TER's future business and financial risk profiles in the context of the close credit linkage between TER and FTS is most consistent with ratings of Baa2 senior unsecured and Baa3 subordinated unsecured at the TER level.

Moody's expects that TER's holding company debt will decline over time as it matures or is called and refinanced at the FTS level. Accordingly, TER's stand alone credit profile should improve as the dividends received by TER from the gas distribution subsidiaries will provide increasingly more robust coverage of TER's decreasing holding company debt. However, given the absence of ring-fencing between TER and its parent, we expect that the financial and business risk profile of the parent will be an effective cap on TER's rating.

Liquidity

Moody's notes that both TGI and TER (on a consolidated basis) currently have weak liquidity positions. This reflects both the relatively heavy debt maturity schedule at TGI over the next twelve months and the decision to reduce the significantly size of TER credit facilities from the $450 million that existed prior to FTS' acquisition of TER. This decision to downsize TER's credit facilities reflects i) the expectation that TER will have a significantly reduced scope of activities going forward and ii) FTS' plan to provide liquidity to TER from its own committed credit facilities if required. Provided that TGI is successful refinancing its two October, 2007 debt maturities totaling $250 million and that TER maintains a reasonable level of committed credit facilities in the order of the existing $100 million facilities, the companies should then have sufficient liquidity to meet their operating and capital needs.

Rating Outlook

The Stable outlook reflects Moody's expectation that TER will remain a holding company for regulated gas distribution utilities and that TER's holding company debt will be fully retired in the medium term. The stable outlook also reflects the expectation that TGI will be successful in refinancing its two October, 2007 debt maturities totaling $250 million.

What Could Change the Rating - Up

Given the tight credit linkage between TER and its parent, FTS, an upgrade of TER would likely be driven by material reduction in FTS financial risk profile. We view FTS business risk profile to be relatively low given the vast majority of its investments are in regulated gas and electric utilities with a significant degree of geographic and regulatory diversity.

What Could Change the Rating - Down

If TGI is unable to refinance either of its October, 2007 debt maturities or if TER fails to maintain committed credit facilities in the order of $100 million, TGI and TER could experience either a negative outlook or a rating downgrade.

Credit Opinion: Terasen Inc.

Terasen Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Key Indicators

Terasen Inc.

	[1]LTM	2007	2006	2005	2004	2003
Total Assets (C$ billions)	**$4.5**	**$4.5**	**$7.4**	**$5.5**	**$5.2**	**$5.1**
NPATBUI (C$ millions) [2]	**$51.3**	**$26.3**	**-$3.9**	**$103.9**	**$145.3**	**$129.7**
EBIT/Interest (x)	**1.5x**	**1.2x**	**1.0x**	**1.8x**	**2.1x**	**2.0x**
Debt/Book Capitalization (Ex. Goodwill) (%)	**87.2%**	**87.4%**	**112.8%**	**70.5%**	**71.1%**	**72.4%**
RCF/Debt (%)	**3.8%**	**4.7%**	**2.0%**	**5.4%**	**7.8%**	**8.2%**
ROE (NPATBUI)/Avg. Equity (%)	**6.2%**	**2.7%**	**-0.4%**	**7.6%**	**11.0%**	**10.4%**

[1] Last twelve months to March 31, 2008. [2] Net Profit After Taxes Before Unusual Items

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

Terasen Inc. (TER, Baa2 senior unsecured, stable) is a holding company for regulated gas distribution utilities (local distribution companies or LDCs). The gas LDC segment represents the bulk of TER's assets and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): Terasen Gas Inc. (TGI, A3 senior unsecured, stable), Terasen Gas Vancouver Island Inc. (TGVI, A3 senior unsecured, stable) and Terasen Gas Whistler Inc. (TGW). TER's other operations, which at December 31, 2007 constituted less than 2% of total revenue and assets , are principally comprised of a 30% interest in CustomerWorks LP (which provides shared customer care services to TGI, TGVI and TGW) and corporate overheads. TGI is the third largest gas distribution utility in Canada and represented approximately 83% of TER's property, plant and equipment on a consolidated basis at March 31, 2008.

TER is 100% owned by Fortis Inc. (FTS, not rated). Prior to TER's acquisition by FTS in May 2007, TER was 100% indirectly owned by Knight Inc. (formerly Kinder Morgan, Inc. (KMI)). Prior to KMI's acquisition of TER in November 2005, TER had been a publicly traded company. FTS' acquisition of TER was structured in such a way that on closing, TER became a gas LDC holding company and all of the liquids pipeline interests that TER had previously owned remained with KMI and related entities.

Moody's expects that TER's gas LDC subsidiaries will continue to be financially and operationally independent from FTS and its other subsidiaries. This approach would be consistent with FTS' approach to its other Moody's-rated utility subsidiaries (FortisAlberta, FortisBC and Newfoundland Power) as well as with the regulatory ring-fencing provisions promulgated by the BCUC to isolate the gas LDCs from TER and its ultimate owner (refer Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions).

The majority of the debt on TER's consolidated financial statements is issued by its subsidiaries, TGI and TGVI. However, TER also has approximately $460 million debt at the holding company level including roughly $335 million MTNs maturing between 2008 and 2014 as well as $125 million Capital Securities due in 2040 but callable in 2010. Moody's anticipates that TER's third party holding company debt will ultimately be refinanced with some form of inter-corporate investment by FTS.

Recent Developments

In May 2008, TGI issued $250 million 30-year MTN debentures, the proceeds of which were used primarily to fund the company's $188 million June 2, 2008 debt maturity and reduce short-term balances.

On April 1, 2008, TGVI received final approval from the BCUC to construct and operate the 1.5 billion cubic foot Mt. Hayes LNG (Liquified Natural Gas) Facility on Vancouver Island. TGVI has entered into an engineering, procurement and construction contract for the Mt. Hayes LNG facility. The construction of this facility is expected to cost approximately $200 million excluding interest during construction and be in-service by late 2011.

In February 2008, TGVI closed a $250 million private placement of debt, the proceeds of which were utilized to reduce the outstanding balance under TGVI's committed bank credit facilities.

Rating Rationale

Due to the existence of regulatory ring-fencing between TER and its gas LDC subsidiaries, Moody's evaluates the credit profiles of TGI and TGVI substantially on a stand alone basis, independent of TER's credit profile. Since TER is ring-fenced from its gas LDC subsidiaries but is not ring-fenced from its ultimate parent, FTS, Moody's believes that TER's rating should tend to be equalized with that of FTS.

Although Moody's does not rate FTS, we have analyzed publicly available information as well as information provided by management of both FTS and TER and considered that information in the context of Moody's Diversified Gas and Regulated Electric Utility rating methodologies. In addition, we have considered the credit profiles of FTS and TER in the context of Moody's existing ratings of a number of FTS' utility subsidiaries (FortisBC, FortisAlberta, Newfoundland Power, TGI and TGVI). In conducting our analysis, Moody's takes the view that the results of FTS and TER prior to the May 2007 acquisition are largely irrelevant because both companies were dramatically transformed in the process. Consequently, their current business and financial risk profiles are substantially different than those prior to FTS' acquisition of TER. Accordingly, Moody's analysis focuses on the post-acquisition period. Reflecting Moody's view of the close credit linkage between TER and FTS, we believe that TER's credit profile is most consistent with ratings of Baa2 senior unsecured and Baa3 subordinated unsecured.

Moody's expects that TER's third party holding company debt will decline over time as it matures or is called and refinanced at the FTS level. Accordingly, TER's stand alone credit profile should improve as the dividends received by TER from the gas LDC subsidiaries will provide increasingly more robust coverage of TER's decreasing third party holding company debt. However, given the absence of ring-fencing between TER and its parent, we expect that the financial and business risk profile of the parent will be an effective cap on TER's credit profile.

Liquidity Profile

In evaluating a company's liquidity, Moody's typically assumes that the company loses access to new capital, other than debt available under a company's committed credit facilities, for a period of 12 months. In this context, we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

On a consolidated basis, Moody's expects TER to generate funds from operations of approximately $210 million per year on average in 2008 and 2009. After dividend payments in the order of $80 million annually and capital expenditures of about $210 million per year, TER is expected to be free cash flow negative by approximately $80 million in each of 2008 and 2009. Given scheduled debt maturities of roughly $400 million in 2008 and $60 million in 2009, TER's funding requirements in 2008 are estimated to be about $480 million while those in 2009 are estimated to be roughly $140 million.

To the end of June 2008, Terasen had completed $500 million capital markets financings comprised of $250 million of thirty-year debt issued by each of TGI and TGVI. In the case of TGI, the proceeds were utilized primarily to refinance the $188 million June 2, 2008 scheduled debt maturity and reduce short-term debt balances. TGVI utilized the proceeds of its debt issuance to reduce the outstanding balance on its revolving term bank facility.

TER maintains a $100 million committed credit facility at the holding company level which is scheduled to mature in May 2009. In Moody's view, the fact that TER's credit facility matures within the 12 month horizon of our liquidity stress scenario is a minor credit weakness. However, this is somewhat mitigated by TER's status as a holding company with minimal operations of it own and the expectation that TER's third party holding company debt will be retired in due course with some form of inter-corporate financing from FTS. TER maintains the holding company credit facility primarily as an additional liquidity buffer for the operating subsidiaries. Moody's anticipates that TER will replace or amend the existing facility with a similarly sized multi-year facility prior the scheduled maturity of the existing facility. As of June 30, 2008, the TER credit facility was fully available.

TGI maintains a $500 million syndicated committed revolving facility which matures August 2012. The TGI facility is available to support its $500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the available portion of the facility in situations of financial stress. TGI typically experiences heavy seasonal utilization of its credit facility as it builds gas inventories in advance of the winter heating season. Accordingly, TGI had $252 million of CP outstanding at March 31, 2008. Moody's recognizes that the heavy utilization of short-term debt on a seasonal basis is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's high levels of short-term debt relative to the size of its credit facility can limit the company's financial flexibility, as was the case prior to the May 2008 MTN offering due to relatively high scheduled debt maturities. At March 31, 2008, approximately $204 million was available under the $500 million committed facility reflecting $252 million of CP outstanding, and approximately $44 million letters of credit (LCs) outstanding.

TGVI maintains a $350 million syndicated committed revolving credit agreement which matures on January 13, 2011. The credit agreement contains two maintenance covenants (debt to equity not greater than 70% and EBIT to interest expense not less than 2:1). As at March 31, 2008, TGVI's leverage and coverage were 63.9% and 4.12x, respectively, leaving significant headroom under the covenants. TGVI's credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the available portion of the facility in situations of financial stress. As of March 31, 2008, approximately $257 million was available under the TGVI's credit facility reflecting the application of the $250 million proceeds of the February debenture proceeds to the reduction of amounts outstanding under bank facility.

In aggregate, TER has $950 million in committed credit facilities with $561 million available as at March 31, 2008. Moody's expects that the credit available to TER will be sufficient assuming that the December 1, 2008 maturity of $200 million TER's third party debt is retired with some form of inter-corporate financing from FTS.

Rating Outlook

The Stable Outlook reflects Moody's expectation that TER will remain a holding company for regulated gas LDCs and that TER's assets and operations outside of the gas LDC sector will continue to represent a nominal portion of its overall operations. The Stable Outlook also reflects our expectation that TER's third party holding company debt will be fully retired in the medium term.

What Could Change the Rating - Up

Given the tight credit linkage between TER and its parent, FTS, an upgrade of TER would likely be driven by material reduction in FTS' financial risk profile. We view FTS business risk profile to be relatively low given the vast majority of its investments are in regulated gas and electric utilities with a significant degree of geographic and regulatory diversity.

What Could Change the Rating - Down

TER's rating could be downgraded if its holding company debt is not retired as it matures or becomes callable with some form of inter-corporate financing from FTS. TER's rating could also come under downward pressure if Moody's perceives a material deterioration in the credit profile of TER's ultimate parent, FTS.

Moody's Investors Service

Credit Opinion: Terasen Inc.

Global Credit Research - 29 Oct 2009

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Terasen Gas (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Key Indicators

[1][2]Terasen Inc.

	[3]LTM	2008	2007	2006	2005	2004
(CFO Pre-W/C + Interest) / Interest Expense	2.2x	2.2x	1.5x	1.4x	2.3x	2.8x
(CFO Pre-W/C) / Debt	7.6%	6.9%	4.5%	2.0%	8.2%	10.5%
(CFO Pre-W/C - Dividends) / Debt	5.1%	4.3%	4.5%	2.0%	5.3%	7.8%
Free Cash Flow / Debt	65.5%	71.0%	69.5%	85.7%	69.4%	69.1%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments [2] Key Indicators for 2007 and prior periods are not necessarily comparable due to transformational transactions in 2005 and 2007 [3] Last twelve months ended June 30, 2009

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Holding company with two A3 rated gas LDCs as principal subsidiaries

Regulatory ring-fencing of subsidiaries increases the risk of structural subordination

Relatively low and declining levels of third party holding company debt

Sufficient consolidated liquidity

Weak holdco liquidity offset by supportive parent company which has funded third party debt maturities

Corporate Profile

Terasen Inc. (TER) is a holding company for regulated gas distribution utilities (local distribution companies or LDCs). The gas LDC segment represents the bulk of TER's assets and is comprised of three utilities regulated by the British Columbia Utilities Commission

(BCUC): Terasen Gas Inc. (TGI, A3 senior unsecured, stable), Terasen Gas (Vancouver Island) Inc. (TGVI, A3 senior unsecured, stable) and Terasen Gas (Whistler) Inc. (TGW, not rated). TER's other operations, which at December 31, 2008 constituted less than 5% of total revenue and assets , are principally comprised of a 30% interest in CustomerWorks LP (which provides shared customer care services to TGI, TGVI and TGW) and Terasen Energy Services Inc, a 100% owned subsidiary that builds, owns and operates alternative energy systems. TGI is the third largest gas distribution utility in Canada and represented approximately 81% of TER's property, plant and equipment on a consolidated basis at June 30, 2009. TER is 100% owned by Fortis Inc. (FTS, not rated).

Recent Events

In December 2008, TER repaid $200 million of maturing bonds with the proceeds of an intra-group loan provided by its parent, FTS. Third party debt at TER stood at approximately $250 million at June 30, 2009. Moody's anticipates that remaining holding company debt will be refinanced in due course with some form of intra-group investment by FTS.

On May 1, 2009 TER replaced its maturing $100 million syndicated revolving credit facility with a $30 million two-year bilateral revolving credit facility. The reduction in the size of this facility reduces the liquidity buffer available to TER in the event that there are issues in the timing or amount of dividends available from its subsidiaries. However, this is somewhat mitigated by TER's status as a holding company with minimal operations of its own and the recent reduction in third party holdco debt.

On May 15, 2009, TGI, TGVI and TGW jointly filed a cost of capital application with the BCUC. TGI is seeking an 11% benchmark ROE on a 40% deemed equity thickness, a meaningful increase from the 8.47% ROE on a 35.01% equity base currently utilized for rate-making purposes. TGVI and TGW requested that TGI's ROE continue to serve as a benchmark in setting their allowed ROEs. Moody's acknowledges that in the context of the National Energy Board's precedent setting March 19, 2009 decision in the Trans Québec and Maritimes Pipelines' rate cases, there is some reason to believe that the cost of capital application could result in changes which would be positive for the financial profiles of the utility subsidiaries as well as TER. Moody's will continue to follow the progress of this application closely to determine the impact on TER's financial profile.

SUMMARY RATING RATIONALE

TER's rating reflects the low business risk of its regulated gas distribution subsidiaries, which generate stable cash flows and operate in a supportive regulatory environment. TER's published Baa2 senior unsecured rating is lower than the A3 rating indicated by Moody's Regulated Electric and Gas Utilities Methodology as a result of notching to reflect the structural subordination of TER's debt to that of its subsidiaries combined with existence of regulatory ring-fencing separating TER from its principal subsidiaries. Financial metrics are weak for the rating, largely as a function of the relatively low deemed equity and allowed ROE generated by the BCUC's automatic ROE adjustment formula for TER's regulated subsidiaries. TER's financial risk profile changed significantly as a result of its acquisition by FTS in May 2007 and the concurrent disposition of TER's former liquids pipeline businesses. Consequently, Moody's analysis focuses on the post-acquisition period.

DETAILED RATING CONSIDERATIONS

HOLDING COMPANY FOR GAS DISTRIBUTION UTILITIES OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, Moody's considers gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, Moody's considers regulated gas LDCs like TGI and TGVI to be among the lowest risk corporate entities.

TGI, TGVI and TGW all operate in British Columbia (BC), which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate. Moody's considers Canada to have more supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in BC is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced.

Gas has historically enjoyed an operating cost advantage over electricity in BC, but this has eroded significantly in recent years. The competitiveness of natural gas in BC could be further challenged in the medium term by the Province's ambitious greenhouse gas reduction targets. In 2007, the Provincial Government passed legislation setting target levels for greenhouse gas emissions in 2020 at 33% below the level of those emissions in 2007. These targets will be achieved in part through imposition of a carbon tax, which will have an impact on the competitive advantage of gas since the majority of electricity in BC is generated from hydro resources. Moody's expects changes in demand for gas in BC to be gradual, but will monitor trends closely.

STRONG REGULATORY RING-FENCING SEPARATES TER FROM ITS GAS LDC SUBSIDIARIES

As part of its approval of the acquisition of TER by FTS in 2007, the BCUC confirmed the continued operation of a number of conditions, originally imposed by the BCUC in 2005, intended to ring-fence TGI and TGVI from TER. The ring-fencing provisions require that TGI and TGVI (i) maintain equity/capital at least has high as the equity capitalization deemed by the BCUC for ratemaking purposes (currently 35.01% for TGI and 40% for TGVI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses. TER has confirmed that in 2007 and 2008 none of these restrictions constrained the distribution of subsidiary earnings not otherwise needed for investment. The risks associated with the ring-fencing provisions are offset in part by relatively low and reducing levels of holding company debt. Third-party interest expense at holding company level is covered approximately 5x by dividends from operating subsidiaries. TER also benefits from the demonstrated support of its parent, FTS, which provided an intra-group loan to refinance maturing debt at TER in December 2008. Moody's does not rate FTS but has considered its business and risk profile using publicly available information as part of this analysis. Overall, Moody's believes that existence of the ring-fencing results in meaningfully higher financial risk at TER than would otherwise be the case and this is reflected in the two notch differential between TER's Baa2 rating and the A3 ratings assigned to TGI and TGVI.

Liquidity Profile

Moody's expects that the credit available to TER will be sufficient to meet its near term funding requirements. In evaluating a company's liquidity, Moody's typically assumes that the company loses access to new capital, other than funds available under a company's committed credit facilities, for a period of 12 months. In this context, we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

On a consolidated basis, Moody's expects TER to generate funds from operations of approximately $190 million per year on average in 2009 and 2010. After dividend payments in the order of $70 million annually and capital expenditures of about $260 million per year, TER is expected to be free cash flow negative by approximately $140 million in each of 2009 and 2010. Capital expenditures will be incurred primarily at TGI and TGVI, and are supported by available committed credit facilities at these entities. Working capital needs are seasonal, and correlated with volatile natural gas prices. TER does not have any material scheduled debt maturities in 2009 or 2010, although Moody's notes that TER has the option to redeem the 8% $125 million Capital Securities (due 2040) in cash at par on or after April 12, 2010. If the Capital Securities were to be redeemed, Moody's expects that funding would be made available from TER's parent, FTS.

In aggregate, TER has $880 million in committed credit under operating facilities at TER, TGI and TGVI. Aggregate availability under these facilities was $678 million as at June 30, 2009. In May 2009, TER replaced its maturing $100 million committed credit facility with a $30 million two year bilateral committed credit facility. At June 30, 2009, $29.9 million of the facility was available for drawing. In Moody's view, the reduction in size and bilateral nature of this facility are minor credit negatives and reduce TER's liquidity buffer in the event it were to encounter issues with the timing or amount of dividends available from its subsidiaries. However, this is somewhat mitigated by TER's status as a holding company with minimal operations of its own and the recent reduction in holdco debt. The reduced facility represents approximately 18 months' interest expense on external third party debt at holdco. TER also has the ability to defer interest payable on its $125 million Capital Securities; however, Moody's does not expect that TER would exercise this option under normal circumstances.

TGI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. Approximately $400 million was available to draw under this facility at June 30, 2009.

TGVI maintains a $350 million syndicated committed revolving credit agreement which matures on January 13, 2011. Approximately $250 million was available to draw under this facility at June 30, 2009.

None of the credit facilities contains language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facilities. Each of the companies was in compliance with the covenants contained its respective credit agreement as of June 30, 2009. The TER facility contains two maintenance covenants (debt to capitalization not greater than 75%; and EBIT to interest expense not less than 1.25x). TGI's facility contains a debt to total capitalization ratio covenant (maximum 75%). TGVI's credit agreement contains two maintenance covenants (debt to equity not greater than 70% and EBIT to interest expense not less than 2:1).

Rating Outlook

The Stable Outlook reflects Moody's expectation that TER will remain a holding company for regulated gas LDCs and that TER's assets and operations outside of the gas LDC sector will continue to represent a nominal portion of its overall operations. The Stable Outlook also reflects our expectation that TER's third party holding company debt will be fully retired in the medium term.

What Could Change the Rating - Up

Moody's considers an upward revision in TER's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if TER could demonstrate expectations for a sustainable improvement in its consolidated credit metrics. This would likely imply an improvement in the financial profile and an upgrade to the rating of TGI.

What Could Change the Rating - Down

TER's rating could be downgraded if its holding company debt is not retired as it matures, or becomes callable, with some form of inter-corporate financing from FTS. TER's rating could also come under downward pressure if Moody's perceives a material deterioration in the credit profile of TER's parent, FTS. TER's rating could also be negatively impacted by weaker financial performance at its utility subsidiaries caused, for instance, by low allowed ROEs or any deterioration in the supportiveness of the utilities' operating environment.

Rating Factors

[1]Terasen Inc.

Regulated Electric and Gas Utilities Rating Methodology	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)		X				
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (10%)			X			
b) Generation and Fuel Diversity (0%)			N/A			
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						

a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Interest (7.5%)					X	
c) CFO pre-WC / Debt (7.5%)					X	
d) CFO pre-WC - Dividends / Debt (7.5%)					X	
e) Debt / Capitalization or Debt / RAV (7.5%)						X
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating				**Baa2**		

[1] Financial metrics are for 2008 only. Key Indicators for 2007 and prior periods are not indicative of TER's performance due to transformational transactions in 2005 and 2007

maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

MOODY'S
INVESTORS SERVICE

Credit Opinion: Terasen Inc.

Global Credit Research - 27 Oct 2010

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Terasen Gas (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Key Indicators

Terasen Inc.[1][2]

	[3]LTM	2009	2008	2007	2006
CFO pre-WC + Interest/ Interest	2.4x	2.3x	2.2x	1.5x	1.4x
CFO pre-WC / Debt	7.6%	7.0%	7.0%	4.5%	2.0%
CFO pre-WC - Dividends / Debt	5.9%	4.7%	4.3%	4.5%	2.0%
Debt / Capitalization	65.3%	66.1%	71.0%	69.5%	85.7%

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, 2, and 3". In addition, Moody's adjusts for one-time items; [2] Key Indicators for 2007 and prior periods are not necessarily comparable due to transformational transactions in 2005 and 2007. [3] Last twelve months ended June 30, 2010

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Holding company with two A3 rated gas LDCs as principal subsidiaries

Weak financial metrics offset by supportive regulatory environment

Regulatory ring-fencing of subsidiaries increases the risk of structural subordination

Relatively low and declining levels of third party holding company debt

Good consolidated liquidity

Corporate Profile

Terasen Inc. (TER) is a holding company for regulated gas distribution utilities (local distribution companies or LDCs). The gas LDC segment represents the bulk of TER's assets and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): Terasen Gas Inc. (TGI, A3 senior unsecured, stable), Terasen Gas (Vancouver Island) Inc. (TGVI, A3 senior unsecured, stable) and Terasen Gas (Whistler) Inc. (TGW, not rated). TER's other operations, which at December 31, 2009 constituted less than 5% of total revenue and assets, are principally comprised of a 30% interest in CustomerWorks LP (which provides shared customer care services to TGI, TGVI and TGW) and

Terasen Energy Services Inc, a 100% owned subsidiary that builds, owns and operates alternative energy systems. TGI is the largest gas distribution utility in British Columbia and represented approximately 80% of TER's property, plant and equipment on a consolidated basis at June 30, 2010. TER is 100% owned by Fortis Inc. (FTS, not rated).

Recent Events

The BCUC's December 2009 cost of capital decision will have a positive impact on TER's financial metrics. In that decision, TGI's allowed ROE was increased to 9.5% from 8.47%, retroactive to July 1, 2009 and its deemed equity was increased to 40% from 35.01%, effective January 2010. The allowed ROE at TGVI and TGW increased to 10%, also as a result of the cost of capital decision. For further analysis on TGI and TGVI please refer to the credit opinions for each company.

TER has continued its trend of replacing third party holding company debt with intra-group funding from FTS. For the six months to June 30, 2010, TER borrowed a further $218 million from FTS and used the proceeds to redeem the $125 million Capital Securities and inject $125 million of additional equity to TGI (in order to align TGI's capital structure with the higher deemed equity approved by the BCUC). At June 30, 2010, only $125 million (face value) of third party debt remained outstanding at the holding company level, and we anticipate that this will be refinanced at maturity in 2014 with some form of intra-group investment by FTS.

SUMMARY RATING RATIONALE

TER's rating reflects the low business risk of its regulated gas distribution subsidiaries, offset by its weak financial metrics relative to peers. TER's published Baa2 senior unsecured rating is lower than the A3 rating indicated by the attached grid based upon Moody's Regulated Electric and Gas Utilities Methodology as a result of notching to reflect the structural subordination of TER's debt to that of its subsidiaries, combined with the existence of regulatory ring-fencing separating TER from its principal subsidiaries. As noted above, TER has gradually replaced external debt at the holding company level with intra-group borrowings from its parent, FTS, which totaled $713 million at June 30, 2010. The amounts due to FTS rank equally with external debt, and are repayable on demand. Because of these close linkages, we consider FTS' credit profile and liquidity resources in our analysis of TER.

DETAILED RATING CONSIDERATIONS

HOLDING COMPANY FOR GAS DISTRIBUTION UTILITIES OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities to have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like TGI and TGVI to be among the lowest risk corporate entities.

TGI, TGVI and TGW all operate in British Columbia (BC), which has an improving economic outlook and continues to enjoy a supportive regulatory climate. We consider Canada to have more supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in BC is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced.

Gas has historically enjoyed an operating cost advantage over electricity in BC, but this has eroded significantly in recent years. The competitiveness of natural gas in BC could be further challenged in the medium term by the Province's ambitious greenhouse gas reduction targets. In 2007, the Provincial Government passed legislation setting target levels for greenhouse gas emissions in 2020 at 33% below the level of those emissions in 2007. These targets will be achieved in part through imposition of a carbon tax, which will have an impact on the competitive advantage of gas since the majority of electricity in BC is generated from hydro resources. Similarly, in April 2010, the Clean Energy Act established fuel switching to energy sources with lower greenhouse gas emissions as one of the provincial energy objectives. This provides policy support for consumers to switch from gas to electricity. We expect changes in demand for gas in BC to be gradual, but it is possible that environmental priorities will lead to a deterioration in regulatory support and we will monitor trends closely.

STRONG REGULATORY RING-FENCING SEPARATES TER FROM ITS GAS LDC SUBSIDIARIES

As part of its approval of the acquisition of TER by FTS in 2007, the BCUC confirmed the continued operation of a number of conditions, originally imposed by the BCUC in 2005, intended to ring-fence TGI and TGVI from TER. The ring-fencing provisions require that TGI and TGVI (i) maintain equity/capital at least has high as the equity capitalization deemed by the BCUC for ratemaking purposes (now 40% for both TGI and TGVI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses. TER has confirmed that since 2007 none of these restrictions constrained the distribution of subsidiary earnings not otherwise needed for investment. The risks associated with the ring-fencing provisions are offset in part by relatively low and reducing levels of holding company debt. Third-party interest expense at the holding company level is covered approximately 15x by dividends from operating subsidiaries. TER also benefits from the demonstrated support of its parent, FTS, which has provided an intra-group loan to refinance maturing debt at TER as well as the equity injection to TGI in the first quarter of 2010. We include borrowings from FTS within our calculation of adjusted debt because it ranks equally with senior unsecured debt and is repayable on demand. We do not rate FTS but have considered its business and risk profile using publicly available information as part of our analysis. Overall, we believe that existence of the ring-fencing results in meaningfully higher financial risk at TER than would otherwise be the case and this is reflected in the two notch differential between TER's Baa2 rating and the A3 ratings assigned to TGI and TGVI.

Liquidity Profile

TER has good liquidity on a consolidated basis. At the holding company level, we believe that TER has sufficient liquidity to meet its external funding requirements; however, TER does not have the committed liquidity resources to repay the on-demand funding provided by its parent FTS, which totaled $713 million at June 30, 2010. TER's $1.2 billion of preference shares, also held by FTS, are redeemable at the holder's option and are therefore effectively on demand. Our rating and liquidity analysis incorporates the expectation that FTS will not withdraw this capital support and we tend to view the preference shares as akin to equity given the absence of an ongoing coupon obligation.

In 2011, we estimate that the company will generate funds from operations of approximately $150 million. After dividends of approximately $60 million and capital expenditures of around $330 million, TER is expected to be free cash flow negative by approximately $240 million in 2011. TER has less than $10 million of debt maturing in 2011, resulting in an estimated funding requirement of $250 million.

As at June 30, 2010, TER and its subsidiaries had committed undrawn availability of $571 million under credit facilities totaling $830 million. Our standard liquidity stress scenario assumes that an issuer loses access to new capital, other than availability under committed credit facilities for a period of twelve months. We have extended this scenario to December 2011 in order to provide a forward looking view over at least four quarters. At December 31, 2010 we estimate that TER will have availability of $480 million under credit facilities with residual tenors of at least twelve months, which is well in excess of the estimated $250 million funding requirement. TER needs to maintain sizeable liquidity resources to accommodate seasonal working capital requirements, which are also correlated with volatile natural gas prices.

TER maintains a $30 million bilateral committed credit facility, which matures in May 2011. While external debt service at the holding company is currently well covered by dividends from subsidiaries, we would expect TER to renew or replace this facility prior to maturity in order to maintain a liquidity buffer in the event it were to encounter issues with the timing or amount of dividends available from its subsidiaries.

Rating Outlook

The Stable Outlook reflects Moody's expectation that TER will remain a holding company for regulated gas LDCs and that TER's assets and operations outside of the gas LDC sector will continue to represent a nominal portion of its overall operations. The Stable Outlook also reflects our expectation that TER's third party holding company debt will be fully retired in the medium term.

What Could Change the Rating - Up

Moody's considers an upward revision in TER's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if TER could demonstrate expectations for a sustainable improvement in its consolidated credit metrics. This would likely imply an improvement in the financial profile and an upgrade to the rating of TGI.

What Could Change the Rating - Down

TER's rating could come under downward pressure if Moody's perceives a material deterioration in the credit profile of TER's parent, FTS. TER's rating could also be negatively impacted by weaker financial performance at its utility subsidiaries caused, for example by any deterioration in the supportiveness of the utilities' operating environment.

Rating Factors

Terasen Inc.

Regulated Electric and Gas Utilities Industry	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)						
a) Regulatory Framework		x				
Factor 2: Ability To Recover Costs And Earn Returns (25%)						
a) Ability To Recover Costs And Earn Returns			x			
Factor 3: Diversification (10%)						
a) Market Position			x			
b) Generation and Fuel Diversity						
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%) [1][2]						
a) Liquidity			x			
b) CFO pre-WC + Interest/ Interest					2.3x	
c) CFO pre-WC / Debt					7.0%	
d) CFO pre-WC - Dividends / Debt					4.5%	
e) Debt/Capitalization						68.6%
e) Net Debt / Regulated Asset Value						
Rating:						
a) Indicated Rating from Grid			A3			
b) Actual Rating Assigned				Baa2		

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, 2, and 3". In addition, Moody's adjusts for one-time items. [2] Average of 2008 and 2009. Key indicators for 2007 are not indicative of TER's performance due to transformational transactions.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Holdings Inc.

Global Credit Research - 07 May 2012

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
David Brandt/Toronto	416.214.3864
William L. Hess/New York City	212.553.3837

Key Indicators

FortisBC Holdings Inc.[1]

	[2]LTM	2011	2010	2009	2008
CFO pre-WC + Interest/ Interest	**2.8x**	**2.1x**	**2.5x**	**2.3x**	**2.2x**
CFO pre-WC / Debt	**9.5%**	**6.1%**	**8.1%**	**7.0%**	**7.0%**
CFO pre-WC - Dividends / Debt	**6.3%**	**3.3%**	**5.2%**	**4.7%**	**4.3%**
Debt / Capitalization	**61.0%**	**62.7%**	**59.8%**	**66.4%**	**71.0%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended March 31, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying *User's Guide*.

Opinion

Rating Drivers

Holding company with two A3 rated gas LDCs as principal subsidiaries

Weak financial metrics partially offset by supportive regulatory environment

Competitiveness against other sources of electricity poses long term risks

Regulatory ring-fencing of subsidiaries increases the risk of structural subordination

Good consolidated liquidity

Corporate Profile

FortisBC Holdings Inc. (FHI) is a holding company for regulated gas distribution utilities (local distribution companies or LDCs). The gas LDC segment represents the bulk (>95% of revenue and assets) of FHI and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): FortisBC Energy Inc. (FEI, A3 senior unsecured, stable); FortisBC Energy (Vancouver Island) Inc. (FEVI, A3 senior unsecured, stable); and FortisBC Energy (Whistler) Inc. (FEW, not rated). FHI's other operation consists of FortisBC Alternative Energy Services, a 100% owned subsidiary that builds, owns and operates alternative energy systems.

FEI is the largest gas distribution utility in British Columbia and represented about 80% of FHI's property, plant and equipment on a consolidated basis at December 31, 2011.

FHI is 100% owned by Fortis Inc. (FTS, not rated).

SUMMARY RATING RATIONALE

FHI's rating reflects the low business risk of its regulated gas distribution subsidiaries, offset by its weak financial metrics relative to its peers. FHI's published Baa2 senior unsecured rating is lower than the A3 rating indicated by Moody's Regulated Electric and Gas Utilities Methodology as a result of notching to reflect the structural subordination of FHI's debt to that of its subsidiaries, combined with the existence of regulatory ring-fencing separating FHI from its principal subsidiaries. FHI has gradually replaced external debt at holding company level with intra-group borrowings from its parent, FTS, which totaled $771 million at December 31, 2011 and represented approximately 85% of total debt. The amounts due to FTS rank equally with the remaining $125 million of external debt, and are repayable on demand. Because of these close linkages, we consider FTS' credit profile and liquidity resources in our analysis of FHI.

DETAILED RATING CONSIDERATIONS

HOLDING COMPANY FOR GAS DISTRIBUTION UTILITIES OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities to have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI and FEVI to be among the lowest risk corporate entities.

FEI, FEVI and FEW all operate in British Columbia (BC), which we continue to view as a supportive regulatory environment in Canada. Regulatory proceedings tend to be less adversarial and balanced decisions rendered on a timely basis. We do note, however, that the current review of generic cost of capital has been initiated by the BCUC and not in response to a rate application. We will need to assess the outcome of the process to determine if it reflects any fundamental change in the regulatory environment that will need to be factored into the rating assessment going forward.

GAS COMPETIVENESS POSES LONG TERM RISKS

Natural gas' past operating cost advantages have eroded in recent years. Electricity prices in British Columbia are based on historic average cost of production of predominantly hydroelectric energy, thus only partially reflecting true market values. Positively for FHI, low commodity prices have helped to improve the competitiveness of gas. Moody's believes that gas costs of approximately $4 per Gigajoule would cause new customers to be indifferent between gas and other sources of electricity. Additionally, an increased need to invest in aging generation and transmission infrastructure in BC may lead to upward pressure on electricity prices. This could result in gas becoming more competitive in the long term, absent any sharp commodity price increases.

However, the competitiveness of natural gas in BC could be further challenged by the Province's ambitious greenhouse gas reduction targets. In 2007, the Provincial Government passed legislation setting target levels for greenhouse gas emissions in 2020 at 33% below the level of those emissions in 2007. These targets will be achieved in part through imposition of a carbon tax, which will have a negative impact on the competitive advantage of gas since the majority of electricity in BC is generated from hydro resources. Similarly, the 2010 Clean Energy Act established fuel switching to energy sources with lower greenhouse gas emissions as one of the province's energy objectives. This provides policy support for consumers to switch from gas to electricity. While we expect changes in demand for gas in BC to be gradual, it is possible that environmental priorities will lead to a deterioration in regulatory support.

STRONG REGULATORY RING-FENCING SEPARATES FHI FROM ITS GAS LDC SUBSIDIARIES

As part of its approval of the acquisition of FHI by FTS in 2007, the BCUC confirmed the continued operation of a number of conditions, originally imposed by the BCUC in 2005, intended to ring-fence FEI and FEVI from FHI. The ring-fencing provisions require that FEI and FEVI (i) maintain equity/capital at least as high as the equity capitalization deemed by the BCUC for ratemaking purposes (40% for both FEI and FEVI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses. The risks associated with the ring-fencing provisions are offset in part by relatively low and reducing levels of holding company debt.

Overall, we believe that existence of the ring-fencing results in meaningfully higher financial risk at FHI than would otherwise be the case and this is reflected in the two notch differential between FHI's Baa2 rating and the A3 ratings assigned to FEI and FEVI.

We include borrowings from FTS within our calculation of adjusted debt because it ranks equally with senior unsecured debt and is repayable on demand. We do not rate FTS but have considered its business and risk profile using publicly available information as part of our analysis. On February 21st FTS announced that it had entered into an agreement to acquire CH Energy Group, Inc. which owns Central Hudson Gas & Electric Corp. (A3, outlook stable) for a purchase price of approximately US$1.5BN that we expect to be financed with debt. Although directionally negative for its subsidiaries, it is our view that the proposed acquisition does not warrant a change in rating or outlook for FHI. We view the transaction as part of FTS' continued and anticipated growth strategy that is committed to low risk regulated assets and the maintenance of strong investment grade ratings both at the parent and operating subsidiary level.

Liquidity Profile

FHI has good liquidity on a consolidated basis. At the holding company level, we believe that FHI has sufficient liquidity to meet its external funding requirements although FHI does not have any committed liquidity to repay the on-demand funding provided by its parent FTS, which totaled $571 million at December 31, 2011. FHI's $1.2 billion of preference shares, held by FTS, are redeemable at the holder's option and are therefore effectively on demand. Our rating and liquidity analysis incorporates the expectation that FTS will not withdraw this capital support and we tend to view the preference shares as akin to equity in our financial metrics despite their debt like features.

In 2012, we estimate that the company will generate funds from operations of approximately $250 million. After dividends of approximately $90 million and capital expenditures of around $230 million, FHI is expected to be free cash flow negative by approximately $70 million. FHI has less than $10 million of debt maturing in 2012, resulting in an estimated overall funding requirement of $80 million.

At December 31, 2011, FHI and its subsidiaries had committed undrawn availability of $585 million under credit facilities totaling $730 million, $700 million of which resides at FEI and FEVI. FHI needs to maintain sufficient liquidity resources to accommodate the typical seasonal working capital requirements of its gas distribution utilities. The BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's working capital swings and increase FEI's liquidity requirements. This decision is directionally negative for FHI's credit but, at this time, not material enough to impact our rating or outlook

FHI maintains a $30 million bilateral committed credit facility, which matures in May 2013. External debt service at the holding company is currently well covered by dividends from its subsidiaries.

Rating Outlook

The Stable Outlook reflects Moody's expectation that FHI will remain a holding company for regulated gas LDCs and that FHI's assets and operations outside of the gas LDC sector will continue to represent only a nominal portion of its overall operations. The Stable Outlook also reflects our expectation that FHI's third party holding company debt will be fully retired in the medium term.

What Could Change the Rating - Up

Moody's considers an upward revision in FHI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if FHI could demonstrate expectations for a sustainable improvement in its consolidated credit metrics. This would likely imply an improvement in the financial profile and an upgrade to the rating of FEI.

What Could Change the Rating - Down

FHI's rating could come under downward pressure if Moody's perceives a material deterioration in the credit profile of FHI's parent, FTS. FHI's rating could also be negatively impacted by weaker financial performance at its utility subsidiaries or by a perceived decline or change in the supportiveness of the utilities' operating or regulatory environment.

Rating Factors

FortisBC Holdings Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**		[3]**Moody's 12-18 month Forward View As of 05/07/2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.4x	Ba1	2x-2.2x	Ba2
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	8.1%	Ba2	9%-10%	Ba2
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	5.7%	Ba2	6%-7%	Ba1
e) Debt/Capitalization (3 Year Avg) (7.5%)	63.9%	Ba3	55%-58%	Ba1
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned		Baa2		Baa2

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Based on Financial Data as of March 31, 2012 [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

December 6, 2005

Research Update: Terasen Inc. Ratings Affirmed At 'BBB' After Kinder Morgan Completes Acquisition, Off Watch

Primary Credit Analyst:
Bhavini Patel, CFA, Toronto (1) 416-507-2558;bhavini_patel@standardandpoors.com

Secondary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676;todd_shipman@standardandpoors.com

Table Of Contents

Research Update: Terasen Inc. Ratings Affirmed At 'BBB' After Kinder Morgan Completes Acquisition, Off Watch

Credit Rating: BBB/Negative/NR

Rationale

On Dec. 6, 2005, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit ratings on Terasen Inc. (Terasen) and Terasen Gas Inc. (TGI), following the completion of Kinder Morgan Inc.'s (KMI) purchase of Terasen. At the same time, the ratings were removed from CreditWatch, where they were placed with negative implications on Aug. 2, 2005, when KMI announced the Terasen transaction. The outlook is negative.

The ratings on Terasen and TGI reflect the consolidated credit profile of its ultimate parent, KMI (BBB/Negative/A-2), in line with Standard & Poor's consolidated ratings methodology. The assessment is further supported by the strategic nature of Terasen and TGI within KMI.

KMI's added debt burden from the Terasen purchase is somewhat offset by the addition of low-risk, regulated gas distribution utility and petroleum pipeline assets to its portfolio of businesses. The ratings on KMP are, in Standard & Poor's view, tied to the ratings on KMI and thus are also being affirmed.

KMI is financing the transaction mostly with debt, weakening KMI's balance sheet and debt protection measures. Standard & Poor's does not expect the higher financial risk to be alleviated for several years as KMI pursues growth initiatives connected to the Terasen pipeline assets. The company will be challenged to accomplish the integration of Terasen's assets and personnel while the greater financial exposure persists, and the outlook on the ratings will remain until the integration process is completed or the balance sheet is strengthened.

The negative outlook on KMP is due to the strong connection to the credit quality of KMI and the continued possibility that the ratings of the two closely related companies will eventually be equalized.

The ratings on KMI reflect the company's satisfactory business risk profile and a somewhat aggressive financial policy. KMI's ownership of the Natural Gas Pipeline Co. of America (NGPL) system, consisting largely of two major interstate pipelines that converge in the Chicago market and about 600 billion cubic feet of gas storage capacity, provides the company with a strong position in one of the largest U.S. markets. Recontracting risk, a highly competitive core Chicago market, and counterparty risk pose threats in the longer term, although the company has managed these items well historically. KMI's strategy to manage the pipeline competition in the Chicago market is supported by contracts with its largest customers (Nicor Gas Co., subsidiaries of Peoples Energy Corp., and Northern Indiana Public Service Co.), joint venture pipelines, such as Horizon Pipeline, extending into northern Illinois, and the Hub America strategy to help distribute Canadian gas coming into Chicago throughout the U.S.

Although significant, recontracting risk is not a serious credit concern due to KMI's history of successfully rolling contracts over. NGPL has some competitive advantage with its extensive market-area storage assets. The pipeline also carries some customer concentration risk, as more than half of its tariff revenues are derived from its eight largest customers.

KMP's distributions, a large contributor to KMI's cash flow, have grown at double-digit rates. KMP's business risk has increased in recent years with the partnership's foray into oil production and the possibility that KMP may pursue further purchases in this sector. KMI's domestic retail distribution operations have an average business position distinguished by geographic, economic, and regulatory diversity, decent customer and throughput growth, particularly in western Colorado, and a good gas supply position.

Terasen has two main business lines. Terasen Gas Inc. is the largest natural gas distributor in British Columbia and accounts for about two-thirds of Terasen's total business activity. Terasen Pipelines Inc. represents most of the remainder of Terasen's credit profile. It owns and operates regulated petroleum products pipelines in Canada and the U.S., including a presence in the growing Alberta oil sands region. The oil sands-related component of Terasen is the primary strategic rationale for the purchase.

KMI's credit measures should remain barely in line with the rating category. Cash flow measures suffer considerably when the dividend is subtracted from cash flow, providing a more stringent picture of the company's ability to service debt. Increased dividends, share repurchases, and growth-oriented capital spending will likely come at the expense of additional debt reduction through the intermediate term.

Short-term credit factors

Standard & Poor's overall assessmemt pf Terasen's liquidity is tied to a consolidated view of KMI, which is satisfactory. On a stand-alone basis, Terasen and its subsidiaries have adequate funds for operating purposes with slightly more than C$1.3 billion in committed bank lines of credit (which are used seasonally) available. As at Sept. 30, 2005, C$361 million of the credit lines were unused.

The short-term rating on KMI is 'A-2'. The key short-term credit factor for KMI is the reliability of distributions from general partner KMP. To date, KMP has steadily increased its distribution at a healthy rate and maintains an adequate cushion such that near-term distributions are unlikely to be jeopardized. KMI's liquidity is satisfactory, supported by an US$800 million senior unsecured revolving credit facility maturing August 2009. As of Oct. 28, 2005, the capacity under the facility was being used to back up US$293 million in commercial paper. The facility contains liberal total debt to total capital and minimum net worth covenants, and the company is well in compliance. The facility also has no ratings-linked termination or acceleration provisions. The company's cash position and cash-generating ability are satisfactory. KMI's normal capital expenditures should be funded internally in the intermediate term. The company typically maintains a modest working-capital cushion.

KMI's debt maturities in the intermediate term are manageable, with US$5 million due in 2005 and no other significant maturities through 2007. The increasingly aggressive dividend policy places an added, but tolerable, burden on the company's liquidity. KMI guarantees US$523 million of KMP's debt related to the sale of assets from KMI to KMP. Due to the solid investment-grade rating on KMP, near-term performance under this guarantee is unlikely.

Outlook

The negative outlook on Terasen reflects the outlook on its parent, KMI, which in turn reflects the considerable challenges faced by KMI as it works to integrate the Terasen assets and business operations into its corporate culture and systems at a time when its financial position is stretched. In particular, KMI has limited experience in Canada and in managing a large, closely regulated utility like Terasen Gas. Any operational problems or other indications that KMI's managerial capabilities are being stressed by the Terasen purchase could lead to a downgrade. Upside rating potential in the near to intermediate term is unlikely, given the business and financial burdens on KMI after the Terasen transaction.

Ratings List

Ratings Affirmed, Removed From CreditWatch Negative

	To	From
Terasen Inc.		
Corporate credit rating	BBB/Negative/--	BBB/Watch Neg/--
Sr unsecd debt	BBB-	BBB-/Watch/Neg
Sub debt	BB+	BB+/Watch Neg
Terasen Gas Inc.		
Corporate credit rating	BBB/Negative/--	BBB/Watch Neg/--
Sr secd debt	A-	A-/Watch Neg
Sr unsecd debt	BBB	BBB/Watch Neg
Terasen Pipelines (Trans Mountain) Inc.		
Corporate credit rating	NR	BBB/Watch Neg/--

STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

May 31, 2006

Research Update: S&PCORRECT: Kinder Morgan Ratings Placed On Watch Neg After Proposed Management Buyout

Primary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676;todd_shipman@standardandpoors.com

Table Of Contents

Research Update: S&PCORRECT: Kinder Morgan Ratings Placed On Watch Neg After Proposed Management Buyout

(**Editor's Note:** In the research update on Kinder Morgan Inc. published on May 30, 2006, the rating on Terasen Inc.'s senior unsecured debt was misstated in the ratings list. The rating on Terasen's senior unsecured debt is 'BBB-' and it was placed on CreditWatch with negative implications. A corrected version follows.)

Credit Rating: BBB/Watch Neg/A-2

Rationale

On May 30, 2006, Standard & Poor's Ratings Services placed its 'BBB' long-term corporate credit rating on Kinder Morgan Inc. (KMI) and subsidiaries and its 'BBB+' long-term corporate credit rating on master limited partnership Kinder Morgan Energy Partners L.P. (KMP) on CreditWatch with negative implications, following the announced offer by a group of Kinder Morgan management and private investors to buy all of KMI's outstanding common shares.

Standard & Poor's also placed its 'A-2' short-term corporate credit rating on KMI on CreditWatch with negative implications and affirmed its 'A-2' short-term corporate credit rating on KMP.

KMI and KMP, based in Houston, Texas, together have about $13 billion of debt

The negative CreditWatch listing for KMI is prompted by the group's plans to noticeably increase its financial leverage to fund the purchase. The negative CreditWatch listing for KMP reflects its legal, strategic, and business ties to KMI.

The offer to take KMI private has not yet been evaluated or approved by KMI's board of directors. If the proposal goes forward, Standard & Poor's evaluation of the entire Kinder Morgan enterprise to resolve the CreditWatch listings will focus on the greater debt burden and future composition of business activities at KMI, and any legal or governance changes at KMP that may affect our view of the ratings linkage between the two entities.

At KMI, the sharp increase in debt contemplated in the buyout offer would likely lead to a ratings downgrade well into the 'BB' category.

KMP is not directly involved with the proposed transaction, but its ratings are currently closely tied to KMI's credit quality and would probably be affected by any rating action on KMI. However, KMP's 'A-2' commercial paper rating was affirmed based on the strong possibility that steps will be taken at the partnership to substantially insulate KMP from KMI. Any steps taken in that regard could also justify a wider ratings differential between the two companies.

Ratings List

Ratings Placed On Watch Neg

	To	From
Kinder Morgan Inc.		
Corp credit rating	BBB/Watch Neg/A-2	BBB/Negative/A-2
Sr unsecd debt	BBB/Watch Neg	BBB
Preferred stock	BB+/Watch Neg	BB+
Commercial paper	A-2/Watch Neg	A-2
Kinder Morgan Energy Partners L.P.		
Long-term corp credit rtg	BBB+/Watch Neg	BBB+/Negative
Sr unsecd debt	BBB+/Watch Neg	BBB+
Terasen Inc.		
Corp credit rating	BBB/Watch Neg/--	BBB/Negative/--
Sr unsecd debt	BBB-/Watch Neg	BBB-
Sub debt	BB+/Watch Neg	BB+
Terasen Gas Inc.		
Corp credit rating	BBB/Watch Neg/--	BBB/Negative/--
Sr secd debt	A-/Watch Neg	A-
Sr unsecd debt	BBB/Watch Neg	BBB

Ratings Affirmed

Kinder Morgan Energy Partners L.P.	
Short-term corp credit rtg	A-2
Commercial paper	A-2

In the research update on Kinder Morgan Inc. published on May 30, 2006, the rating on Terasen Inc.'s senior unsecured debt was misstated in the ratings list. The rating on Terasen's senior unsecured debt is 'BBB-' and it was placed on CreditWatch with negative implications. A corrected version follows.

STANDARD & POOR'S

BREAKING NEWS

Terasen Inc. Ratings Raised To 'BBB+' From 'BB-', Off Watch After Purchase; Outlook Stable

Primary Credit Analyst:
Kenton Freitag, CFA
Toronto
(1) 416-507-2545
kenton_freitag@
standardandpoors.com

Secondary Credit Analyst:
Nicole Martin
Toronto
(1) 416-507-2560
nicole_martin@
standardandpoors.com

Publication Date
June 19, 2007

Rationale

On June 19, 2007, Standard and Poor's raised its long-term corporate credit and senior unsecured debt ratings on British Columbia-based utility holding company Terasen Inc. to 'BBB+' from 'BB-'. At the same time, Standard & Poor's raised the subordinated debt rating on Terasen to 'BBB' from 'B-'. We also removed the ratings from CreditWatch with positive implications, where they were placed Feb. 26, 2007. The outlook is stable. The upgrade reflects the recent completion of the sale of Terasen Inc. from Knight Inc. (formerly Kinder Morgan Inc.; BB-/Stable/—) to higher-rated Fortis Inc. (A-/Stable/—) and Terasen's primary focus on stable gas distribution.

The ratings on Terasen reflect the credit quality of the company's low-risk, regulated gas distribution business, the expectation that debt held directly at Terasen will decline in the next few years, and the support from parent Fortis. Terasen's highly leveraged financial profile offsets the credit strengths.

Terasen is a holding company with 100% ownership in three gas distribution companies in B.C.: Terasen Gas Inc. (A/Stable/—), Terasen Vancouver Island, and Terasen Whistler. Terasen Gas has a rate base of about C$2.5 billion, while Terasen Gas Vancouver Island has a rate base of about C$500 million. Collectively, the gas distribution subsidiaries service more than 95% of natural gas customers in B.C.

Terasen's subsidiaries benefit from monopoly positions, supportive cost-of-service regulation, and regulatory mechanisms that mitigate major operating risks, such as commodity costs. The major risks of volatile gas commodity costs and unpredictable weather are essentially mitigated by regulatory deferral accounts and quarterly rate adjustments. The regulatory structure has supported a record of very stable operating results. We consider Terasen Gas Vancouver Island to have a modestly riskier credit profile due to higher exposure to growth capital expenditures and a higher level of deferrals related to revenue deficiencies.

Terasen benefits from the good operational track record of its subsidiaries with strong results on standard performance indicators. We expect that both primary subsidiaries should be able to expand their customer base in part due to the strong economic growth in B.C. and the high level of housing starts.

Primary operating risks relate to both Terasen Gas and Terasen Gas Vancouver Island's reliance on the Spectra pipeline to source gas for their distribution networks. In the event of a pipeline shutdown, Terasen Gas could source gas from storage and from the U.S., but it would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the rating level. Furthermore, Terasen Gas Vancouver Island is proceeding with a plan to build new liquid natural gas storage on Vancouver Island.

Terasen's below-average financial risk profile reflects both the high leverage at its subsidiaries and an additional C$450 million debt held directly at the holding company level. The ratings incorporate an expectation that Terasen will likely retire holding company debt by 2014 (through cash contributions from Fortis), beginning with a C$200 million maturity in 2008.

The financial risk profile faces further pressure from the subordinated position of Terasen with respect to its subsidiaries' cash flow and its vulnerability to regulatory directives. As a condition of the provincial regulator, Terasen's subsidiaries would not pay dividends if it would cause their equity bases to fall below that set for ratemaking purposes. As Terasen's subsidiaries are already capitalized at amounts close to these levels, its ability to receive dividends greater than net income will be very constrained. Although forecast dividends should comfortably service debt at Terasen in the next several years, the company will be vulnerable to any directive that restricts dividend flows as these represent its sole source of cash flow (aside from Fortis equity injections).

The ratings on Terasen are higher than what would result from our stand-alone credit assessment (low investment-grade), reflecting Fortis' economic interest in preserving Terasen's credit quality. If Terasen were to default, Fortis would likely lose its ownership of its investment. It would be in Fortis' interest to support Terasen if dividend flows were temporarily restricted. However, we have not equalized the ratings on Terasen with those on Fortis, as we do not believe it would support Terasen in all circumstances. If the value of its investment was permanently impaired, Fortis would be unlikely to support it.

Liquidity

Eventually Terasen will likely have just C$25 million in operating lines of credit and will rely on dividends from its subsidiaries to service its debt. In the event that dividends were restricted, Terasen would have to rely on parent Fortis to service its debt requirements.

Terasen has a C$200 million debt maturity in 2008; other maturities are longer dated but might be redeemed as early as 2014. We expect Fortis will advance cash to Terasen to retire these maturities.

Outlook

The stable outlook reflects our expectations of continued sound operations and free cash flow generation. We see little prospect for an improvement in the rating in the near term. We could lower the ratings or change the outlook to negative if direct debt levels do not decline as scheduled, operational performance suffered, or the dividends from the subsidiaries were materially restricted.

Ratings List

	To	From
Terasen Inc.		
Ratings Raised And Removed From CreditWatch		
Corporate credit rating	BBB+/Stable/—	BB-/Watch Pos/—
Senior unsecured debt	BBB+	BB-/Watch Pos
Subordinated debt	BBB	B-/Watch Pos

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

STANDARD
&POOR'S

Global Credit Portal®

RatingsDirect®

January 5, 2007

Research Update:

Terasen Inc. Downgraded To 'BB-', Off Watch Neg; Terasen Gas Inc. Ratings Remain On Watch

Primary Credit Analyst:
Joe Morin, Toronto (1) 416-507-2508;joe_morin@standardandpoors.com

Secondary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676;todd_shipman@standardandpoors.com

Table Of Contents

Research Update:

Terasen Inc. Downgraded To 'BB-', Off Watch Neg; Terasen Gas Inc. Ratings Remain On Watch

Rationale

On Jan. 5, 2007, Standard & Poor's Ratings Services lowered the corporate credit rating on Terasen Inc. to 'BB-' from 'BBB' following the downgrade of its parent, Houston, Texas-based Kinder Morgan Inc. (KMI), to 'BB-' from 'BBB'. At the same time, the senior unsecured debt rating on Terasen was lowered to 'BB-' from 'BBB-', and the subordinated debt rating to 'B-' from 'BB+'. The ratings on Terasen were removed from CreditWatch, where they were placed May 30, 2006. The outlook is stable. (For further information on KMI, please see the research update published earlier today on RatingsDirect.) The ratings on Terasen Gas Inc. (TGI; BBB/Watch Neg/--) remain on CreditWatch with negative implications, where they were placed May 30, 2006.

The corporate credit rating on Terasen was equalized with the rating on KMI, reflecting Standard & Poor's consolidated rating methodology. The ratings on TGI remain on CreditWatch with negative implications pending final review of the degree of regulatory insulation afforded TGI. Our view that the ratings on TGI will remain in the investment-grade category is unchanged; as such, the ratings on TGI will either be lowered one notch or affirmed at the current level. TGI has about C$1.5 billion of total debt outstanding.

By separating the corporate credit ratings on TGI and parent KMI, Standard & Poor's acknowledges the wide differential in the stand-alone credit profiles of the parent and its subsidiary. We believe that a strong degree of insulation is provided by the British Columbia Utilities Commission (BCUC) at this rating level and that, in general, regulators are more likely to intercede to prevent credit deterioration below the investment-grade level.

Standard & Poor's has concluded that TGI will remain in the 'BBB' category, as we believe that the utility's credit profile would be unlikely to suffer significant deterioration from the parent's activities. The separation is substantiated by management actions that have been consistent with maintaining the utility's investment-grade credit quality during the time KMI has controlled TGI. More importantly, explicit conditions established in BCUC's order approving KMI's purchase help support investment-grade ratings. The specific conditions that help insulate the utility from KMI include an obligation to maintain a minimum common equity in its capital structure, a requirement for BCUC approval of dividends under certain circumstances, and restrictions on financial and other transactions between the utility and KMI.

The ratings on the 8% Terasen Inc. Capital Securities due 2040 are rated three notches below the corporate credit rating given their analytical treatment as preferred securities.

Outlook

The stable outlook on Terasen reflects the outlook on parent KMI. KMI is projected to rapidly deleverage its balance sheet in the next three years in order to reach financial metrics that correspond to the ratings. We consider the deleveraging plan to be achievable through a combination of asset sales, partial sales of equity interests in major subsidiaries, and commitments by KMI shareholders to back up the plan with new equity if the timing or realization of sale proceeds fall short of projections. Any meaningful delays in debt reduction or the emergence of fundamental problems in the business prospects of either KMI or Kinder Morgan Energy Partners L.P. (LC: BBB/Stable/A-2; FC: BBB/Stable/--), could imperil the outlook or ratings on KMI.

Ratings List

Terasen Inc.
Ratings Lowered And Removed From CreditWatch

	To	From
Corporate credit rating	BB-/Stable/--	BBB/Watch Neg/--
Senior unsecured	BB-	BBB-/Watch Neg
Subordinated debt	B-	BB+/Watch Neg

Terasen Gas Inc.
Ratings Remaining On CreditWatch

Corporate credit rating	BBB/Watch Neg/--
Senior secured	A-/Watch Neg
Senior unsecured	BBB/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

STANDARD & POOR'S

RatingsDirect®

December 17, 2008

Terasen Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Terasen Inc.

Major Rating Factors

Corporate Credit Rating

BBB+/Stable/NR

Strengths:

- Ownership of highly stable gas distribution utilities
- Support of parent, Fortis Inc.

Weaknesses:

- High leverage
- Dependence on subsidiary dividends to service debt

Rationale

The ratings on British Columbia-based Terasen Inc. reflect, in Standard & Poor's Ratings Services' opinion, the credit quality of the company's low-risk, regulated gas distribution business; the expectation that debt held directly at Terasen will decline in the next few years; and the support from parent Fortis Inc. (A-/Stable/--). We believe Terasen's highly leveraged financial risk profile offsets the credit strengths.

Terasen is a holding company with 100% ownership in three B.C. gas distribution companies: Terasen Gas Inc. (A/Stable/--), Terasen Vancouver Island, and Terasen Whistler. Terasen Gas has a rate base of about C$2.5 billion, while Terasen Gas Vancouver Island has one of about C$500 million. Collectively, the gas distribution subsidiaries serve more than 95% of natural gas customers in the province.

Terasen's subsidiaries benefit from monopoly positions; supportive cost-of-service regulation; and regulatory mechanisms that mitigate major operating risks, such as commodity costs. Regulatory deferral accounts and quarterly rate adjustments essentially mitigate the major risks of volatile gas commodity costs and unpredictable weather. The regulatory structure has supported a record of very stable operating results. We consider Terasen Gas Vancouver Island to have a modestly riskier credit profile, due to higher exposure to growth capital expenditures and a higher level of deferrals related to revenue deficiencies.

In our opinion, Terasen benefits from the good operational track record of its subsidiaries with strong results on standard performance indicators. We expect that both primary subsidiaries should be able to expand their customer base in part due to the strong economic growth in B.C. and the high level of housing starts.

Primary operating risks relate to both Terasen Gas and Terasen Gas Vancouver Island's reliance on the Spectra pipeline to source gas for their distribution networks. In the event of a pipeline shutdown, Terasen Gas could source gas from storage and the U.S., but it would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the ratings level. Furthermore, Terasen Gas Vancouver Island is proceeding with a plan to build new liquid natural gas storage on Vancouver Island.

Terasen's below-average financial risk profile reflects, in our opinion, both the high leverage at its subsidiaries and debt held directly at the holding company level. The ratings incorporate our expectation that Terasen will likely retire holding company debt by 2014 (through cash contributions from Fortis); the company recently retired a C$200 million maturity leaving a holding company debt balance of C$250 million. As of Sept. 30, 2008, trailing

12-month FFO interest coverage was 2.1x, FFO-to-debt was about 8%, and debt to total capitalization was about 70%. We expect these ratios will improve with the retired debt at the holding company level.

We believe the financial risk profile faces further pressure from Terasen's subordinated position with respect to its subsidiaries' cash flow and vulnerability to regulatory directives. As a condition of the provincial regulator, Terasen's subsidiaries would not pay dividends if it would cause their equity bases to fall below that set for ratemaking purposes. As Terasen's subsidiaries are already capitalized at amounts close to these levels, its ability to receive dividends greater than net income will be very constrained. Although we believe forecast dividends should comfortably service debt at Terasen in the next several years, the company will be vulnerable to any directive that restricts dividend flows, as these represent its sole source of cash flow (aside from Fortis equity injections).

The ratings on Terasen are higher than what would result from our stand-alone credit assessment (low investment-grade), reflecting Fortis' economic interest in preserving Terasen's credit quality. If Terasen were to default, Fortis would likely lose its investment ownership. It would be in Fortis' interest to support Terasen if dividend flows were temporarily restricted. However, we have not equalized the ratings on Terasen with those on Fortis, as we do not believe it would support Terasen in all circumstances. If the value of its investment were permanently impaired, Fortis would be unlikely to support it.

Liquidity

Terasen has few sources of liquidity; it will rely on dividends from its subsidiaries to service debt. In the event that dividends were restricted, it would have to rely on parent Fortis to service its debt requirements. Terasen's next debt maturity is in 2014. We expect Fortis will advance cash to Terasen to retire these maturities.

Outlook

The stable outlook reflects our expectations of continued sound operations and free cash flow generation. We see little prospect for a ratings improvement in the near term. We could lower the ratings or revise the outlook to negative if direct debt levels do not decline as scheduled, operational performance suffered, or the dividends from the subsidiaries were materially restricted.

Ratings Detail (As Of December 17, 2008)*	
Terasen Inc.	
Corporate Credit Rating	BBB+/Stable/NR
Senior Unsecured (1 Issue)	BBB+
Subordinated (1 Issue)	BBB
Corporate Credit Ratings History	
19-Jun-2007	BBB+/Stable/NR
26-Feb-2007	BB-/Watch Pos/NR
05-Jan-2007	BB-/Stable/NR
30-May-2006	BBB/Watch Neg/NR
06-Dec-2005	BBB/Negative/NR
02-Aug-2005	BBB/Watch Neg/NR
11-Mar-2004	BBB/Stable/NR

Ratings Detail (As Of December 17, 2008)*(cont.)	
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured (7 Issues)	A
FortisAlberta Inc.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A-
Fortis Inc.	
Issuer Credit Rating	A-/Stable/--
Preferred Stock (2 Issues)	BBB
Canadian Preferred Stock Rating (2 Issues)	P-2
Senior Unsecured (1 Issue)	A-
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured (7 Issues)	A
Terasen Gas Inc.	
Issuer Credit Rating	A/Stable/NR
Senior Secured (2 Issues)	AA-
Senior Unsecured (4 Issues)	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

RatingsDirect®

July 10, 2009

Summary:
Terasen Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Summary:

Terasen Inc.

Credit Rating: BBB+/Stable/NR

Rationale

The ratings on British Columbia-based Terasen Inc. reflect, in Standard & Poor's Ratings Services' opinion, the credit quality of the company's low-risk, regulated gas distribution business; our expectation that debt held directly at Terasen will decline in the next few years; and the support from parent Fortis Inc. (A-/Stable/--). We believe Terasen's highly leveraged financial risk profile offsets the credit strengths.

Terasen is a holding company with 100% ownership in three B.C. gas distribution companies: Terasen Gas Inc. (A/Stable/--), Terasen Vancouver Island, and Terasen Whistler. Terasen Gas has a rate base of about C$2.5 billion, while Terasen Gas Vancouver Island has one of about C$500 million. Collectively, the gas distribution subsidiaries serve more than 95% of natural gas customers in the province.

Terasen's subsidiaries benefit from monopoly positions; supportive cost-of-service regulation; and regulatory mechanisms that mitigate major operating risks, such as commodity costs. Regulatory deferral accounts and quarterly rate adjustments essentially mitigate the major risks of volatile gas commodity costs and unpredictable weather. The regulatory structure has supported a record of very stable operating results. We consider Terasen Gas Vancouver Island to have a modestly riskier credit profile, due to higher exposure to growth capital expenditures and a higher level of deferrals related to revenue deficiencies.

In our opinion, Terasen benefits from the good operational track record of its subsidiaries with strong results on standard performance indicators. We expect that both primary subsidiaries should be able to expand their customer base in part due to the strong economic growth in B.C. and the high level of housing starts.

Primary operating risks relate to both Terasen Gas and Terasen Gas Vancouver Island's reliance on the Spectra pipeline to source gas for their distribution networks. In the event of a pipeline shutdown, Terasen Gas could source gas from storage and the U.S., but it would be vulnerable to an extended pipeline shutdown. Nevertheless, we view this risk as low and acceptable at the ratings level. Furthermore, Terasen Gas Vancouver Island is proceeding with a plan to build new liquid natural gas storage on Vancouver Island.

Terasen's below-average financial risk profile reflects, in our opinion, both the high leverage at its subsidiaries and debt held directly at the holding company level. The ratings incorporate our expectation that Terasen will likely retire holding company debt by 2014 (through cash contributions from Fortis); the company recently retired a C$200 million maturity leaving a holding company debt balance of C$250 million. As of March. 31, 2009, trailing 12-month funds from operations (FFO) interest coverage was 2.2x, FFO-to-debt was about 9%, and debt to total capitalization was about 67%. We expect these ratios will improve with the retired debt at the holding company level.

We believe the significant financial risk profile faces further pressure from Terasen's subordinated position with respect to its subsidiaries' cash flow and vulnerability to regulatory directives. As a condition of the provincial regulator, Terasen's subsidiaries would not pay dividends if it would cause their equity bases to fall below that set for ratemaking purposes. As Terasen's subsidiaries are already capitalized at amounts close to these levels, Terasen's ability to receive dividends greater than net income will be very constrained. Although we believe forecast dividends should comfortably service debt at Terasen in the next several years, the company will be vulnerable to any directive that restricts dividend flows, as these represent its sole source of cash flow (aside from Fortis equity injections).

The ratings on Terasen are higher than what would result from our stand-alone credit assessment (low investment-grade), reflecting Fortis' economic interest in preserving Terasen's credit quality. If Terasen were to default, Fortis would likely lose its investment ownership. It would be in Fortis' interest to support Terasen if dividend flows were temporarily restricted. However, we have not equalized the ratings on Terasen with those on Fortis, as we do not believe it would support Terasen in all circumstances. If the value of its investment were permanently impaired, Fortis would be unlikely to support it.

Liquidity

Terasen has few sources of liquidity; it will rely on dividends from its subsidiaries to service debt. In the event that dividends were restricted, it would have to rely on parent Fortis to service its debt requirements. Terasen's next debt maturity (at the holding company level) is in 2014. We expect Fortis will advance cash to Terasen to retire these maturities.

Outlook

The stable outlook reflects our expectations of continued sound operations and free cash flow generation. We see little prospect for a ratings improvement in the near term. We could lower the ratings or revise the outlook to negative if direct debt levels do not decline as scheduled, operational performance suffered, or the dividends from the subsidiaries were materially restricted.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

September 23, 2010

Research Update:

Terasen Inc. And Terasen Gas Inc. Unsolicited Ratings Affirmed Then Withdrawn Due To Lack Of Market Interest

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Secondary Contact:
Gavin MacFarlane, Toronto;gavin_macfarlane@standardandpoors.com

Table Of Contents

Research Update:

Terasen Inc. And Terasen Gas Inc. Unsolicited Ratings Affirmed Then Withdrawn Due To Lack Of Market Interest

Rationale

On Sept. 23, 2010 Standard & Poor's Ratings Services affirmed its unsolicited ratings, including its long-term corporate credit ratings, on Terasen Inc. and subsidiary Terasen Gas Inc. Standard & Poor's then withdrew the ratings on both companies due to a lack of sufficient market interest.

Terasen Inc. is a wholly owned subsidiary of Fortis Inc. (A-/Stable/--).

Ratings List

Ratings Affirmed

Terasen Inc.	
Corporate credit rating	BBB+/Stable/--
Senior unsecured debt	BBB+
Subordinated debt	BBB
Terasen Gas Inc.	
Corporate credit rating	A/Stable/--
Senior secured debt	AA-
Senior unsecured debt	A

Ratings Withdrawn

	To	From
Terasen Inc.		
Corporate credit rating	NR	BBB+/Stable/--
Senior unsecured debt	NR	BBB+
Subordinated debt	NR	BBB
Terasen Gas Inc.		
Corporate credit rating	NR	A/Stable/--
Senior secured debt	NR	AA-
Senior unsecured debt	NR	A

NR--Not rated.

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Summary of FortisBC Holdings Inc. changes in Credit Ratings from 2002-2012
Prepared on July 30, 2012

Unsecured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	A (low)
DBRS	December 2005	Downgraded	BBB (high)

Rating Agency	Report Date	Rating Action	Rating
Moody's	January 2002	Ongoing	A3
Moody's	December 2005	Downgraded	Baa2
Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	BBB
S&P	June 2003	Downgraded	BBB-
S&P	Early 2004	Discontinued	BBB-

Note: (*) Rating was unsolicited as of early 2004

Fortis Inc.

Report Date: February 8, 2006
Press Released: February 8, 2006
Previous Report: January 12, 2005

Matthew Kolodzie, CFA/Nick Dinkha, CFA
416-593-5577 x2296/x2314
mkolodzie@dbrs.com

RATING

Rating	Trend	Rating Action	Debt Rated
BBB (high)	Stable	Confirmed	Unsecured Debentures
Pfd-3 (high)	Stable	Confirmed	Preferred Shares

(All figures in Canadian dollars, unless otherwise noted.)

RATING HISTORY

	Current	2004	2003	2002	2001	2000
Unsecured Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	NR
Preferred Shares	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	NR

RATING UPDATE

As expected, Fortis Inc.'s ("Fortis" or the "Company") financial profile improved in 2005 as the Company issued additional common equity to further reduce debt following its May 2004 acquisition of FortisAlberta Inc. ("FortisAlberta") and FortisBC Inc. ("FortisBC").

The ratings confirmation is supported by the underlying credit strength of the Company's diversified portfolio of regulated utilities holdings (no utility contributes more than 25% of cash flows) together with the strength of its non-consolidated balance sheet. On a non-consolidated basis, DBRS-adjusted debt-to-capital is expected to remain within the 20% to 30% range and fixed charges coverage is expected to remain above 2.25 times over the medium term, which is adequate to support the current ratings given Fortis' business risk profile.

The key challenge facing Fortis over the medium term will be the large capital expenditure initiatives at some of its subsidiary utilities. On a consolidated basis, Fortis' subsidiaries will embark on roughly $2.0 billion in capital expenditures over next five years, with approximately two-thirds of this occurring at FortisBC and FortisAlberta. While the majority of these capital programs will be funded with cash flow from operations and debt issued at the operating company level, Fortis will be required to inject equity, of between $20 million to $30 million per year over the next five years, into its subsidiaries to maintain the regulated capital structures at these utilities. This will be funded mainly with new equity through Fortis' various share purchase plans, which generate roughly $20 million per year, and investment income from its other subsidiaries.

As a whole, Fortis and its subsidiaries will benefit from this capital investment program, which will increase the size of the rate base at these regulated utilities and improve earnings and cash flow. Furthermore, the stability of cash flow will improve over the next five years as the proportion of cash generated by non-regulated operations (generation and property) becomes smaller. Currently, about 80% of earnings and cash flows come from regulated utility operations, and approximately 85% of the Company's existing asset base is located in Canada, which benefits from a relatively favourable regulatory regime.

RATING CONSIDERATIONS

Strengths:

- Regulated operations account for about 80% of EBIT, which provides a degree of stability of earnings and cash flow
- Subsidiaries/operations in different regions provide geographic and regulatory diversification
- 100% control of majority of holdings
- Property holdings provide a source of tax efficiency

Challenges:

- Fortis is a holding company whose debt is structurally subordinate to debt in the operating companies
- Dividends from subsidiaries limited by regulatory requirements
- Equity injections to subsidiaries for capital projects
- Regulated utility earnings sensitivity to interest rates
- Political, economic, and currency risk with foreign holdings

FINANCIAL INFORMATION

	Non-consolidated				Consolidated			
	LTM	For the year ended Dec. 31			LTM	For the year ended Dec. 31		
	Sept. 2005	2004	2003	2002	Sept. 2005	2004	2003	2002
Fixed-charges coverage (times)	2.69	2.13	2.36	1.86	2.15	2.03	2.25	2.27
Total adjusted debt-to-capital*	21.0%	26.9%	21.3%	27.0%	59.7%	63.3%	61.7%	64.0%
Cash flow-to-adjusted total debt	26.6%	14.2%	20.1%	10.6%	13.6%	10.0%	11.5%	11.4%
Cash flow/capital expenditures (times)	-	-	-	-	0.75	0.89	0.89	0.85
Operating income ($ millions)	164.4	120.1	92.2	74.4	355.4	265.8	202.0	173.4
Net income (before extras., after pfd.) ($ millions)	126.0	90.9	73.6	63.3	126.0	90.9	73.6	63.3
Operating cash flows (after pfd.) ($ millions)	24.6	14.7	16.8	9.9	299.0	219.3	138.1	127.3
Electric utility EBIT	-	-	-	-	129.5	128.9	126.7	142.8
Non-electric utility EBIT	-	-	-	-	31.4	27.6	31.9	25.7

* Adjusted for equity treatment of hybrid securities.

THE COMPANY

Fortis Inc. is a holding company focused primarily in electric utility operations. Utility subsidiaries currently include wholly owned Newfoundland Power Inc. ("NPI"), FortisAlberta, FortisBC, Maritime Electric Company, Limited ("Maritime Electric"), and FortisOntario Inc. ("FortisOntario"). Fortis also owns a 100% interest in Belize Electric Company Limited ("BECOL"), a 68% interest in Belize Electricity Limited ("Belize Electricity"), a 36.8% investment in Caribbean Utilities Company, Ltd. ("CUC"), a 51% interest in the Exploits River Partnership, and four merchant power plants in New York State. Non-utility operations include wholly owned Fortis Properties Corporation ("Fortis Properties"), which owns and manages retail, office, and hotel properties in Newfoundland, Nova Scotia, New Brunswick, Ontario, Manitoba, and Alberta.

RATING METHODOLOGY AND HOLDING COMPANIES

As a holding company, Fortis' ratings are based on the following considerations:

(1) The strength of its non-consolidated balance sheet with DBRS-adjusted debt-to-capital expected to remain in the 20% to 30% range over the medium to longer term, which is reasonable to support the current rating.

(2) The financial strength of the companies controlled by Fortis (see "Company Profile" in this report).

(3) The stability of cash inflow from operating subsidiaries, mainly dividend and interest income.

(4) The benefits of the business and geographic diversification.

(5) The structural subordination that exists between operating subsidiaries/companies and the holding company, as the holding company does not have first claim on the assets of the operating company.

RATING CONSIDERATIONS

Strengths: (1) Regulated utility operations account for about 80% of Fortis' consolidated EBIT and consolidated assets. Regulated utility operations provide a high degree of stability to earnings and cash flow. In addition, a higher proportion of earnings from operations in Canada reduces the proportion of earnings from countries with higher political risk, while also reducing foreign exchange risk.

(2) Diversification through ownership of several companies operating in various different jurisdictions reduces dependence on earnings and cash flows from any one entity, and improves stability of cash flow to Fortis. Diversification improved substantially with the addition of FortisAlberta and FortisBC. No single entity currently comprises more than 25% of Fortis' earnings, cash flow, or assets. Fortis has ownership in operating companies diversified across seven different jurisdictions, each with a different regulator.

(3) Majority interest or 100% ownership of operating entities provides Fortis with control over cash flow, subject to regulatory and debt limitations. Fortis has majority or 100% interest in all holdings with the exception of CUC. However, Fortis is the single largest shareholder of CUC (and has the first right of refusal to purchase additional shares to give it majority control), which provides Fortis with significant influence over operations.

(4) Fortis Properties provides tax efficiency to the holding company through the utilization of tax loss carry forward. In addition, it provides Fortis with a source of income to cover operating expenses at the holding company level.

(5) Favourable growth in the Company's equity base has allowed Fortis to gain critical mass in terms of market capitalization, which improves access to capital and liquidity. As an example, Fortis raised $332 million in common equity and $194.8 million in preferred equity to assist in funding the FortisAlberta and FortisBC acquisitions.

Challenges: (1) Fortis is a holding company whose debt is structurally subordinate to debt in the operating companies. As such, the rating for the holding company is lower than the weighted ratings of Fortis' key holdings.

(2) Dividends from operating companies are the primary source of cash flow to Fortis, and these dividends are highly influenced by the regulatory framework under which each subsidiary operates. For example: (a) annual dividends from NPI were reduced to roughly $9.5 million in 2002 and 2003, from $19 million in previous years, in order to maintain its capital structure; (b) unfavourable regulation in P.E.I. (prior to regulatory change in 2002) resulted in no dividends being paid by Maritime Electric from 2001 to 2003. Maintaining sufficient equity in a regulated company's capital structure to meet regulatory requirements is the key factor that limits dividend payments to Fortis.

(3) The alternative to reducing dividends for the purpose of maintaining a regulated capital structure is an equity injection by the parent holding company. However, equity injections to subsidiaries reduce the parent's cash reserves or require external financing by the parent.

(4) Earnings at regulated utilities are sensitive to interest rates, as the allowed return on equity (ROE) for regulated companies is typically tied to prevailing interest rates. The current low interest rate environment has resulted in lower allowed ROEs at many of Fortis' regulated holdings, which negatively impacts earnings and cash flows.

(5) Investments in countries such as Belize and the Cayman Islands exposes Fortis to country-specific risks such as the local economy, political environment, and exchange rates.

(6) While regulation provides earnings stability, it limits upside earnings potential. Earnings growth is typically limited to growth in the customer base, the operating company's rate base, and/or an increase in consumption per customer.

CONSOLIDATED EARNINGS AND OUTLOOK

Earnings Before Interest & Taxes		12 months ended	For the year ended December 31				
($ millions)		Sept. 30, 2005	2004	2003	2002	2001	2000
NPI	21.7%	78.0	77.7	75.0	72.7	69.9	67.4
FortisAlberta (1)	24.5%	88.3	38.2	-	-	-	-
FortisBC (1)	15.9%	57.4	33.3	-	-	-	-
Maritime Electric (2)	6.5%	23.4	22.4	21.6	21.1	20.4	8.7
FortisOntario	2.9%	10.4	11.7	12.5	18.3	10.7	10.0
Belize Electricity (3)	4.9%	17.7	17.1	17.6	17.8	15.6	12.6
BECOL (4)	0.0%	-	-	-	12.9	12.4	-
Non-regulated Fortis Generation (4)	12.8%	45.9	37.0	32.9	-	-	-
Fortis Properties (non-utility)	11.8%	42.3	37.4	36.5	30.7	23.1	13.7
Equity income (CUC) (5)	0.8%	2.8	0.8	10.5	4.9	4.2	3.1
Corporate & interseg. elimin.	-3.0%	(10.9)	(9.9)	(4.6)	(5.0)	(8.8)	(5.4)
Interest earned	1.3%	4.5	4.1	3.9	2.3	1.1	1.3
Total EBIT (6)		359.9	269.9	205.9	175.7	148.7	111.3
Net interest expense		(140.9)	(113.4)	(85.0)	(72.7)	(63.5)	(53.8)
Non-cash financial charges		2.9	(0.8)	(1.2)	(0.3)	(0.2)	(0.2)
Income taxes		(72.6)	(46.9)	(38.2)	(32.5)	(28.1)	(17.2)
Minority interest		(6.8)	(5.7)	(3.9)	(4.2)	(3.8)	(3.1)
Net income before extras. and preferred		142.6	103.2	77.6	66.0	53.1	37.0
Preferred dividends		(16.6)	(12.3)	(4.0)	(2.7)	(3.0)	(3.0)
Extraordinary/discontinued items		10.0	-	-	-	3.5	2.8
Net income available to common		136.0	90.9	73.6	63.3	53.6	36.8

(1) FortisAlberta & FortisBC were acquired in May 2004.
(2) Maritime Electric includes FortisUS Energy prior to 2003.
(3) Includes BECOL and Belize Electricity.
(4) Beginning in 2003, non-regulated Fortis Generation includes BECOL and non-regulated generation in FortisOntario and Central Nfld. Energy, FortisUS Energy, and FortisBC.
(5) Equity income from CUC.
(6) Includes interest earned

Summary:

- The key factor leading to higher EBIT for the 12 months ended September 30, 2005, is the contribution from FortisAlberta and FortisBC, acquired May 31, 2004.
  - In 2005, FortisBC and FortisAlberta had rate increases of 3.4% and 2.1%, respectively.
- EBIT at Fortis Properties also improved modestly, as a result of three properties acquired in 2005 and expansion at one of its existing hotels.
- EBIT from non-regulated generation was higher as a result of higher wholesale electricity prices in Ontario.

Consolidated Outlook:

- The Company’s diversified portfolio of regulated utilities is expected to continue generating relatively stable consolidated earnings over the medium term, with growth coming primarily from growth in the utilities’ customer base and rate base.
  - Organic growth providing $1.0 billion in asset growth is expected over the next five years.

Outlook by Subsidiary:

- **NPI** (see separate report) is expected to continue generating stable earnings, with modest growth over the medium term. Rate base is expected to grow at a rate of about 2.0% annually, and annual sales growth is expected to be in the 1.5% to 2.0% range, primarily in the St. John’s region. NPI is not applying for a rate increase for 2006, and EBIT should remain relatively unchanged. NPI benefits from one of the thickest deemed equity components for a regulated utility in Canada, at 45%.
- Earnings at **FortisAlberta** (see separate report) will benefit over the medium to longer term from healthy sales growth, in the 2% to 3% range, and significant growth in rate base as it engages in several capital upgrade projects. FortisAlberta is expected to spend about $750 million in capital expenditures over the next five years to accommodate a rapidly growing customer base. Based on its automatic adjustment formula, FortisAlberta’s ROE for 2006 has been set at 8.9% (compared with 9.5% in 2005), which will have a modest dampening effect on earnings for 2006.
- While annual sales growth at **FortisBC** (see separate report) is expected to be modest, at about 2%, earnings are expected to experience favourable growth over the medium term mainly from the expansion of FortisBC’s rate base. Approximately $550 million in capital expenditures will be made over the next five years to improve transmission reliability, which is expected to drive annual rate increases of 2% to 5% over the next few years.
- Following three years of unfavourable regulation, **Maritime Electric** returned to cost-of-service regulation in 2004, which has resulted in an earnings improvement. Earnings are expected to improve again in 2006, with a recently received 2% rate increase (July 2005), and remain relatively stable thereafter as growth in its customer base is expected to be modest.

- Earnings at **FortisOntario** are expected to remain relatively stable, with some possible upside resulting from a $10 million transmission interconnection project. The following growth opportunities remain uncertain:
  – The acquisition of local distribution companies (LDCs), as the provincial regulator is expected to encourage the consolidation of the over 85 LDCs.
  – New generation projects.
- Tariffs have been recently reset for the 2005 to 2009 timeframe at **Belize Electricity**, providing a rate increase of BZ$0.04/kWh (or 10%) over the five year period. This rate increase, which follows five years of rate reductions dating back to 1999, along with continued strong growth in demand (over 5% annually) is expected to lead to favourable earnings growth over the medium term.
- **CUC** resumed regular monthly dividends in January 2005, after temporarily suspending dividends during Q4 2004 in order to provide CUC with additional financial flexibility to cope with the damage from Hurricane Ivan. To date, electricity service has been restored to 95% of CUC's customers, with the remaining expected to be restored this year. Earnings are expected to return to pre-hurricane levels by 2007.
- Earnings from **Fortis Properties** are expected to remain relatively stable, with a modest level of growth coming from expansion plans at certain existing properties. Acquisition opportunities are limited as it is difficult for Fortis to compete with non-taxable REITs on purchase price.

CONSOLIDATED FINANCIAL PROFILE

	12 mos. ended	For the year ended December 31				
($ millions)	Sept. 2005	2004	2003	2002	2001	2000
Net income (before extras. & after pref. & minority)	126.0	90.9	73.6	63.3	49.9	34.0
Depreciation	154.0	113.7	62.3	65.1	62.5	52.5
Other non-cash adjustments	19.0	14.8	2.2	(1.0)	(0.1)	(15.8)
Cash Flow From Operations	299.0	219.3	138.1	127.3	112.3	70.7
Common dividends	(59.5)	(48.8)	(36.4)	(33.2)	(28.0)	(25.7)
Capital expenditures (net of contributions)	(398.4)	(245.4)	(155.6)	(150.5)	(147.1)	(152.9)
Gross Free Cash Flow	(158.8)	(75.0)	(53.9)	(56.3)	(62.8)	(108.0)
Changes in working capital	8.9	50.3	16.5	5.2	(25.7)	20.4
Free Cash Flow	(150.0)	(24.6)	(37.4)	(51.1)	(88.5)	(87.6)
Acquisitions & other investments	(85.3)	(779.9)	(148.2)	(192.6)	(90.3)	(83.0)
Extraordinary items	10.0	-	-	-	2.8	2.2
Net debt financing	64.4	242.3	96.5	203.3	161.9	117.8
Net pfd. financing	5.3	194.7	121.9	(50.0)	0.0	0.0
Net common equity financing	134.2	340.1	9.4	102.1	7.1	55.4
Effect of exchange rate changes on cash	(0.1)	(0.4)	(3.4)	0.3	0.0	0.2
Net Change In Cash	(21.4)	(27.9)	38.8	12.0	(7.0)	4.9
	-21.429					
Key Ratios						
Total adjusted debt in capital structure	2,200.1	2,194.6	1,202.5	1,118.4	914.1	791.4
Total adjusted debt-to-capital	59.7%	63.3%	61.7%	64.0%	63.8%	62.4%
EBITDA interest coverage (times)	3.65	3.38	3.16	3.31	3.32	3.05
Fixed-charges coverage (times)	2.15	2.03	2.25	2.27	2.16	1.89
Cash flow/total adjusted debt	13.6%	10.0%	11.5%	11.4%	12.3%	8.9%

Summary:

- On a consolidated basis, cash flow from operations remains insufficient to fully fund capital expenditures and dividends.
  – The shortfall is mainly due to high capital expenditures at FortisAlberta and FortisBC to accommodate growth initiatives.
- The Company's consolidated financial profile remains adequate for a holding company with predominately regulated utility subsidiaries, and continues to support the current ratings.
  – Consolidated debt-to-capital improved with the issuance of almost $475 million in new common equity since early 2004, and growth in cash flow from operations led to an improvement in cash flow-to-total adjusted debt.
  – Fixed-charges coverage has remained relatively unchanged.

Outlook:

- On a consolidated basis, it is expected that cash flow from operations will remain insufficient to fully fund common dividends and capital expenditures over the medium term as the capital build-out programs continue at FortisBC and FortisAlberta.
- These two wholly owned operating companies will continue to use a combination of internally generated cash, operating company-level debt and equity from Fortis to fund the shortfall, while maintaining their regulated capital structures.
- DBRS expects Fortis' financial profile to remain relatively stable over the medium term, and will

maintain its debt-to-capital in the 60% to 65% range on a consolidated basis.

- Fortis will issue new equity as required in order to maintain its capital structure within this range.

- On a consolidated basis, Fortis' subsidiaries will embark on roughly $2.0 billion in capital expenditures over the next five years, with approximately two-thirds of this occurring at FortisAlberta and FortisBC, as follows:
  - A total of $750 million over the next five years at FortisAlberta to accommodate growth in Alberta's energy sector, and
  - A total of $550 million over the next five years at FortisBC on growth-related initiatives and system upgrades.

NON-CONSOLIDATED CASH FLOWS

	Fortis Inc.					
($ millions)	12 months to	For the year ended December 31				
Dividend income:	Sept. 2005	2004	2003	2002	2001	2000
Newfoundland Power common dividends	22.0	14.2	9.6	9.5	19.0	19.0
Newfoundland Power preferred dividends	0.2	0.2	0.2	0.1	0.1	0.1
Maritime Electric dividends	1.0	1.0	-	-	-	1.2
FortisOntario	16.0	-	12.6	-	-	-
Caribbean Utilities - dividend advances (1)	15.5	11.7	8.6	5.0	4.2	3.1
BEL - dividend advances (1)	2.2	1.5	-	5.2	2.4	8.8
FortisWest (2)	19.0	17.0	-	-	-	-
Total dividend income	75.9	45.6	31.0	19.8	25.7	32.1
Interest and other income:						
Interest income from Fortis Properties	16.4	12.8	10.8	-	-	-
Interest income from FortisOntario	16.0	11.2	-	-	-	-
Interest income from Maritime Electric	0.1	-	-	-	-	-
Interest income from Fortis BC	2.4	2.4	-	-	-	-
Interest income from Fortis Energy Caymans	1.1	-	2.1	4.2	3.1	2.4
Management fees & other	2.1	2.0	2.1	2.0	0.2	-
Principal repayment & return of capital						
Total interest & other income	38.1	28.4	15.0	6.1	3.3	2.4
Total Cash Inflow	114.0	74.0	46.0	25.9	28.9	34.5
Operating expenses	(8.0)	(8.7)	(5.0)	(4.1)	(3.2)	(2.0)
Net cash available before tax	106.0	65.3	41.0	21.9	25.7	32.5
Income tax	(3.8)	(0.4)	(2.0)	1.3	0.5	1.5
Net Cash Available for Fixed Charges	102.2	64.9	39.0	23.2	26.3	34.0
Interest expense	(21.5)	(18.1)	(12.6)	(12.5)	(7.8)	(7.4)
Net cash in (after interest)	80.7	46.8	26.4	10.7	18.4	26.6
Preferred dividends	(16.6)	(12.3)	(4.0)	-	(3.0)	(3.0)
Cash available to common	64.1	34.5	22.4	10.7	15.5	23.6
Common dividends	(59.4)	(48.8)	(36.4)	(33.2)	(28.0)	(25.7)
Free Cash (before working capital)	4.7	(14.3)	(14.0)	(22.5)	(12.6)	(2.1)
Changes in working capital	21.9	14.6	3.3	(4.0)	(11.3)	(3.5)
Free Cash (after working capital)	26.6	0.3	(10.7)	(26.5)	(23.8)	(5.6)
Capital expenditures	(2.1)	(0.8)	(1.6)	(3.2)	(0.1)	(0.1)
Advances to & investments in subsidiaries	44.4	(200.8)	-	(163.5)	(24.2)	(6.6)
(Acquisitions)/divestitures	-	(574.2)	(12.8)	34.3	4.9	(80.4)
Other investments	(9.9)	-	(20.0)	18.5	(0.1)	-
Free Cash Before Financing	59.1	(775.5)	(45.1)	(140.4)	(43.3)	(92.6)
Net common equity financing	134.2	340.1	9.4	102.1	7.1	55.4
Net preferred equity financing	5.3	194.7	121.9	(50.0)	-	-
Net debt financing	(180.7)	208.4	(53.8)	97.8	26.0	42.2
Net Change in Cash	17.9	(32.3)	32.4	9.5	(10.1)	5.0
Cash flow coverage (non-consolidated) (3) (times)	2.69	2.13	2.36	1.86	2.43	3.27
Total adjusted debt-to-capital (4)	21.0%	26.9%	21.3%	27.0%	23.1%	20.4%
Cash flow-to-adjusted debt (5)	26.6%	14.2%	20.1%	10.6%	17.9%	29.6%

(1) Advances made to Fortis Inc., not all dividends paid by Belize Electricity and CUC are repatriated to Fortis Inc.

(2) FortisWest (comprised of FortisAlberta and FortisBC) pays $16 million in preferred dividends to Fortis Properties and FortisOntario annually, which is subsequently paid to Fortis as interest income. 2004 includes $2 million in common dividends and a $15 million special dividend.

(3) Cash flow coverage = net cash available for fixed charges/(interest expense + preferred dividends).

(4) Subordinate convertible debt treated as 50% equity and cumulative preferred shares treated as 70% equity.

(5) Cash flow-to-adjusted debt = net cash available for fixed charges/adjusted debt.

Summary:

- On a non-consolidated basis, Fortis has continued to generate sufficient cash to cover its operating costs and fixed charges (interest and preferred dividends).
- Fortis' financial profile improved in 2005 with the issuance of common equity and reduction in debt following the acquisition of FortisAlberta and FortisBC.
  - Non-consolidated debt-to-capital improved to 21%, which is comfortably below DBRS's threshold for the current rating given the Company's business risk profile.
- Along with the contributions from FortisAlberta and FortisBC, the return to normal dividend payments from NPI, Maritime Electric, and CUC added to the increase in total cash inflow at Fortis.
- DBRS notes the significant increase in common dividends as a result of issuance of common equity to fund the recent acquisition.

Outlook:

- DBRS expects that Fortis will continue to generate sufficient cash, on a non-consolidated basis, to fund its operating costs and fixed charges.
- However, FortisAlberta and FortisBC will each require roughly $10 million to $15 million in equity from Fortis annually over the next five years to fund significant capital upgrade programs (see separate reports), and an additional $5 million to $10 million per year in aggregate to other subsidiaries to assist in funding capital projects.
- These capital requirements will be funded mainly with new equity through Fortis' various share purchase plans, which generate roughly $20 million per year, repayment of intercompany debt due from wholly owned subsidiaries, and investment income from its other subsidiaries.
- As such, DBRS expects Fortis to maintain its debt-to-capital within the 20% to 30% range on a non-consolidated basis, and fixed charges coverage to remain above 2.25 times over the medium term, which is adequate for the current rating.
  - DBRS notes that leverage beyond the 30% range (on a non-consolidated basis) would not support the current rating. To date, Fortis has remained below this threshold.
- Fortis' investments are expected to contribute roughly:
  - $50 million to $55 million in dividend income; and
  - $50 million to $60 million in interest income and principal repayment.

LONG-TERM DEBT MATURITIES AND BANK LINES

Summary:

- Fortis and its operating subsidiaries have authorized lines of credit of $748.8 million, of which $217.7 million was utilized at September 30, 2005, consisting of the following:

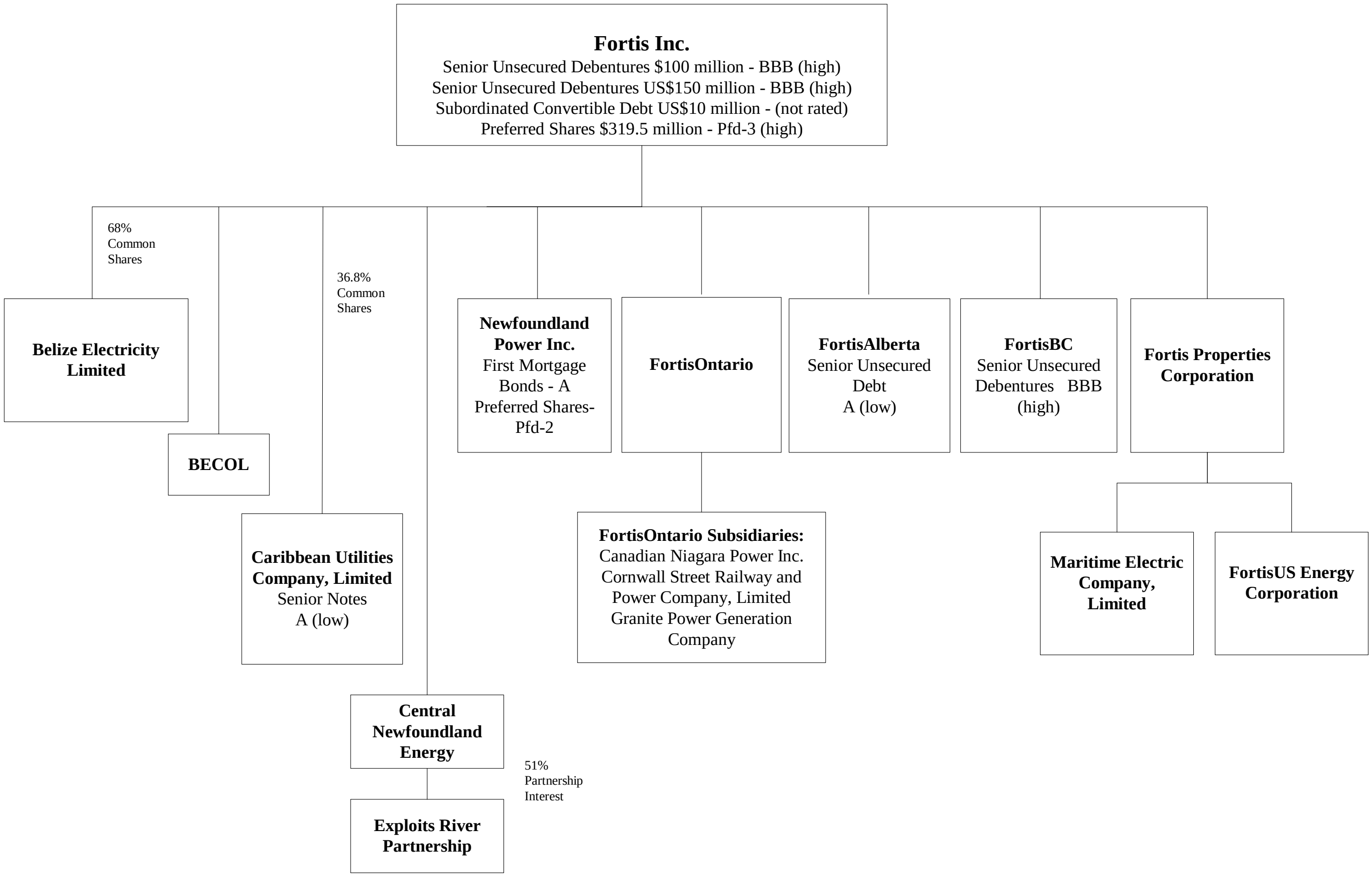
Subsidiary	Committed Credit Facilities	Non-committed Credit Facilities	Total Credit Facilities	Utilized (at Sept. 30, 2005)
Fortis Inc.	195	15	210	7.6
NPI	100	20	120	0
Maritime Electric	25	25	50	33.5
FortisAlberta	150	10	160	71.2
FortisBC	150	10	160	80
Other	-	48.8	48.8	25.4
Total	620	128.8	748.8	217.7

Non-Consolidated Debt Maturity Schedule (as at September 30, 2005):

	2006	2007	2008	2009	Thereafter
Long-term debt ($ millions)	-	-	-	-	US$170 Cdn$100

- Overall, Fortis' level of liquidity is reasonable, and the Company should be able to refinance maturing debt without any difficulty.

CORPORATE STRUCTURE



Debt Held by Operating Companies

The following is a summary of the third-party debt held at each of the operating companies (as at September 30, 2005):

- NPI: $388 million in First Mortgage Bonds (rated "A").
- FortisAlberta: $421 million in Senior Unsecured Debt [rated A (low)].
- FortisBC: $52 million in Secured Debentures [rated BBB (high)] and $285 million in Unsecured Debentures [rated BBB (high)].
- Fortis Properties: $266 million.
- Maritime Electric: $92 million in first mortgage bonds.
- CUC: $126 million in senior notes [rated A (low)].

DESCRIPTION OF OPERATIONS

Assets by Subsidiary		As at Sept. 30, 2005	For the year ended December 31 2004	2003	2002	2001	2000
Newfoundland Power	19.1%	783.7	784.1	742.0	724.3	685.0	648.1
FortisAlberta	17.2%	708.7	603.6	-	-	-	-
FortisBC	15.9%	651.5	580.8	-	-	-	-
Maritime Electric	6.4%	263.4	240.3	223.9	256.8	250.0	219.5
FortisOntario	2.9%	118.9	118.3	110.6	164.1	34.4	32.1
Belize Electricity	4.9%	201.4	196.7	214.0	230.9	216.8	178.8
BECOL	0.0%	-	-	-	109.3	114.6	-
Non-regulated Fortis Generation	6.4%	262.6	267.8	254.9	-	-	-
Fortis Properties (non-utility)	10.4%	427.2	354.2	344.4	299.3	237.5	271.0
Equity investments (CUC)	4.0%	163.6	161.3	165.2	93.2	80.3	79.9
Corporate & interseg. elimin.	0.4%	16.6	16.9	43.3	49.4	(26.7)	13.1
Goodwill	12.5%	512.6	514.0	65.4	59.7	32.8	36.2
Total Assets		4,110.2	3,838.0	2,163.8	1,987.0	1,624.8	1,478.6

Summary:

- Fortis is a holding company whose principal operating subsidiaries are involved in regulated and non-regulated electricity operations in Canada, the U.S., and the Caribbean, and property ownership and management in Canada (see corporate structure diagram on page 7). The Company's business profile consists of the following entities:
- **NPI** (rated "A", with a Stable trend), with 100% of common interest held by Fortis, is involved primarily in regulated electricity distribution and transmission on the island portion of the province of Newfoundland and Labrador. NPI serves approximately 227,000 customers, or approximately 86% of all electricity customers in the province. NPI also owns and operates 146 MW of hydroelectric generating capacity in Newfoundland. NPI purchases over 90% of its power from Crown-owned Newfoundland and Labrador Hydro, with the remainder generated from its own facilities.
- **FortisAlberta** [rated A (low], with a Stable trend) is a regulated electricity distribution company with its franchise region located in central and southern Alberta, with approximately 412,000 customers.
- **FortisBC** [rated BBB (high), with a Stable trend] is a vertically integrated regulated utility that provides electricity services to about 146,000 customers in south-central British Columbia. Its generation assets include four hydroelectric generating plants (totalling 205 MW) on the Kootenay River.
- **Maritime Electric**, a wholly owned subsidiary of Fortis Properties, is involved primarily in regulated electricity distribution and transmission in P.E.I. Maritime Electric serves approximately 70,000 customers, or roughly 90% of the electricity customers in the province. Substantially all of the power sold to Maritime Electric's customers is purchased from New Brunswick Power Holding Corporation ("NB Power"), and imported into P.E.I. via two submarine cables under the Northumberland Strait. Maritime Electric owns 150 MW of generating capacity on the island, which is kept in stand-by mode and only put into service when energy supply from off-island sources is interrupted.
- **FortisOntario** is comprised of: (1) wholly owned Canadian Niagara Power Inc. ("CNP") an electricity distributor with approximately 25,000 customers in Fort Erie and Port Colborne; and (2) Cornwall Electric, a transmission and distribution utility that supplies electricity to approximately 24,000 customers in Cornwall and the surrounding area. (3) FortisOntario also owns and operates the 75 MW Rankine Generating Station on the Niagara River, the 7.7 MW Granite Power on the Rideau Canal in Ottawa, and the 5.2 MW Cornwall district heating facility. FortisOntario sells roughly 700 GWh annually into the wholesale markets in Ontario and the U.S.
- **FortisUS Energy** is a wholly owned subsidiary of Fortis Properties that owns and operates four hydroelectric generating stations located in upper New York State, with a total combined capacity of approximately 23 MW. Power generated from these facilities is sold through a series of renewable contracts.
- **BECOL** is a wholly owned subsidiary that owns and operates a 32 MW hydroelectric generating station in Belize. This facility is capable of delivering approximately 160 GWh annually. BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement (PPA).
- **Belize Electricity** is a 68%-owned subsidiary, and is the primary producer, transmitter, and distributor of electricity in Belize, with approximately 63,000 customers.
- **CUC** [rated A (low), with a Stable trend] is the fully integrated electricity utility in the Cayman Islands. Fortis owns 36.8% of the common shares of CUC.
- **Central Newfoundland Energy**, a non-regulated wholly owned subsidiary of Fortis, holds a 51% interest in the Exploits Partnership Project ("EPP") with Abitibi Consolidated Inc. In November 2003, the EPP completed a $65 million upgrade to an existing hydroelectric facility in Newfoundland. The additional capacity (approximately 140 GWh/year) is sold to

Newfoundland and Labrador Hydro under a 25-year take-or-pay PPA.

- **Fortis Properties** is composed of: (1) 14 office and retail properties, with over 2.7 million square feet of gross lease area located in Newfoundland, Nova Scotia, and New Brunswick; and (2) 15 hotel properties with over 2,900 guest rooms and approximately 122,000 square feet of conference facilities located in Newfoundland, Nova Scotia, New Brunswick, Ontario, Manitoba, Alberta, and British Columbia.

Regulated Utilities:

Company	Jurisdiction & Regulator	Rate Methodology	Rate Base ($ millions)	Equity in Capital*	ROE (2005)	DBRS Rating
Newfoundland Power	Newfoundland, PUB	Cost of Service	744	45%	9.24%	A
Maritime Electric	PEI, IRAC	Cost of Service	200	41%	10.25%	NR
FortisOntario	Ontario, OEB	Cost of Service Price Cap - Cornwall Electric	104	50%	9.88%	NR
FortisAlberta	Alberta, AEUB	Cost of Service	661	37%	9.50%	A (low)
FortisBC	BC, BCUC	Cost of Service (multi-year PBR)	598	40%	9.43%	BBB (high)
Belize Electricity	Belize, PUC	Cost of Service (four-year tariff agreement)	BZ$263	50%	15% return on assets used in establishing tariff	NR
CUC	Grand Cayman, PUC	Cost of Service	US$253	50%	15% return on total capital	A (low)

*Equity in the capital structure deemed by the regulators, however, for Belize Electricity and CUC the value is actual equity.

Non-regulated Operations:

Non-regulated generation facilities currently owned by Fortis subsidiaries:

Subsidiary	Plants	Capacity (MW)	Generation Type
Central Newfoundland Energy	2	36	Hydroelectric
FortisOntario	8	88	Hydro, Thermal
FortisBC	1	16	Hydroelectric
FortisUS Energy	4	23	Hydroelectric
BECOL	2	32	Hydroelectric

Office and retail properties currently owned by Fortis Properties

Property	Location	Type of Property	Gross Lease Area (sq. ft.)
Fort William Building	St. John’s, NL	Office	188,170
Cabot Place I	St. John’s, NL	Office	133,327
TD Place	St. John’s, NL	Office	93,019
Fortis Building	St. John’s, NL	Office	82,325
Multiple Office	St. John’s, NL	Office and Retail	69,613
Millbrook Mall	Corner Brook, NL	Retail	121,936
Fraser Mall	Gander, NL	Retail	101,591
Marytown Mall	Marytown, NL	Retail	86,891
Fortis Tower	Corner Brook, NL	Office	70,245
Viking Mall	St. Anthony, NL	Retail	64,872
Maritime Centre	Halifax, NS	Office and Retail	560,197
Brunswick Square	Saint John, NB	Office and Retail	511,032
Kings Place	Fredericton, NB	Office and Retail	290,661
Blue Cross	Moncton, NB	Office and Retail	265,661

Hotel properties owned and managed by Fortis Properties:

Property	Location	Number of Guest Rooms	Conference Facilities (sq. ft.)
Delta St. John's	St. John's, NL	403	21,000
Holiday Inn St. John's	St. John's, NL	250	11,000
Mount Peyton	Grand Falls-Windsor, NL	150	4,433
Holiday Inn Corner Brook	Corner Brook, NL	101	4,932
Four Points by Sheraton	Halifax, NS	177	5,500
Days Inn Sydney	Sydney, NS	165	1,000
Delta Sydney	Sydney, NS	152	6,265
Delta Brunswick	Saint John, NB	255	12,776
Greenwood Calgary	Calgary, AL	213	8,500
Greenwood Edmonton	Edmonton, AL	224	8,000
Greenwood Winnipeg	Winnipeg, MN	313	10,000
Holiday Inn Kitchener	Kitchener-Waterloo, ON	183	7,797
Holiday Inn Peterborough	Peterborough, ON	153	6,600
Holiday Inn Sarnia	Point Edward, ON	151	8,400
Holiday Inn Cambridge	Cambridge, ON	143	5,828

Fortis Inc.

Consolidated Balance Sheet

($ millions)

Assets	As at Sept. 30, 2005	As at December 31 2004	2003	**Liabilities & Equity**	As at Sept. 30, 2005	As at December 31 2004	2003
Cash & equivalents	18.6	37.2	65.1	S.T. & L.T. debt due one yr.	86.0	228.9	142.6
Accounts rec.	183.9	169.6	93.8	A/P & accrued liabilities	278.9	270.1	141.1
Materials & supplies	28.8	30.2	16.5	Dividends payable	17.9	15.0	10.0
Regulatory assets (short-term)	16.9	15.2	17.1	Regulatory liabilities	2.9	23.7	2.4
Future income taxes	-	4.2	-	**Current Liabilities**	385.7	537.6	296.1
Current Assets	248.2	256.5	192.5	Def'd credits & fut. taxes	79.9	78.3	62.0
Regulatory assets (long-term)	49.2	45.3	30.4	Regulatory liabilities	56.8	7.5	-
Utility assets	2,496.9	2,347.1	1,229.1	Convertible debentures	22.9	22.9	24.5
Income-producing properties	410.0	341.1	333.6	Long-term debt	2,004.7	1,857.3	1,008.5
Long-term investments & intangibles	181.9	182.2	193.7	Non-controlling interets	37.9	37.5	36.8
Future income taxes & deferred charges	211.5	172.9	119.0	Preferred shares	319.5	319.5	123.0
Goodwill	512.6	514.0	65.4	Shareholders' equity	1,203.0	998.6	613.0
Total	4,110.2	3,859.2	2,163.8	**Total**	4,110.2	3,859.2	2,163.8

Ratio Analysis	12 months ended	For the year ended December 31							
Liquidity Ratios	Sept. 30, 2005	2004	2003	2002	2001	2000	1999	1998	1997
Current ratio	0.64	0.48	0.65	0.54	0.49	0.64	0.47	0.60	0.46
Accumulated depreciation/gross fixed assets	-	39.9%	30.7%	32.2%	32.6%	34.2%	35.8%	n/a	n/a
Cash flow/total debt (1)	14.1%	10.4%	11.7%	11.2%	12.4%	9.0%	10.7%	12.9%	14.4%
Cash flow/adjusted total debt (1)	13.6%	10.0%	11.5%	11.4%	12.3%	8.9%	10.5%	12.6%	14.1%
Adjusted total debt/EBITDA	4.28	5.72	4.48	4.64	4.33	4.83	4.38	3.86	3.46
Cash flow/capital expenditures	0.75	0.89	0.89	0.85	0.76	0.46	1.07	1.04	1.47
Cash flow-dividends/capital expenditures	0.60	0.69	0.65	0.63	0.57	0.29	0.70	0.67	1.01
% debt in capital structure (1)	57.3%	60.9%	60.3%	64.3%	62.6%	61.1%	60.1%	56.0%	56.4%
% adjusted debt in capital structure (1)	59.7%	63.3%	61.7%	64.0%	63.8%	62.4%	61.7%	57.9%	58.4%
Average coupon on long-term debt	-	7.4%	8.4%	8.4%	8.9%	8.7%	9.1%	-	-
Common dividend payout (before extras.)	34.7%	53.7%	49.5%	52.4%	49.8%	66.0%	81.7%	75.1%	74.8%
Coverage Ratios - Consolidated									
EBIT interest coverage	2.56	2.38	2.42	2.42	2.34	2.07	2.36	2.17	2.63
EBITDA interest coverage	3.65	3.38	3.16	3.31	3.32	3.05	3.39	3.17	3.68
Fixed-charges coverage	2.15	2.03	2.25	2.27	2.16	1.89	2.11	1.93	2.07
Earnings Quality/Operating Efficiency									
Operating margin	25.0%	23.2%	24.3%	24.2%	23.5%	19.0%	20.5%	19.3%	21.2%
Net margin (before extras.) (after pfd.)	11.2%	10.1%	9.8%	9.6%	8.9%	6.9%	7.0%	6.3%	8.6%
Return on avg. equity (before extras.)	17.7%	13.2%	12.3%	10.9%	10.4%	10.6%	10.3%	8.9%	13.3%

Non-Consolidated Balance Sheet	12 months ended	As at December 31						
Assets	Sept. 30, 2005	2004	2003	2002	2001	2000	1999	1998
Current assets	11.8	16.7	45.3	19.2	9.7	11.2	1.6	1.8
Loans & advances to affiliates	549.5	436.1	237.7	236.5	63.7	28.3	21.7	30.7
FortisWest	616.7	583.2	-	-	-	-	-	-
Newfoundland Power (incl. pref. shares)	330.3	319.3	301.7	281.0	261.8	251.7	244.2	230.9
Maritime Electric (2)	-	-	-	-	84.6	77.4	58.1	62.3
FortisOntario	41.6	30.7	16.5	77.2	12.2	9.2	9.7	-
Fortis Cayman (Belize Electricity)	61.4	56.8	54.5	59.4	53.0	42.9	45.0	-
Fortis Energy Cayman (BECOL)	18.4	15.4	9.1	11.5	6.9	-	-	-
Fortis Energy Bermuda (CUC)	195.4	181.8	182.8	104.3	86.2	81.3	-	-
Fortis Properties	98.0	81.9	65.8	51.6	36.5	27.8	39.9	51.8
Other assets	41.3	45.8	34.9	14.8	37.5	46.1	41.2	29.3
Total Assets	1,964.3	1,767.7	948.2	855.5	652.0	575.8	461.4	406.8
Liabilities & Equity								
Short-term debt	3.0	68.5	45.0	112.6	31.4	-	57.8	
Other current liabilities	33.1	34.4	31.0	27.3	16.6	9.6	9.9	18.1
Long-term debt	274.4	280.3	100.0	100.0	100.0	100.0	-	-
Convertible debentures	23.7	24.4	26.2	15.8	-	-	-	-
Pension liability, fut. income tax, deferreds	11.8	11.3	4.3	12.9	2.2	1.8	0.0	0.0
Total Liabilities	346.1	418.9	206.4	268.6	150.2	111.4	67.6	18.1
Loans from subsidiaries	88.1	23.8						
Preferred shares	319.5	319.5	123.0	-	50.0	50.0	50.0	50.0
Shareholders' equity	1,210.7	1,005.5	618.8	586.9	451.8	414.4	343.8	338.7
Total Liabilities and Equity	1,964.3	1,767.7	948.2	855.5	652.0	575.8	461.4	406.8

Non-Consolidated Ratios								
% adjusted debt in capital structure	21.0%	26.9%	21.3%	27.0%	23.1%	20.4%	16.1%	6.2%
Cash flow/adjusted total debt	0.0%	0.0%	20.1%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT interest coverage	7.66	6.65	7.34	5.95	7.69	5.43	23.94	35.80
EBITDA interest coverage	7.79	6.73	7.46	6.15	8.15	5.85	29.45	40.86
Fixed-charges coverage (3)	2.69	2.13	2.36	1.86	2.43	3.27	4.89	7.31

(1) Non-controlling interest in Belize treated as common equivalent minority interest preferreds in NPI and perpetual preferreds receive 70% equity weighting.

(2) Beginning in 2003, Maritime Electric is included in Fortis Properties.

(3) Fixed charges coverage = net cash available for fixed charges/(interest expense + preferred dividends).

Press Release

Date of Release: November 30, 2007

Insight beyond the rating.

DBRS Confirms Fortis Inc. at BBB (high) with Stable Trend

Industry: Energy

DBRS has today confirmed the ratings of Fortis Inc. (Fortis or the Company) at BBB (high) and Pfd-3 (high) based on its strong credit metrics and low business risk profile driven by its diverse ownership of regulated operating subsidiaries that collectively represent approximately 90% of consolidated EBITDA and assets.

In 2007, Fortis acquired one of the largest regulated natural gas distribution businesses in Canada with the acquisition of Terasen Inc. (Terasen) for $3.7 billion, including the assumption of approximately $2.4 billion in debt. The acquisition included only the gas distribution businesses and excluded the pipeline assets that Terasen previously owned. Terasen now represents Fortis' largest single investment, accounting for approximately 37% of consolidated EBITDA. DBRS views the acquisition of Terasen as neutral to slightly positive to the credit profile of Fortis given the financial, structural and operational characteristics. Improvement of the business risk profile is attributable to the stable cash flow and earnings of the established, mature regulated gas utilities, as well as increased diversification. Permanent financing for Terasen included a $1.15 billion equity issuance and a US$200 million debt issue. Consolidated credit metrics have modestly weakened as a consequence of the $2.4 billion of debt that was assumed, although the modest decline is offset by the improved diversification. On a non-consolidated basis, the Terasen acquisition is expected to be accretive to Fortis given the modest amount of debt added at the holding company level and the expected dividends from the acquired assets.

While Fortis' utility subsidiaries continue to display solid operating and financial metrics, a number are facing increasing capital expenditures in order to meet service territory growth and improve reliability; consolidated utility capital expenditures are expected to total approximately $4.0 billion over the next five years. These expenditures will result in free cash flow deficits at the subsidiary levels, which are expected to be financed with a mix of external debt and equity contributions from Fortis such that regulatory-approved capital structures are maintained. DBRS views the level of equity injections Fortis will make as reasonable, and does not anticipate the Company using debt to fund the injections, thereby avoiding double leverage. Consolidated coverage metrics may be modestly impacted by the accelerated capital expenditures, as earnings and cash flows do not begin until projects are completed and in rate base.

Note:
All figures are in Canadian dollars unless otherwise noted.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Confirmed	BBB (high)	Stb	Nov 30, 2007
Fortis Inc.	Preferred Shares	Confirmed	Pfd-3 (high)	Stb	Nov 30, 2007

The full report providing additional analytical detail is available by clicking on the link below or by contacting us at info@dbrs.com.

Robert Filippazzo
Assistant Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Jade Freadrich
Senior Financial Analyst
+1 416 597 7351
jfreadrich@dbrs.com

Michael J. Caranci
Senior Vice President
+1 416 597 7304
mcaranci@dbrs.com

Rating Report

Report Date:
November 30, 2007

Previous Report:
February 8, 2006

Insight beyond the rating.

Fortis Inc.

Analysts

Robert Filippazzo
+1 416 597 7340
rfilippazzo@dbrs.com

Jade Freadrich
+1 416 597 7351
jfreadrich@dbrs.com

The Company

Fortis Inc.'s regulated electric utilities include wholly owned Newfoundland Power Inc., FortisAlberta, FortisBC, Maritime Electric Company, Limited, FortisOntario and Fortis Turks and Caicos, as well as majority ownerships of Caribbean Utilities Company (54%) and Belize Electricity Limited (70.1%). Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. comprise its gas distribution utilities. Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Recent Actions

February 26, 2007
Confirmed at BBB (high)

February 8, 2006
Confirmed at BBB (high)

January 12, 2005
Confirmed at BBB (high)

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	BBB (high)	Confirmed	Stable
Preferred Shares	Pfd-3 (high)	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of Fortis Inc. (Fortis or the Company) at BBB (high) and Pfd-3 (high) based on its strong credit metrics and low business risk profile driven by its diverse ownership of regulated operating subsidiaries that collectively represent approximately 90% of consolidated EBITDA and assets.

In 2007 Fortis acquired one of the largest regulated natural gas distribution businesses in Canada with the acquisition of Terasen Inc. (Terasen) for $3.7 billion, including the assumption of approximately $2.4 billion in debt. The acquisition included only the gas distribution businesses and excluded the pipeline assets that Terasen previously owned. Terasen now represents Fortis' largest single investment, accounting for approximately 37% of consolidated EBITDA. DBRS views the acquisition of Terasen as neutral to slightly positive to the credit profile of Fortis given the financial, structural and operational characteristics. Improvement of the business risk profile is attributable to the stable cash flow and earnings of the established, mature regulated gas utilities, as well as increased diversification. Permanent financing for Terasen included a $1.15 billion equity issuance and a US$200 million debt issue. Consolidated credit metrics have modestly weakened as a consequence of the $2.4 billion of debt that was assumed, although the modest decline is offset by the improved diversification. On a non-consolidated basis, the Terasen acquisition is expected to be accretive to Fortis given the modest amount of debt added at the holding company level and the expected dividends from the acquired assets. (Continued on page 2.)

Rating Considerations

Strengths

(1) Regulated operations exhibit low business risk profiles
(2) Operational, geographic and regulatory diversification of operating companies
(3) 100% ownership of most operating companies
(4) Strong access to capital markets

Challenges

(1) Holding company debt is structurally subordinated to operating company debt
(2) Dividends from operating companies limited by regulatory restrictions
(3) Equity injections to subsidiaries for capital projects
(4) Regulated utility earnings sensitive to interest rates

Financial Information

	12 mos ended	For the year ended December 31				
Consolidated Metrics	Sept. 30 '07	2006	2005	2004	2003	2002
Fixed-charges coverage (times)	1.61	1.90	2.07	2.07	1.96	2.12
DBRS adjusted debt-to-capital *	65.0%	62.5%	60.7%	60.7%	63.6%	61.6%
Cash flow-to-adjusted total debt *	7.6%	10.4%	13.0%	13.0%	10.1%	11.5%
Cash flow / CAPEX (times)	0.68	0.69	0.79	0.79	0.92	0.89
Operating cash flows (after prefs, CAD millions)	423.6	298.1	299.5	299.5	224.9	138.1
Nonconsolidated Metrics						
Non-consolidated debt-to-capital *	21.4%	25.6%	21.7%	26.9%	21.4%	27.0%
Cash avail. for fixed charges / Senior interest	3.44	4.28	4.63	3.91	3.51	1.98
Cash avail. for fixed charges / (Total interest + Prefs)	1.67	2.16	2.38	2.12	2.37	1.81
Cash avail. for fixed charges / Senior debt	14.7%	24.3%	29.9%	18.4%	27.0%	10.7%
Cash avail. for fixed charges / Total debt *	11.3%	15.8%	21.9%	14.1%	20.1%	10.3%

* DBRS adjusted debt includes 70% equity treatment for preferred shares.

Fortis Inc.

Report Date:
November 30, 2007

Rating Update (Continued from page 1.)

While Fortis' utility subsidiaries continue to display solid operating and financial metrics, a number are facing increasing capital expenditures in order to meet service territory growth and improve reliability; consolidated utility capital expenditures are expected to total approximately $4.0 billion over the next five years. These expenditures will result in free cash flow deficits at the subsidiary levels, which are expected to be financed with a mix of external debt and equity contributions from Fortis such that regulatory-approved capital structures are maintained. DBRS views the level of equity injections Fortis will make as reasonable, and does not anticipate the Company using debt to fund the injections, thereby avoiding double leverage. Consolidated coverage metrics may be modestly impacted by the accelerated capital expenditures, as earnings and cash flows do not begin until projects are completed and in rate base.

Holding Company Methodology

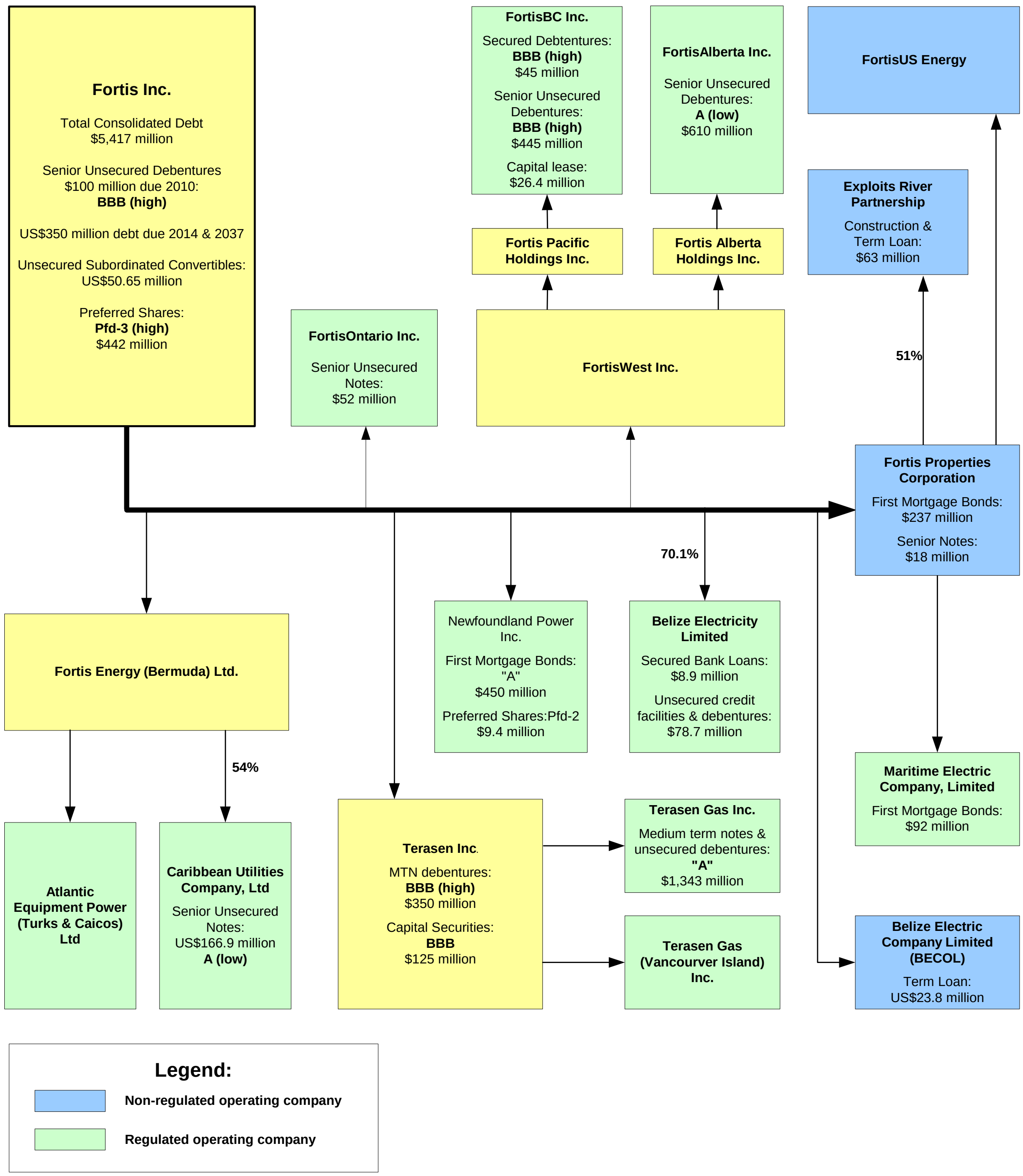
The holding company analysis used by DBRS for the ratings of Fortis is based on the following considerations:

- The operational and geographic diversification benefits of the various operating companies owned by Fortis.
- The ability of the regulated operating companies to make distributions within the context of their respective regulatory environments and the means by which the distributions are made. Fortis receives (1) dividends on equity invested in its operating companies; and (2) interest payments on inter-company loans to its operating companies.
- The financial strength of Fortis on a non-consolidated basis as measured by its holding company metrics.
- The structural subordination between Fortis and its operating companies. Fortis does not have first claim on the assets or cash flows of its operating companies.
- The credit strength of the operating companies controlled by Fortis. DBRS separately rates those most significant including FortisBC Inc. (FortisBC), FortisAlberta Inc. (FortisAlberta), Caribbean Utilities Company, Ltd. (CUC), Newfoundland Power Inc. (NPI), Terasen Inc. (Terasen) and Terasen Gas Inc. (TGI).

Fortis Inc.

Report Date:
November 30, 2007

Abbreviated Corporate and Debt Structure *



* Balances presented represent December 31, 2006, amounts adjusted to reflect significant capital market and private placement activity up to the date of this report.

Rating Considerations Details

Strengths

(1) Earnings and cash flow are supported by stable regulated operations that exhibit low business risk profiles. Regulated operations account for approximately 90% of consolidated EBITDA and assets.

(2) A high level of diversification is provided through ownership of several companies operating in different jurisdictions and regulatory environments. The addition of regulated gas distribution through the acquisition of Terasen improves Fortis' overall business risk profile. The Terasen utilities are regulated by the British Columbia Utilities Commission (BCUC), which is one of the more favourable regulators in Canada.

(3) Fortis maintains majority control over its operating entities, most of which are wholly owned. Importantly, this provides Fortis, within the boundaries of regulatory approval, the discretion over (1) the manner in which cash flows are paid to it from its operating companies; and (2) the ability to contribute capital to, and withdrawal from, its operating companies. Ownership of CUC was increased to 54% from 37% in 2006.

(4) The financial profile of Fortis benefits from flexibility afforded to it through its large balance sheet that improves access to the capital markets for itself and its utility subsidiaries. The acquisition of Terasen increased Fortis' total capital by approximately 82%.

Challenges

(1) Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies, accounting for the lower debt rating of Fortis relative to the debt ratings of its key operating companies.

(2) Capital structures of the utility subsidiaries are subject to the regulatory framework in which each subsidiary operates. Effectively, having to maintain a sufficient level of equity in a utility subsidiary acts as a restriction on dividends to the parent entity.

(3) Free cash flow deficits of some operating companies will require funding by Fortis in the form of either equity injections or reduced dividends. Such is required within the context of preserving regulatory capital structures of the operating companies. FortisAlberta and FortisBC currently exhibit the largest free cash flow deficits of Fortis' operating companies that are attributable to their large capital expenditure programs.

(4) Earnings and cash flow at regulated utilities are sensitive to interest rates, as the allowed return on equity for regulated companies is typically driven by prevailing interest rates. The current low interest rate environment has resulted in lower allowed ROEs at many of Fortis' regulated holdings and has had a negative impact on earnings and cash flows.

Summary of Terasen Inc. Acquisition

Terasen was acquired from Kinder Morgan Canada, a wholly owned subsidiary of Kinder Morgan Inc. (KMI), in May 2007 for total consideration of approximately $3.7 billion, including the assumption of approximately $2.4 billion in debt. Under the ownership structure of Fortis, Terasen is a holding company that fully owns various operating companies.

Included in the transaction, Terasen retained its regulated gas distribution operating companies Terasen Gas Inc. (TGI), Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc (TGWI), as well as its 30% interest in CustomerWorks LP., a non-regulated billing and meter-reading services business operated in partnership with Enbridge Inc. The acquired assets service a customer base of approximately 900,000 in 125 communities, or 95% of the natural gas distribution customers in British Columbia.

Terasen's assets and cash flow coverage have been reduced from historical levels as the transaction excluded Terasen Pipelines (Trans Mountain) Inc., Terasen Pipelines (Corridor) Inc. and a 33% interest in Express Pipeline System.

The transaction approximately doubled Fortis' regulated rate base to $6 billion, with Terasen's largest utility (TGI) representing a rate base of $2.5 billion.

The majority of $1.3 billion financing required to fund the acquisition (excluding assumed debt) of Terasen was completed in May 2007 with the issuance of $1.15 billion of Fortis common shares. A US$200 million long-term issue refinanced a credit facility borrowing.

Consolidated Earnings and Outlook

	12 mos ended	For the year ended December 31				
(CAD millions)	Sept. 30 '07	2006	2005	2004	2003	2002
Terasen Gas (1)	82	-	-	-	-	-
Newfoundland Power	110	110	110	109	104	108
FortisAlberta	146	136	147	70	-	-
FortisBC	93	85	70	43	-	-
Other Canadian (2)	58	54	48	48	48	47
Total Caribbean (3)	78	41	36	24	34	26
Corp. & interseg. elimin. (4)	(3)	(7)	(7)	(6)	(3)	-
EBITDA: Regulated	564	419	403	287	184	181
Non-regulated Fortis Generation	54	58	60	47	41	22
Fortis Properties (non-utility)	65	58	54	47	41	35
Corp. & interseg. elimin.	(1)	(2)	(2)	(2)	(1)	0
EBITDA: Non-regulated	119	114	112	92	80	57
EBITDA: Total	683	533	515	380	264	238
Depreciation	(241)	(178)	(158)	(114)	(62)	(65)
EBIT	442	355	358	266	202	173
Net interest expense	(233)	(152)	(137)	(110)	(82)	(71)
Income taxes	(25)	(33)	(70)	(47)	(38)	(32)
Minority interest	(14)	(8)	(6)	(6)	(4)	(4)
Net income before extras and prefs	170	163	144	103	78	66
Preferred dividends	(23)	(18)	(17)	(12)	(4)	(3)
Extraordinary & discontinued items	-	2	10	-	-	-
Net income available to common	148	147	137	91	74	63

(1) Terasen Gas was acquired on May 17, 2007.

(2) Includes Maritime Electric and FortisOntario.

(3) Primarily reflects Caribbean Utilities Company. Other smaller Caribbean utilities include Belize Electricity and Fortis Turks and Caicos.

(4) Corporate & intersegment eliminations are proporationately allocated to regulated and un-regulated segments.

Summary

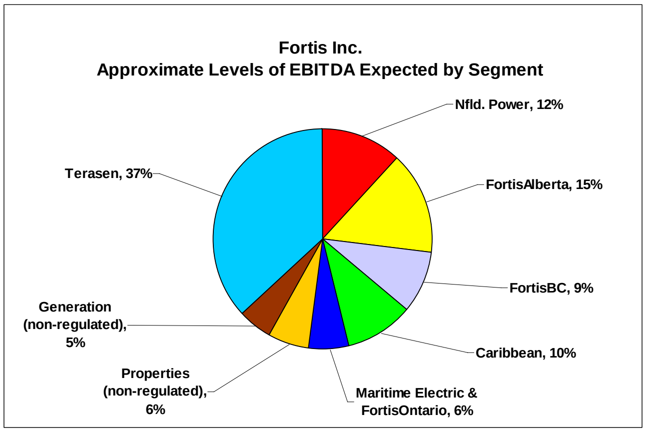
Stability of earnings and cash flow remain supported by regulated utilities that account for an increasingly larger proportion of consolidated operations. Diversity of Fortis' earnings base was increased with the addition of Terasen's regulated gas distribution operations.

All of the regulated utilities have generated either stable or modestly growing EBITDA, as would be expected from utility operations. Total EBITDA has grown, largely reflective of the utility acquisitions made over time.

The increase of EBITDA from Caribbean operations is attributable to (1) the acquisition of Fortis Turks and Caicos in August 2006; and (2) the increase in ownership of CUC to 54% from 37% in November 2006.

EBITDA from the non-regulated generation business peaked in 2005, reflective of the high wholesale pricing in Ontario during that time.

Interest expense has increased year over year, consistent with the pattern in EBITDA.



Consolidated Outlook

Stable consolidated earnings are expected over the medium term with approximately 52% of EBITDA coming from regulated electric utilities, 37% of EBITDA from regulated gas utilities and the remaining 11% of EBITDA from non-regulated generation and small non-utility business. The majority of organic growth is expected to come from infrastructure investment at the regulated utilities in Western Canada and at the regulated and non-regulated utilities in the Caribbean.

Outlook by Major Operating Companies

Terasen Gas Inc.: DBRS expects stable earnings with little or no growth over the medium term from the mature regulated gas utility. No significant future projects are currently under consideration and modest rate base growth is expected from modest growth capital expenditure. The majority of TGI's capital expenditures are used to maintain existing assets.

FortisAlberta Inc.: Earnings from regulated electricity distribution will benefit over the medium to longer term from growth of sales and its rate base as it engages in several capital upgrade projects. FortisAlberta is expected to spend about $650 million in capital expenditures over next three years to accommodate a rapidly growing customer base. A decline in the allowable ROE to 8.51% in 2007 from 8.93% in 2006 will partially offset the positive impact of the larger rate base.

FortisBC Inc.: EBIT and net income are expected to grow over the medium term, driven primarily by the economic expansion in FortisBC's service area and its growing rate base related to its five-year $500 million capital expenditure program, including electricity transmission upgrades, substation and terminal development, and turbine upgrades.

Newfoundland Power Inc.: Regulated transmission and distribution operations are expected to continue generating stable earnings and cash flow in the future. Due to application of the automatic adjustment formula, effective January 1, 2007, the Company's allowed ROE was reduced from 9.24% to 8.6%, causing forecast revenues to decline by approximately $2.5 million. NPI benefits from one of the thickest deemed equity components for a regulated utility in Canada, at 45%.

Caribbean Utilities Company, Ltd.: Earnings from regulated integrated electricity operations are expected to benefit from an increase in electricity demand over the medium term while new supply has recently come online. Annual load growth is forecasted to average 5% over the next five years beyond F2008, as tourism continues to recover from the effects of Hurricane Ivan and as new residential and commercial development projects are completed. Post Hurricane Ivan, the Cayman Islands' economy continues to sustain substantial growth.

Fortis Properties Corporation (Fortis Properties): Earnings are expected to increase in the short term to reflect the acquisition of four hotels in Alberta and B.C. for $52 million in November 2006, and the acquisition of Delta Regina in 2007 for $50 million.

Fortis Inc.

Report Date:
November 30, 2007

Consolidated Financial Profile

Consolidated Statement of Cash Flow	12 mos ended	For years ended December 31				
(CAD millions)	Sept. 30 '07	2006	2005	2004	2003	2002
Net income (before extras, after prefs & minority)	148	145	127	91	74	63
Depreciation	241	178	158	114	62	65
Other non-cash adjustments	35	(24)	15	20	2	(1)
Cash Flow From Operations	424	298	299	225	138	127
Common dividends	(119)	(75)	(64)	(51)	(36)	(33)
Capital expenditures (net of contributions)	(621)	(430)	(380)	(245)	(156)	(150)
Gross Free Cash Flow	(316)	(206)	(144)	(71)	(54)	(56)
Changes in working capital	(147)	(37)	(6)	47	17	5
Free Cash Flow	(463)	(243)	(150)	(24)	(37)	(51)
Acquisitions & other investments	(1,427)	(197)	(88)	(781)	(148)	(193)
Extraordinary items	-	2	10	-	-	-
Net debt financing	613	309	89	242	96	203
Net pfd. financing	0	121	(0)	195	122	(50)
Net common equity financing	1,269	15	135	340	9	102
Effect of exchange rate changes on cash	(2)	0	(0)	(0)	(3)	0
Net Change In Cash	(11)	8	(4)	(28)	39	12
DBRS adjusted debt (consolidated) (1)	5,539	2,869	2,301	2,219	1,199	1,116
Consolidated Ratios:						
DBRS adjusted debt-to-capital	65.0%	62.5%	60.7%	63.6%	61.6%	63.8%
Cash flow / DBRS adjusted debt	7.6%	10.4%	13.0%	10.1%	11.5%	11.4%
EBITDA interest coverage (times)	2.82	3.32	3.47	3.21	2.91	3.09
EBIT interest coverage (times)	1.83	2.21	2.41	2.25	2.22	2.25

(1) DBRS adjusted debt includes 70% equity treatment of preferred shares.

Summary

While cash flow from operations has grown steadily, tracking EBITDA levels, levels are insufficient to fully fund capital expenditures and dividends on a consolidated basis. This shortfall is primarily attributable to high capital expenditures at FortisAlberta and FortisBC to accommodate growth initiatives.

- DBRS notes that cash flow/total adjusted debt is understated for the period 12 months ended September 30, 2007, on account of the timing of the Terasen acquisition that closed May 2007, as well as the seasonal nature of Terasen's earnings.
- Cash flow deficits at the individual subsidiary levels are typically funded with a mix of external debt and equity from Fortis, in order to preserve the regulatory-approved capital structures.

The modestly higher level of consolidated leverage attributable to the Terasen acquisition is commensurate with the higher leverage that is typically employed by regulated gas utilities and remains acceptable at the current ratings.

Fortis issued $125 million of preferred equity in September 2006 and $150 million of common equity in January 2007. The proceeds were primarily used to:

- Finance the $94 million acquisition of Fortis Turks and Caicos in August 2006.
- Finance the US$49 million increase in ownership of CUC to 54% from 37% in November 2006.
- Fund equity injections into FortisAlberta and FortisBC to support their capital expenditure programs.
- Finance the $51.6 million acquisition of four hotels in Western Canada by Fortis Properties.

The equity issuance of $1.15 billion provided the majority of funds required to finance the $3.7 billion acquisition of Terasen that included $2.3 billion of assumed debt. Long-term financing was put in place with US$200 million of privately placed debt in September 2007.

Outlook

Gross consolidated utility capital expenditures of approximately $770 million are expected for year-end 2007 including $140 related to TGI. Approximately 50% to 55% of this is maintenance capital expenditure, 45% to 50% is for growth capital expenditure.

Gross consolidated utility capital expenditures of approximately $900 million are expected for 2008. Over the next five years, gross consolidated utility capital expenditures of $4 billion are expected to be allocated 75% electric utilities, 25% gas utilities.

The majority of electric utility capital expenditures are expected to be driven by FortisAlberta and FortisBC that will continue to use a combination of internally generated cash, operating-company-level debt and equity from Fortis to fund their capital build out programs, while maintaining their respective regulated capital structures.

DBRS expects Fortis' financial profile to remain relatively stable over the medium term with the maintenance of its consolidated debt-to-capital in the 60% to 65% range. Coverage metrics may be modestly impacted in the short term due to the capital build out at the subsidiary utilities, as earnings and cash flows on invested capital do not begin until projects are completed and enter rate base. The subsidiaries' required parent equity injections are viewed as manageable, and DBRS does not expect Fortis to use holding-company level debt to fund the equity injections.

Fortis Inc.

Report Date:
November 30, 2007

Non-Consolidated Cash Flows

Non-consolidated Cash Flow	12 mos ended	For the year ended December 31				
(CAD millions)	Sept. 30 '07	2006	2005	2004	2003	2002
Dividend income:						
Newfoundland Power common dividends	11	18	23	14	10	9
Newfoundland Power preferred dividends	0	0	0	0	0	0
Fortis Properties	5	4	-	-	-	-
Maritime Electric dividends	-	-	-	1	-	-
FortisOntario	12	12	30	-	13	-
FortisWest	4	2	3	17	-	-
Terasen	-	-	-	-	-	-
Total dividend income:	32	36	57	32	22	10
Free cash flow advances:						
BEL	6	5	2	2	-	5
BECOL	4	7	2	-	-	4
Caribbean Utilities	10	10	2	12	9	5
Turks & Caicos	-	-	-	-	-	-
Total free cash flow advances:	19	22	5	13	9	14
Interest income:						
Fortis Properties	26	23	18	13	11	-
FortisOntario	16	16	16	11	-	-
FortisBC	1	0	-	2	-	-
Terasen	2	-	-	-	-	-
Fortis Energy Caymans	-	-	2	-	2	4
Turks & Caicos	-	-	-	-	-	-
Total interest income	44	39	36	26	13	4
Management fees & other	2	2	2	2	2	2
Total Cash Inflow	98	99	100	74	46	30
Operating expenses	(9)	(11)	(9)	(9)	(5)	(4)
Current income tax	-	0	0	(0)	(0)	(0)
Capital expenditures	(1)	(1)	(3)	(1)	(2)	(3)
Cash Available for Fixed Charges	88	87	88	64	39	23
Senior interest expense	(26)	(20)	(19)	(16)	(11)	(11)
Subordinate interest expense	(4)	(2)	(1)	(2)	(1)	(1)
Cash flow after interest	58	65	68	46	27	10
Preferred dividends	(23)	(18)	(17)	(12)	(4)	-
Cash available to common	36	47	51	34	23	10
Common dividends	(109)	(73)	(62)	(49)	(36)	(33)
Free Cash before working capital	(73)	(26)	(11)	(15)	(14)	(23)
Changes in working capital	11	11	4	11	3	(4)
Free Cash after working capital	(62)	(15)	(8)	(4)	(11)	(27)
Loans/equity into FortisWest	-	-	-	-	-	-
(Acquisitions)/Divestures	(1,256)	(131)	-	(762)	(13)	34
Other investments	(0)	(0)	(0)	(5)	(20)	18
Translation adjustment	-	-	0	0	(2)	0
Other	5	3	2	(5)	(8)	1
Free Cash Before Financing	(1,650)	(238)	(92)	(775)	(53)	(141)
Net common equity financing	1,269	16	136	340	9	102
Net preferred equity financing	-	121	(0)	195	122	(50)
Net debt financing	348	109	(51)	208	(54)	98
Net Change in Cash	(33)	9	(6)	(32)	25	9
Senior Debt (non-consolidated)	598	359	295	349	145	213
DBRS adjusted debt (non-consolidated) (1)	780	550	403	457	195	221
Non-consolidated Metrics:						
Cash avail. for fixed charges/Senior interest	3.44	4.28	4.63	3.91	3.51	1.98
Cash avail. for fixed charges/(Total interest + Prefs)	1.67	2.16	2.38	2.12	2.37	1.81
Cash avail. for fixed charges/Senior debt	14.7%	24.3%	29.9%	18.4%	27.0%	10.7%
Cash avail. for fixed charges/Total debt (1)	11.3%	15.8%	21.9%	14.1%	20.1%	10.3%

(1) DBRS adjusted debt includes 70% equity treatment of preferred shares.

Fortis Inc.

Report Date:
November 30, 2007

Summary

The dividends and interest paid to Fortis from its operating companies continues to be sufficient to meet its operating costs and fixed charges (interest and preferred dividends) on a non-consolidated basis, but insufficient to fully fund the common dividend.

A significant amount of interest is paid to Fortis from Fortis Properties and FortisOntario, despite their relatively small earnings base. This is attributable to the flow of funds from FortisAlberta and FortisBC (through FortisWest) paid as dividends to Fortis Properties and FortisOntario, which are subsequently paid to Fortis as interest. The external debt obligations of Fortis Properties and FortisOntario are subordinate to Fortis in terms of the cash flowing from FortisAlberta and FortisBC.

Outlook

DBRS expects that Fortis will continue to receive sufficient dividends and interest from its operating companies to fund fixed charges and operating expenses on a non-consolidated basis considering (1) the incremental US$200 million debt issued September 2007; and (2) incremental debt expected from the Fortis-level refinancing of Terasen Inc. maturing obligations.

Fortis will likely be required to inject equity into FortisAlberta and FortisBC to support their three-year $650 million and five-year $500 million capital expenditure programs, respectively. Equity injections are also expected to be made to Belize Electric (BECOL) in order to finance the estimated US$52.5 million Vaca hydroelectric facility in Belize expected to commence operation in 2009.

TGI did not make distributions during 2006 (under KMI's ownership) in order to increase its equity base within context of the BCUC's March 2006 decision to increase TGI's deemed equity to 35% from 33%. Dividends payments resumed in 2007 and are expected to remain stable.

Fortis Inc.

Report Date:
November 30, 2007

Long-Term Debt Maturities and Credit Facilities

The assumed $2.3 billion of Terasen-debt includes $450 million of debt at Terasen and $1.8 billion of utility-level debt predominately at TGI and TGVI. It is likely that the Terasen debt will be refinanced at the Fortis level as Terasen's debt matures. Terasen debt includes (1) BBB (high) rated debentures ($200 million due December 2008 and $125 million due 2014), and (2) $125 million of subordinated debentures rated BBB.

At the holding company level, Fortis has a total $615 million available in total credit facilities, including a $600 million committed unsecured credit facility that was amended from $250 million in connection with the closing of the Terasen acquisition. This facility matures in May 2012.

Fortis' utility subsidiaries maintain credit facilities totaling $1.5 billion.

Fortis is restricted under its indenture from exceeding 75% of consolidated debt-to-capitalization.

Credit Facilities as at Sept. 30, 2007 (CAD millions)

	HoldCo	Regulated Subsidiaries	Non-regulated Subsidiaries	Total
Total credit facilities	615	1,492	13	2,119
Drawing on credit facilities (S-T)		(403)	-	(403)
Drawing on credit facilities (L-T)	(148)	(277)	-	(425)
Letters of credit	(62)	(103)	(0)	(165)
Credit facilities available	**405**	**987**	**12**	**1,127**

Repayment of Long-Term Debt and Capital Lease Obligations Pro Forma of Terasen Acqusition (CAD millions)

	2007	2008	2009	2010	2011
Fortis Inc. Senior debt	-	-	-	100	-
Fortis Inc. Subordinated debt	-	-	-	-	-
Subsidiary debt (excludes Terasen)	85	67	40	309	84
Terasen Inc. [1]		200			
Terasen OpCo debt [1]	286	189	61	151	271
Total	**371**	**456**	**102**	**561**	**354**

(1) Terasen was acquired May 17, 2007.

Holdco - Fortis Inc.

Outstanding (1)	Amount (CAD millions)	Rating
Senior Unsecured		
7.40% Debentures, due 2010	100	BBB (high)
6.6% Notes due 2037 (US$200) *	200	
5.74% Notes due 2014 (US$150M)	150	
Drawing on credit facility	148	
Total	**598**	
Unsecured Subordinated Convertible Debentures		
6.75%, due 2012 (US$10M)	5	
5.50%, due 2013 (US$10M)	6	
5.50%, due 2016 (US$40M)	40	
Total	**51**	

* Issued September 6, 2007.

Consolidated Long-term Debt *

	Amount (CAD millions)	Rating
Fortis Senior	598	BBB (high)
Fortis Subordinated	51	
Subsidiary Regulated	3,991	
Subsidiary Non-regulated	352	
Total	**4,992**	

* Excludes capital lease obligations.

Description of Operations

Summary of Operating Companies
Fortis is a holding company whose principal operating companies are involved in regulated and non-regulated electricity operations in Canada, the United States and the Caribbean, and property ownership and management in Canada. The Company's primary businesses consist of the following:

Terasen Inc. (rated BBB (high) and BBB, see separate DBRS report, September 11, 2006) is a holding company that owns regulated natural gas distribution businesses that primarily include (1) TGI (see separate DBRS report, March 16, 2007), which provides distribution services to approximately 735,000 residential and 82,000 commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and interior of British Columbia; and (2) TGVI, which owns a combined distribution and transmission system and serves approximately 88,000 residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island. The acquisition from KMI did not include the refined products and crude oil pipelines assets that were formerly owned by Terasen Inc. DBRS notes both TGI and TGVI are regulated by the BCUC which is one of the more favourable regulators in Canada, on account of the allowance of normalization mechanisms that substantially mitigate commodity, weather and interest rate risk.

Newfoundland Power Inc. (rated "A", see separate DBRS report, March 9, 2007) is a regulated transmission and distribution of electricity is its primary business to approximately 229,000 customers throughout the island portion of Newfoundland. NPI purchases over 90% of its electricity needs from government-owned Newfoundland and Labrador Hydro (NLH) and generates the balance from owned generation facilities (approximately 136 MW). Fortis owns 100% of the common shares and 25% of the preference shares.

FortisAlberta Inc. (rated A (low), see separate DBRS report, May 25, 2007) is a regulated electricity distribution company with approximately 433,000 customers that accounts for approximately 56% of the Alberta distribution grid. Its franchise area includes central and southern Alberta, the suburbs surrounding Edmonton and Calgary, Red Deer, Lethbridge and Medicine Hat. FortisAlberta is indirectly wholly owned by Fortis Inc.

FortisBC Inc. (rated BBB (high), see separate DBRS report, March 7, 2007) is a vertically integrated regulated utility holding company operating in south-central British Columbia, serving over 150,000 customers. Its generation assets include four hydroelectric generating plants (totaling 235 MW) on the Kootenay River in south-central British Columbia. FortisBC is indirectly wholly owned by Fortis Inc.

FortisOntario is an integrated electric utility which owns and operates the regulated distribution businesses of Canadian Niagara Power and Cornwall Electric. Its utilities serve approximately 52,000 customers mainly in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario.

Caribbean Utilities Company, Ltd. (rated A (low), see separate DBRS report, September 14, 2007) is the fully integrated electricity utility in the Cayman Islands. Fortis increased its indirect ownership of the common shares of CUC to 54% from 37% in November 2006.

Belize Electricity Limited (BEL): Operations include regulated generation, transmission and distribution in Belize. It is the primary utility with approximately 71,000 customers and is 70.1%-owned indirectly by Fortis.

Belize Electric: Non-regulated 32MW hydro generation in Belize. All output is sold to Belize Electricity Limited under a 50-year power purchase agreement (PPA). BECOL is currently constructing a US$52.5 million 18 MW hydroelectric generating facility at Vaca on the Macal River in Belize (expected completion in late 2009).

Fortis Turks and Caicos was acquired in August 2006 for $98 million. Fortis Turks and Caicos serves approximately 7,700 customers or 80 percent of electricity consumers in the Turks and Caicos Islands pursuant to 50-year licenses that expire in 2036 and 2037.

Fortis Properties owns and operates (1) 18 hotels, offering more than 3,200 rooms in Newfoundland, Nova Scotia, New Brunswick, Ontario, Manitoba, Alberta and British Columbia; and (2) 2.7 million square feet of commercial office and retail space in Atlantic Canada and Western Canada.

Maritime Electric: Regulated transmission and distribution of electricity is its primary business to approximately 71,000 or 90 percent Prince Edward Island's electricity customers. Substantially all of the power is purchased from New Brunswick Power Holding Corporation (NB Power) and imported into P.E.I. via two submarine cables under the Northumberland Strait. Maritime Electric owns 150 MW of generating capacity on the island, which is kept in stand-by mode and only put into service when energy supply from off-island sources is interrupted. Maritime Electric is indirectly owned by Fortis through Fortis Properties.

Regulated Operating Company	Jurisdiction & Regulator	Rate Methodology	Rate Base (CAD millions)	Deemed Equity in Capital Structure	Allowed ROE for 2007	Rating
TGI	BC, BCUC	Cost of Service	2,516	35%	8.37%	A
TGVI	BC, BCUC	Cost of Service	480	40%	9.07%	-
Newfoundland Power	Newfoundland, PUB	Cost of Service	788	45%	8.60%	A
FortisAlberta	Alberta, AEUB	Cost of Service	939	37%	8.51%	A (low)
FortisBC	BC, BCUC	Cost of Service (multi-year PBR)	765	40%	8.77%	BBB (high)
FortisOntario	Ontario, OEB	Cost of Service / Price Cap (Cornwall Electric)	107	50%	9.0%	-
Maritime Electric	PEI, IRAC	Cost of Service	255	41%	10.25%	-
CUC	Grand Cayman (under licence)	Cost of Service	324	n/a	15% return on total capital	A (low)
Fortis Turks and Caicos	Turks and Caicos (under licence)	Cost of Service	68	n/a	17.5% return on rate base	-
Belize Electricity	Belize, PUC	Cost of Service (four-year tariff agreement)	157	n/a	15% return on assets used in establishing tariff	-

Fortis Inc.

Report Date:
November 30, 2007

Fortis Inc.

Consolidated Balance Sheet

(CAD millions)	As at	As at December 31			As at	As at December 31	
Assets	Sept. 30 '07	2006	2005	**Liabilities & Equity**	Sept. 30 '07	2006	2005
Cash & equivalents	51	41	33	S.T. debt	403	98	49
Accounts rec.	423	278	204	L.T. debt due one year	262	85	31
Materials & supplies	278	33	19	A/P & accrued liabilities	725	335	295
S.T. Regulatory assets	176	36	33	Dividends payable	34	22	18
Income taxes receivable	-	8	-	S.T. Regulatory liabilities	18	26	19
Prepaids	32	14	10	Income taxes payable	25	-	-
Current Assets	961	409	299	**Current Liabilities**	1,467	565	412
Regulatory assets	193	133	82	Def'd credits & fut. taxes	312	137	109
L.T. Utility assets	6,556	3,575	2,900	L.T. Regulatory liabilities	375	339	368
Income-producing properties	519	469	415	Non-controlling interets	114	131	40
Long-term investments	3	3	167	Long-term debt	4,752	2,566	2,137
Deferred charges & other assets	186	181	148	Preferred shares	442	442	319
Future income taxes	38	7	59	Shareholders' equity	2,545	1,268	1,212
Goodwill & intangibles	1,551	671	526				
Total	10,006	5,447	4,597	**Total**	10,006	5,447	4,597

Consolidated Metrics

	12 mos ended	For the year ended December 31				
	Sep 30 '07	2006	2005	2004	2003	2002
Liquidity & Cash Flow Ratios						
Current ratio	0.65	0.72	0.73	0.55	0.65	0.54
Cash flow / Adjusted total debt	7.6%	10.4%	13.0%	10.1%	11.5%	11.4%
Cash flow / CAPEX	0.68	0.69	0.79	0.92	0.89	0.85
(Cash flow - Dividends) / CAPEX	0.49	0.52	0.62	0.71	0.65	0.63
Leverage Ratios						
Adjusted total debt / EBITDA	8.08	5.35	4.44	5.78	4.47	4.63
% adjusted debt in capital structure	65.0%	62.5%	60.7%	63.6%	61.6%	63.8%
Coverage Ratios						
EBIT interest coverage	1.83	2.21	2.41	2.25	2.22	2.25
EBITDA interest coverage	2.82	3.32	3.47	3.21	2.91	3.09
Fixed-charges coverage	1.61	1.90	2.07	1.96	2.12	2.15
Earnings Quality						
Operating margin	21.1%	24.3%	25.0%	23.2%	24.3%	24.2%
Net margin (before extras, after prefs)	9.2%	12.4%	11.2%	10.1%	9.8%	9.6%
Return on avgerage equity (before extras)	10.9%	16.8%	16.0%	13.2%	12.3%	10.9%
Common dividend payout (before extras)	80.3%	50.3%	43.6%	55.6%	49.5%	52.4%

Note: 70% equity treatment is given to the cumulative preferred shares.

Fortis Inc.

Report Date:
November 30, 2007

Fortis Inc.

Non-Consolidated Balance Sheet

(CAD millions)	As at	As at December 31			As at	As at December 31	
Assets:	Sept. 30 '07	2006	2005	**Liabilities & Equity:**	Sept. 30 '07	2006	2005
Cash & equivalents	3	6	-	Short-term debt	-	-	3
Accounts receivable	10	9	14	A/P + accr'd liab	41	35	26
Prepaids & other	1	2	0	Interest payable	8	4	4
Current Assets	14	17	15	**Current Liabilities**	50	39	33
Fixed assets	13	12	11	Other liabilities	11	13	12
Advances to affiliates	788	516	551	Related-party loans	51	-	88
Long-term Investments	2,922	1,630	1,382	Sub. conv. debt.	51	71	24
Deferred charges	3	17	20	Senior debt	597	359	292
Future income taxes	15	6	8	Preferred shares	442	442	319
				Shareholders' equity	2,554	1,276	1,219
Total	3,755	2,199	1,987	**Total**	3,755	2,199	1,987

Non-Consolidated Metrics

	12 mos ended	For years ended December 31				
	Sept. 30 '07	2006	2005	2004	2003	2002
Leverage Ratios						
Percent adjusted debt in capital structure	21.4%	25.6%	21.7%	26.9%	21.4%	27.0%
Cash avail. for fixed charges/Senior debt	14.7%	24.3%	29.9%	18.4%	27.0%	10.7%
Cash avail. for fixed charges/Total debt	11.3%	15.8%	21.9%	14.1%	20.1%	10.3%
Coverage Ratios						
Cash avail. for fixed charges/Senior interest	3.44	4.28	4.63	3.91	3.51	1.98
Cash avail. for fixed charges/(Total interest + Prefs)	1.67	2.16	2.38	2.12	2.37	1.81
Earnings Quality						
Return on avg equity (before extras)	9.4%	16.0%	16.3%	15.2%	17.5%	17.3%
Common dividend payout (before extras)	73.6%	49.3%	45.5%	53.7%	49.5%	52.4%
Total Hybrids-to-Common Equity	19.6%	40.2%	28.1%	34.2%	24.1%	2.7%

Note: 70% equity treatment is given to the cumulative preferred shares.

Fortis Inc.

Report Date:
November 30, 2007

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	BBB (high)	Confirmed	Stable
Preferred Shares	Pfd-3 (high)	Confirmed	Stable

Rating History

	Current	2006	2005	2004	2003	2002
Unsecured Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Preferred Shares	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)

Related Research

- Terasen Inc., September 11, 2006.
- Newfoundland Power Inc., March 9, 2007.
- FortisAlberta Inc., May 25, 2007.
- FortisBC Inc., March 7, 2007.
- Caribbean Utilities Company, Ltd., September 14, 2007.

Note:
All figures are in Canadian dollars unless otherwise noted.

Press Release

Insight beyond the rating.

Date of Release: June 8, 2010

DBRS Confirms Fortis Inc., Changes Trend to Positive

Industry: Utilities & Independent Power

DBRS has today confirmed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. (Fortis or the Company) at BBB (high) and Pfd-3 (high), respectively, and changed the trends to Positive from Stable. The trend change is largely driven by the Company's low business risk profile (benefiting from its ownership of a diversified basket of utility businesses which provide over 90% of consolidated EBITDA), its strong credit metrics (which have improved modestly over the years), the significant reduction in external debt at subsidiary Terasen Inc. (Terasen) and the Company's demonstrated ability to acquire and integrate stable utility businesses financed on a conservative basis.

Fortis's low business risk is due to its diversified utility investments; with electric utilities providing approximately 56% of EBITDA and gas utilities 36%. Several of Fortis's utility subsidiaries witnessed a number of positive regulatory decisions in 2009. The allowed return on equity (ROE) at FortisAlberta Inc. (FortisAlberta; rated A (low)) increased to 9.00% from an interim allowed ROE for 2009 of 8.51%, and its equity component increased to 41% from 37%. ROE at Terasen Gas Inc. (TGI; rated "A") increased to 9.50% from 8.47%, with its equity component increasing to 40% from 35%. At FortisBC Inc. (FortisBC; rated BBB (high)), allowed ROE increased to 9.90% from 8.87%.

Fortis's credit metrics are strong both on a consolidated and non-consolidated basis. The Company has witnessed a modest improvement over the years as a result of its utility subsidiaries adding new assets into rate base, an increase in rates and other favourable regulatory decisions. Fortis's earnings base was increased and further diversified by the addition of Terasen's regulated gas distribution operations in 2007. On both a consolidated and non-consolidated basis, Fortis has adequate liquidity, with consolidated authorized lines of credit totaling $2.2 billion, of which $1.6 billion was unused at March 31, 2010. At the holding company level, Fortis has a total of $645 million available in credit facilities, of which $591 million was available at March 31, 2010. Consolidated coverage metrics may be modestly affected by the accelerated capital expenditures, as earnings and cash flows do not begin until projects are completed and in rate base.

Over the next five years, Fortis's consolidated capital program is expected to approach $5 billion, with approximately 70% of capital spending incurred at the regulated electric utilities (mainly FortisAlberta and FortisBC) and 27% at the regulated gas utilities. Capital expenditures at the regulated utilities are subject to regulatory approval. It is anticipated that the majority of capital expenditures will be funded at the subsidiary level, with a combination of internally generated cash, operating company-level debt and equity from Fortis (expected to average $100 million annually for the next five years) to fund capital build-out programs, while maintaining their respective regulated capital structures. DBRS views the level of Fortis's equity injections as reasonable, and does not anticipate that the Company will use debt to fund the injections, thereby avoiding double leverage.

DBRS will consider an upgrade to the Unsecured Debentures and Preferred Shares ratings if Fortis continues to exhibit strong financial and operating performance and maintain its conservative financial practices; barring any materially negative regulatory actions at the operating subsidiaries, or mergers and acquisitions activity financed on an aggressive basis.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Utilities (Electric, Pipelines & Gas Distribution), which can be found on the DBRS website under Methodologies.

This is a Corporate rating.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Trend Change	BBB (high)	Pos	Jun 8, 2010
Fortis Inc.	Preferred Shares	Trend Change	Pfd-3 (high)	Pos	Jun 8, 2010

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Robert Filippazzo
Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Michael Caranci
Managing Director - Energy
+1 416 597 7304
mcaranci@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Rating Report

Report Date:
November 20, 2008

Previous Report:
November 30, 2007

Insight beyond the rating.

Fortis Inc.

Analysts

Robert Filippazzo
+1 416 597 7340
rfilippazzo@dbrs.com

Michael Caranci
+1 416 597 7304
mcaranci@dbrs.com

The Company

Fortis Inc.'s regulated electric utilities include wholly owned Newfoundland Power Inc., FortisAlberta, FortisBC, Maritime Electric Company, Limited, FortisOntario and Fortis Turks and Caicos, as well as majority ownerships of Caribbean Utilities Company (57%) and Belize Electricity Limited (70.1%). Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. comprise its gas distribution utilities. Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Recent Actions

May 6, 2008
New Issue Rated Pfd-3 (high)

November 30, 2007
Confirmed

February 26, 2007
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	BBB (high)	Confirmed	Stable
Preferred Shares	Pfd-3 (high)	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of Fortis Inc. (Fortis or the Company) at BBB (high) and Pfd-3 (high). The confirmation is based on the Company's strong credit metrics and low business risk profile, driven by its diverse ownership of regulated electric and gas operating subsidiaries that collectively represent approximately 90% of consolidated EBITDA and assets.

With the 2007 acquisition of Terasen Inc. (Terasen; rated BBB (high)/BBB) for $3.7 billion, including the assumption of approximately $2.4 billion in debt, Fortis became the largest investor-owned distribution utility holding company in Canada. Terasen is a positive factor for Fortis's credit profile as the purchase price was predominantly equity financed, it provides Fortis with a sizeable and stable stream of dividends, and it added significant diversity to Fortis's utility portfolio. Fortis benefits from greater size and scale, with total assets of approximately $10.5 billion and last 12 months (LTM) revenue of more than $3.6 billion, and the Company serves almost two million gas and electricity customers.

Fortis's utility subsidiaries have an ongoing requirement for capital to allow them to fund maintenance and expansion of infrastructure. Over the next five years, the Company's consolidated capital program is expected to exceed $4.5 billion, with approximately $3.5 billion to be driven by FortisAlberta Inc. (FortisAlberta), FortisBC Inc. (FortisBC) and the Company's regulated and non-regulated electric utility operations in the Caribbean. Gas utility capital expenditures are expected to exceed $1 billion. (Continued on page 2.)

Rating Considerations

Strengths

(1) Regulated operations exhibit low business risk profiles
(2) Operational, geographic and regulatory diversification of operating companies
(3) 100% ownership of most operating companies
(4) Financial flexibility

Challenges

(1) Holding company debt is structurally subordinated to operating company debt
(2) Dividends from operating companies limited by regulatory restrictions
(3) Equity injections to subsidiaries for capital projects
(4) Regulated utility earnings sensitive to interest rates

Financial Information

	12 mos ended	For the year ended December 31			
Consolidated Metrics	Sept. 30 '08	2007	2006	2005	2004
Fixed-charges coverage (times)	1.74	1.86	1.90	2.07	1.96
DBRS adjusted debt-to-capital *	63.8%	65.2%	62.5%	60.7%	63.6%
Cash flow-to-adjusted total debt *	9.9%	8.5%	10.4%	13.0%	10.1%
Cash flow / CAPEX (times)	0.73	0.67	0.69	0.79	0.92
Operating cash flows (after prefs, CAD millions)	576.0	482.0	298.1	299.5	224.9
Non-Consolidated Metrics					
Non-consolidated debt-to-capital *	19.2%	22.2%	25.6%	21.7%	26.9%
Cash avail. for fixed charges / Senior interest	5.58	3.85	4.28	4.63	3.91
Cash avail. for fixed charges / (Total interest + Prefs)	2.54	1.44	2.16	2.38	2.12
Cash avail. for fixed charges / Senior debt	34.4%	11.4%	24.3%	29.9%	18.4%
Cash avail. for fixed charges / Total debt *	23.7%	9.0%	15.8%	21.9%	14.1%

* DBRS adjusted debt includes 70% equity treatment for preferred shares.

Fortis Inc.

Report Date:
November 20, 2008

Rating Update (Continued from page 1.)

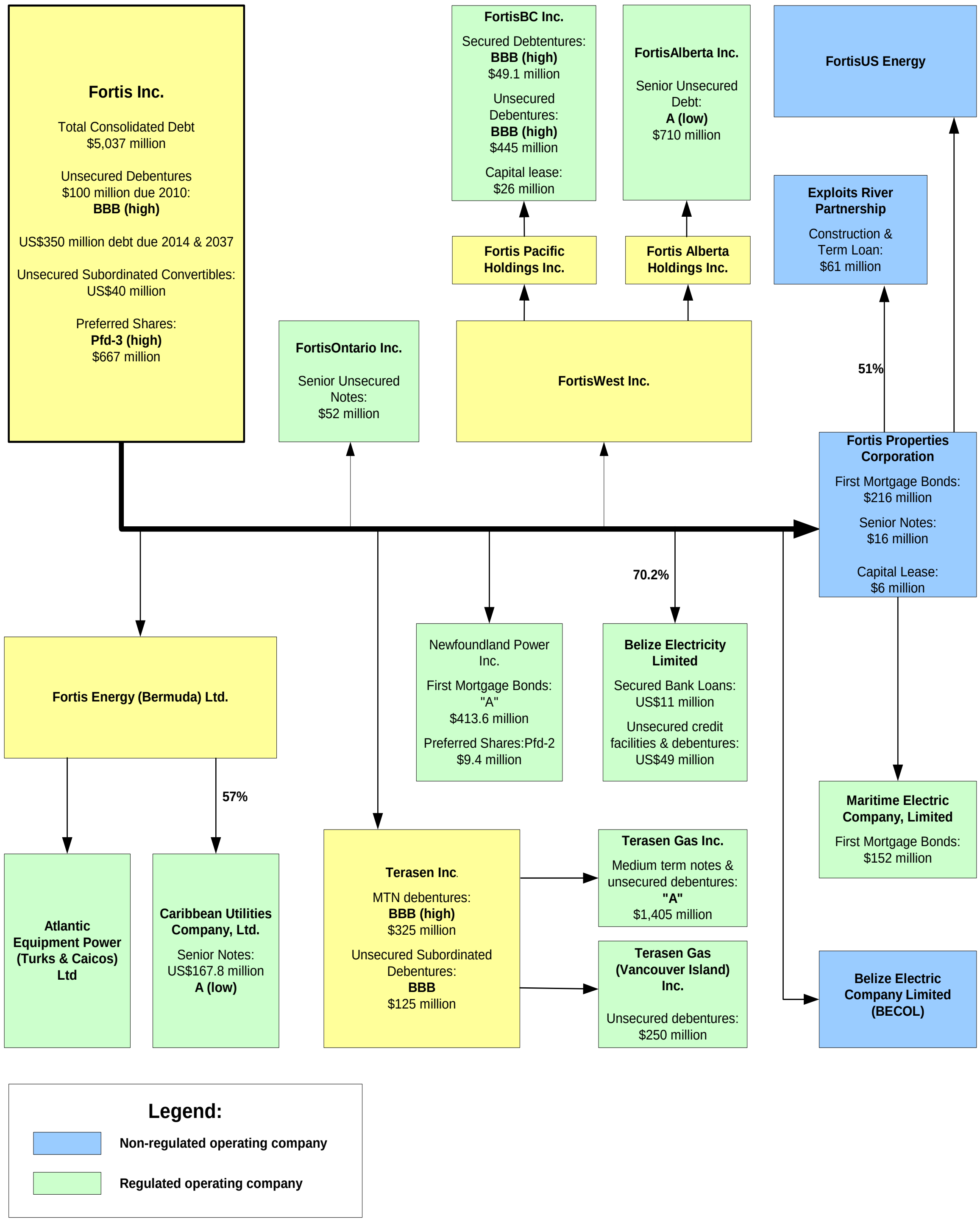
These expenditures will result in free cash flow deficits at the subsidiary level, which are expected to be financed with a mix of external debt and equity contributions from Fortis such that regulatory-approved capital structures are maintained. DBRS views the level of equity injections (estimated to average $100 million annually over five years) to be made by Fortis as reasonable, and does not anticipate that the Company will use debt to fund the injections, thereby avoiding double leverage. Consolidated coverage metrics may be modestly impacted by the accelerated capital expenditures, as earnings and cash flows do not begin until projects are completed and in rate base.

Fortis on a consolidated and non-consolidated basis has adequate liquidity**,** with consolidated authorized lines of credit totaling $2.2 billion, of which $1.5 billion is unused. At the holding company level, Fortis has a total of $615 million available in credit facilities, of which $568 million was available at September 30, 2008.

Fortis Inc.

Report Date:
November 20, 2008

Abbreviated Corporate and Debt Structure *



* Balances presented represent September 30, 2008, amounts adjusted to reflect significant capital market and private placement activity up to the date of this report.

Rating Considerations Details

Strengths
(1) Earnings and cash flow are supported by stable regulated operations that exhibit low business risk profiles. Regulated operations account for approximately 90% of consolidated EBITDA and assets.

(2) A high level of diversification is provided through ownership of regulated natural gas utilities in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Fortis's diverse portfolio provides a low level of business risk.

(3) Fortis maintains control over its operating entities, most of which are wholly owned. Importantly, this provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies. Fortis increased its ownership of CUC to approximately 57% from 54% in July 2008 as a result of a rights offering.

(4) The financial profile of Fortis benefits from the flexibility afforded to it by its large balance sheet and access to the capital markets for itself and its utility subsidiaries. The acquisition of Terasen increased Fortis's total capital by approximately 82%.

Challenges
(1) Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies, which accounts for the lower debt rating of Fortis relative to the debt ratings of its key operating companies.

(2) Capital structures of the utility subsidiaries are subject to the regulatory framework in which each subsidiary operates. Effectively, having to maintain a sufficient level of equity in a utility subsidiary acts as a restriction on dividends to the parent.

(3) Free cash flow deficits of some operating companies will require funding by Fortis in the form of either equity injections or reduced dividends – a requirement within the context of preserving the regulatory capital structures of the operating companies. On account of their large capital expenditure programs, FortisAlberta and FortisBC currently exhibit the largest free cash flow deficits among Fortis's operating companies.

(4) Earnings and cash flow at regulated utilities are sensitive to interest rates, as the allowed return on equity (ROE) for regulated companies is typically driven by prevailing interest rates. The current low interest rate environment has resulted in lower allowed ROEs at many of Fortis's regulated holdings and has had a negative impact on earnings and cash flows.

Fortis Inc.

Report Date:
November 20, 2008

Consolidated Earnings and Outlook

(CAD millions)	12 mos ended Sept. 30 '08	For the year ended December 31 2007	2006	2005	2004
Terasen Gas (1)	378	196	n/a	n/a	n/a
Newfoundland Power	126	110	110	110	109
FortisAlberta	162	148	136	147	70
FortisBC	100	93	85	70	43
Other Canadian (2)	58	60	54	48	48
Total Caribbean (3)	74	89	41	36	24
Corp. & interseg. elimin. (4)	(1)	(3)	(7)	(7)	(6)
EBITDA: Regulated	897	693	419	403	287
Non-regulated Fortis Generation	59	53	58	60	47
Fortis Properties (non-utility)	72	68	58	54	47
Corp. & interseg. elimin.	(0)	(0)	(2)	(2)	(2)
EBITDA: Non-regulated	131	121	114	112	92
EBITDA: Total	1,028	814	533	515	380
Depreciation	(334)	(273)	(178)	(158)	(114)
EBIT	694	541	355	358	266
Net interest expense	(346)	(282)	(152)	(137)	(110)
Income taxes	(69)	(36)	(33)	(70)	(47)
Minority interest	(12)	(15)	(8)	(6)	(6)
Net income before extras and prefs	267	208	163	144	103
Preferred dividends	(27)	(23)	(18)	(17)	(12)
Extraordinary & discontinued items	8	8	2	10	-
Net income available to common	248	193	147	137	91

(1) Terasen Gas was acquired on May 17, 2007.

(2) Includes Maritime Electric and FortisOntario.

(3) Primarily reflects Caribbean Utilities Company. Other smaller Caribbean utilities include Belize Electricity and Fortis Turks and Caicos.

(4) Corporate & intersegment eliminations are proportionately allocated to regulated and un-regulated segments.

Summary

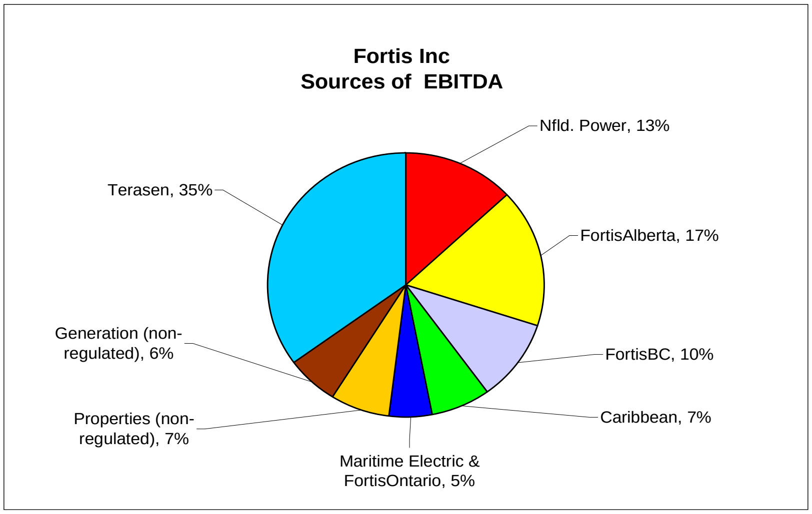
The Company's earnings remain supported by regulated utilities that account for an increasingly large proportion of consolidated operations. Fortis's earnings base was increased and further diversified via the addition of Terasen's regulated gas distribution operations. Due to the seasonal nature of the gas distribution business, virtually all of the annual earnings of the Terasen companies are generated in the first and fourth quarters of the calendar year.

Fortis's consolidated EBITDA exceeded $1 billion, primarily due to the addition of Terasen. Additionally, EBITDA contributions from FortisBC, FortisAlberta and the Caribbean subsidiaries have all trended upwards due to improved operating performance and additions to rate base.

For the 12 months ended September 30, 2008, EBITDA from Caribbean operations decreased as a result of (1) the decline in earnings from CUC related to the reduction in electricity rates, (2) lower allowed return on rate base at Belize Electricity and CUC, and (3) a loss of revenue at Fortis Turks and Caicos due to the impact of Hurricane Ike.

EBITDA at non-regulated Fortis Generation increased during the LTM period, mainly due to increased hydroelectric production in Belize and upper New York State as a result of higher rainfall. EBITDA at Fortis Properties has steadily improved due to higher operating performance in the Hospitality and Real Estate divisions, including contributions from the Delta Regina Hotel, acquired on August 1, 2007.

Interest expense has increased year over year, consistent with the pattern in EBITDA and assumption of debt obligations from recent acquisitions, primarily Terasen.



As at September 30, 2008

Consolidated Outlook
Stable consolidated earnings are expected over the medium term, with approximately 52% of EBITDA coming from regulated electric utilities, 35% of EBITDA from regulated gas utilities and the remaining 13% of EBITDA from non-regulated generation and other non-regulated businesses. The majority of organic growth is expected to come from infrastructure investment at the regulated utilities in western Canada and at the regulated and non-regulated utilities in the Caribbean.

Outlook (by Major Operating Company)
Terasen Gas Inc.: DBRS expects stable earnings with little or modest growth over the medium term from the mature regulated gas utility. No significant future projects are currently under consideration and modest rate base growth is expected from moderate growth in capital expenditures. TGI's capital expenditures are primarily used for maintenance, which is expected to account for approximately 70% to 80% of total capital expenditures over the medium term.

FortisAlberta Inc.: Earnings from regulated electricity distribution will benefit over the medium to longer term from the increase in approved ROE to 8.75%; growth in rate base resulting from general population and customer growth; economic expansion in FortisAlberta's service area spurred by the oil and gas sector; and capital project undertakings. FortisAlberta is expected to spend approximately $300 million per year (before customer contributions) over the next five years to meet this growth and to install automated meters.

FortisBC Inc.: Earnings are expected to continue to grow over the medium term, driven primarily by the economic expansion in FortisBC's service area, which should see a rise in electricity demand due to the 2010 Olympics, airport expansion and provincial infrastructure investments, as well as general population and customer growth, especially in the Okanagan region. This will result in a growing rate base related to its $500 million capital expenditure program, which includes electricity transmission upgrades, substation and terminal development, and turbine upgrades.

Newfoundland Power Inc.: Regulated transmission and distribution operations are expected to witness earnings growth over the medium term, primarily driven by the increase in Newfoundland Power's rate-setting ROE from 8.60% to 8.95%. Other drivers include growth in rate base related to the ongoing capital projects, as well as economic expansion in Newfoundland Power's service area and modest housing starts, somewhat tempered by the declining population within the rural portion of the service territory. Newfoundland Power benefits from one of the thickest deemed equity components (45%) for a regulated utility in Canada.

Fortis Inc.

Report Date:
November 20, 2008

Caribbean Utilities Company, Ltd.: Earnings from regulated integrated electricity operations are expected to remain fairly stable going forward. CUC anticipates 5% sales growth for its current fiscal year, based on CUC's lower expectations due to a slowdown in the construction and tourism industries (sparked by the current downturn in the U.S. economy, as 90% of visitors originate from North America). The Cayman Islands' economy continues to sustain growth, although at a rate forecasted to be modestly lower due to the uncertain global economic environment.

Fortis Properties Corporation (Fortis Properties): Earnings could potentially be affected by the slowing economy, likely resulting in lower occupancy rates. Fortis Properties witnessed improved performance on account of its real estate operations and hospitality operations.

Consolidated Financial Profile

Consolidated Statement of Cash Flow	12 mos ended	For years ended December 31				
(CAD millions)	Sept 30 '08	2007	2006	2005	2004	2003
Net income (before extras, after prefs & minority)	240	185	145	127	91	74
Depreciation	334	273	178	158	114	62
Other non-cash adjustments	2	24	(24)	15	20	2
Cash Flow From Operations	576	482	298	299	225	138
Common dividends	(175)	(146)	(75)	(64)	(51)	(36)
Capital expenditures (net of contributions)	(786)	(717)	(430)	(380)	(245)	(156)
Gross Free Cash Flow	(385)	(381)	(206)	(144)	(71)	(54)
Changes in working capital	(5)	(117)	(37)	(6)	47	17
Free Cash Flow	(390)	(498)	(243)	(150)	(24)	(37)
Acquisitions & other investments	(25)	(1,316)	(197)	(88)	(781)	(148)
Extraordinary items	26	8	2	10	-	-
Net debt financing	153	559	309	89	242	96
Net pfd. financing	223	-	121	(0)	195	122
Net common equity financing	21	1,267	15	135	340	9
Effect of exchange and other financing	9	(3)	0	(0)	(0)	(3)
Net Change In Cash	17	17	8	(4)	(28)	39
DBRS adjusted debt (consolidated) [1]	5,794	5,664	2,869	2,301	2,219	1,199
Consolidated Ratios:						
DBRS adjusted debt-to-capital	63.8%	65.2%	62.5%	60.7%	63.6%	61.6%
Cash flow / DBRS adjusted debt	9.9%	8.5%	10.4%	13.0%	10.1%	11.5%
EBITDA interest coverage (times)	2.86	2.78	3.32	3.47	3.21	2.91
EBIT interest coverage (times)	1.93	1.85	2.21	2.41	2.25	2.22
Common dividend payout (before extras)	68.4%	72.6%	50.3%	43.6%	55.6%	49.5%

[1] DBRS adjusted debt includes 70% equity treatment of preferred shares.

Summary

While cash flow from operations has grown steadily since 2003, and jumped significantly in 2007 and 2008 as a result of the Terasen acquisition, the Company continues to generate free cash flow deficits. With rising capital expenditure requirements at FortisAlberta and FortisBC (to accommodate growth in their respective operating areas), Fortis and its subsidiaries have had to tap the capital markets for common equity, preferred equity and debt in order to fund the shortfalls. Cash flow deficits at the individual subsidiary levels are typically funded with a mix of external debt and equity from Fortis, in order to preserve the regulatory-approved capital structures.

The modestly higher level of consolidated leverage attributable to the assumption of Terasen's debt is commensurate with the higher leverage typically employed by regulated gas utilities and remains acceptable for the current ratings. However, DBRS notes that leverage has declined during the 12 months ended September 30, 2008.

During 2008, Fortis on a consolidated basis raised almost $900 million in preferred equity and debt, with $230 million at Fortis level and the balance at various subsidiaries proceeds were used for both refinancings and to raise incremental capital.

Dividends have increased significantly since 2006, attributable to the large number of common shares issued to fund the Terasen acquisition. DBRS notes that while the percentage of preferred shares in Fortis's capital structure has increased over the past year, it remains comfortable with the preferred rating given the Company's continued strong financial performance and credit metrics; the highly regulated nature of operations that results in greater financial stability; and the expectation that, over time, the percentage of preferred shares in the capital structure will decline from current levels.

Outlook

Gross consolidated capital expenditures for 2008 are expected to exceed $900 million. The consolidated capital program is being driven by the utilities in western Canada and regulated and non-regulated electric utility operations in the Caribbean.

Over the next five years, Fortis's consolidated capital program is expected to exceed $4.5 billion, with approximately $3.5 billion allocated to FortisAlberta, FortisBC and its regulated utility operations in the Caribbean. Gas utility capital expenditures are expected to exceed $1 billion. It is anticipated that the majority of capital expenditures will be funded at the subsidiary level, with a combination of internally generated cash, operating company-level debt and equity from Fortis (expected to average $100 million annually for the next five years) to fund capital build-out programs, while maintaining their respective regulated capital structures.

DBRS expects Fortis's financial profile to remain relatively stable over the medium term, with the maintenance of its consolidated debt-to-capital in the 60% to 65% range. Coverage metrics may be modestly affected in the short term due to the capital build-out at the subsidiary utilities, as earnings and cash flows on invested capital do not begin until projects are completed and enter rate base. As projects are completed and enter rate base, they should drive earnings growth. The subsidiaries' required parent equity injections are viewed as manageable, and DBRS does not expect Fortis to use holding company-level debt to fund the equity injections. However, maintaining access to capital markets for both Fortis and its subsidiaries is vital during today's uncertain economic conditions. Substantial credit line capacity is available.

Terasen has a $200 million bond maturity in December 2008. Fortis will likely repay the maturity with either preferred shares or equity. However, should market conditions not be conducive to an equity issue, DBRS would anticipate that the maturity would be repaid with borrowings under its credit facilities on a temporary basis.

Fortis Inc.

Report Date:
November 20, 2008

Non-Consolidated Cash Flows

Non-consolidated Cash Flow (CAD millions)	12 mos ended Sept. 30 '08	Fortis Inc. For the year ended December 31 2007	2006	2005	2004
Dividend income:					
Newfoundland Power common dividends	13.5	8.9	18.0	23.1	14.2
Newfoundland Power preferred dividends	0.2	0.2	0.2	0.2	0.2
Fortis Properties	6.5	5.0	3.5	-	-
Maritime Electric dividends	-	-	-	-	1
FortisOntario	22.0	12.0	12.0	30.2	-
FortisWest	5.1	5.3	2.2	3.0	17.0
Terasen	77.0	-	n/a	n/a	n/a
Total dividend income:	124.3	31.4	35.9	56.5	32.4
Free cash flow advances:					
BEL	2.6	5.4	5.1	1.5	1.5
BECOL	-	-	7.2	1.5	-
Caribbean Utilities	4.1	1.3	10.1	1.7	11.7
Turks & Caicos	-	-	-	-	-
Total free cash flow advances:	6.7	6.7	22.4	4.7	13.2
Interest income:					
Fortis Properties	26.5	25.6	22.5	18.2	12.8
FortisOntario	16.1	16.1	16.1	16.1	11.2
FortisBC	-	0.5	0.1	-	2.4
MECL/NP	0.4	0.1	-	-	-
Terasen	8.9	3.2	n/a	n/a	n/a
Fortis Energy Caymans	-	-	-	2.1	-
Turks & Caicos	-	-	-	-	-
Total interest income	51.9	45.5	38.7	36.4	26.4
Management fees & other	2.3	2.3	2.1	2.1	2.0
Total Cash Inflow	185.2	85.9	99.1	99.7	74.0
Operating expenses	(6.9)	(9.1)	(10.6)	(8.9)	(8.7)
Current income tax	-	-	-	0.1	(0.2)
Capital expenditures	(0.3)	(1.4)	(1.4)	(2.6)	(0.8)
Cash Available for Fixed Charges	178.0	75.4	87.1	88.2	64.3
Senior interest expense	(31.9)	(19.6)	(20.4)	(19.1)	(16.5)
Subordinate interest expense	(11.1)	(10.2)	(1.8)	(1.5)	(1.6)
Cash flow after interest	135.0	45.6	65.0	67.7	46.3
Preferred dividends	(27.1)	(22.7)	(18.2)	(16.6)	(12.3)
Cash available to common	107.9	22.9	46.8	51.1	34.0
Common dividends	(157.1)	(127.9)	(72.6)	(62.4)	(48.8)
Free Cash before working capital	(49.2)	(105.0)	(25.8)	(11.3)	(14.9)
Changes in working capital	15.7	20.5	11.0	3.6	11.1
Free Cash after working capital	(33.5)	(84.5)	(14.8)	(7.6)	(3.8)
Increase in investments & advances	(38.1)	(248.9)	(94.3)	(86.0)	-
(Acquisitions)/Divestures	(74.3)	(1,280.0)	(131.2)	-	(761.8)
Other investments	(0.2)	-	(0.1)	(0.3)	(5.0)
Translation adjustment	-	-	-	-	0.2
Other	(0.7)	0.5	2.6	1.6	(5.0)
Free Cash Before Financing	(146.8)	(1,612.9)	(237.9)	(92.4)	(775.4)
Net common equity financing	21.4	1,267.5	16.4	136.4	340.1
Net preferred equity financing	222.5	-	121.1	(0.0)	194.7
Net debt financing	(102.5)	333.8	109.2	(50.5)	208.4
Net Change in Cash	(5.4)	(11.6)	8.8	(6.5)	(32.2)
Senior Debt (non-consolidated)	518	663	359	295	349
DBRS adjusted debt (non-consolidated) [1]	753	834	550	403	457
Non-consolidated Metrics:					
Cash avail. for fixed charges/Senior interest	5.58	3.85	4.28	4.63	3.91
Cash avail. for fixed charges/(Total interest + Prefs)	2.54	1.44	2.16	2.38	2.12
Cash avail. for fixed charges/Senior debt	34.4%	11.4%	24.3%	29.9%	18.4%
Cash avail. for fixed charges/Total debt [1]	23.7%	9.0%	15.8%	21.9%	14.1%

(1) DBRS adjusted debt includes 70% equity treatment of preferred shares.

Summary

Total cash inflows continued to steadily increase largely due to the Terasen acquisition, which contributed to a significant increase in dividend income. In addition, the majority of the other operating subsidiaries witnessed an increase in dividends paid as a result of improved performance. The dividends and interest paid to Fortis from its operating companies continue to be sufficient to meet its operating costs and fixed charges (interest and preferred dividends) on a non-consolidated basis, but insufficient to fully fund the common dividend. As a result of Terasen's dividend contributions and the increased contributions from other subsidiaries, credit metrics have improved for the last twelve months.

A significant amount of interest is paid to Fortis from Fortis Properties and FortisOntario, despite their relatively small earnings base. This is attributable to the flow of funds from FortisAlberta and FortisBC (through FortisWest) paid as dividends to Fortis Properties and FortisOntario, which are subsequently paid to Fortis as interest. The external debt obligations of Fortis Properties and FortisOntario are subordinate to Fortis in terms of the cash flowing from FortisAlberta and FortisBC.

Outlook

DBRS expects that Fortis will continue to receive sufficient dividends and interest from its operating companies to fund fixed charges and operating expenses on a non-consolidated basis.

The sizeable consolidated capital program is expected to exceed $4.5 billion. Although it is anticipated that the majority of the capital expenditures will be funded at the subsidiary level with a combination of internally generated cash and operating company-level debt, Fortis will be required to raise equity to assist its operating subsidiaries to maintain their respective regulated capital structures. DBRS does not expect Fortis to use holding company-level debt to fund the equity injections; however, should Fortis be temporarily delayed in accessing the equity/preferred markets, the Company would be required to draw on its $615 million in credit facilities to meet its financial obligations. As at September 30, 2008, the Company had approximately $568 million available.

DBRS believes that Fortis's financial profile will remain relatively stable over the medium term, with the maintenance of its non-consolidated metrics improving over the medium term despite the capital build-out at the subsidiary utilities. DBRS notes that once the capital build out is completed and as projects are completed and enter rate base, they should drive earnings growth.

Long-Term Debt Maturities and Credit Facilities

At September 30, 2008, the Company and its subsidiaries had consolidated authorized lines of credit totaling $2.2 billion, of which $1.5 billion was unused. The credit facilities are syndicated almost entirely with the seven largest Canadian banks, with no one bank holding more than 25% of these facilities.

At the holding company level, Fortis has a total of $615 million available in credit facilities, including a $600 million committed unsecured credit facility that matures in May 2012. Fortis's utility subsidiaries maintain credit facilities totaling $1.5 billion and Terasen Inc. has a $100 million credit facility.

Fortis is restricted under its indenture from exceeding 75% of consolidated debt-to-capitalization.

During 2008, Fortis on a consolidated basis raised almost $900 million in preferred equity and debt. The issues and the use of proceeds were as follows:

- Fortis issued 9.2 million 5.25% Five-Year Fixed-Rate Reset First Preference Shares, Series G, for gross proceeds of $230 million. The proceeds were used to repay amounts outstanding under the Company's committed credit facility, to fund equity requirements of FortisAlberta and the Company's regulated electric utilities in the Caribbean, and for general corporate purposes.
- $250 million 5.80% debentures at TGI, proceeds used to refinance prior debt maturities and for general corporate purposes.
- $100 million 5.85% debentures at FortisAlberta, proceeds from the sale of the MTNs were used for general corporate purposes, including repayment of existing indebtedness and financing FortisAlberta's capital expenditure program.
- $250 million 6.05% debentures at TGVI, net proceeds of the debenture offering were used to repay committed credit facility borrowings.
- $60 million 6.05% bonds at Maritime Electric, proceeds used to repay amounts outstanding under the Company's credit facility and for general corporate purposes.

In addition, the following changes were made to Fortis and its subsidiaries' credit facilities during 2008:

- Terasen cancelled $50 million of letters of credit previously outstanding during the second quarter of 2008.
- In April 2008, FortisBC renegotiated and amended its $150 million unsecured committed revolving credit facility, extending the maturity date of the $50 million portion of the facility to May 2011 from May 2010 and extending the $100 million portion to May 2009 from May 2008. FortisBC has the option to increase the credit facility to an aggregate of $200 million.
- In April 2008, Maritime Electric repaid all outstanding borrowings under its $25 million unsecured credit facility with partial proceeds from a $60 million bond issue. The credit facility matured in May 2008 and was not renewed. Maritime Electric has a $50 million unsecured revolving credit facility.
- In July 2008, TGI renegotiated, on substantially similar terms, its $500 million unsecured committed revolving credit facility, extending the maturity date of the facility to August 2013 from August 2012.
- In August 2008, NPI renegotiated, on substantially similar terms, its $100 million committed revolving credit facility, extending the maturity date to August 2011 from January 2009.

Fortis Inc.

Report Date:
November 20, 2008

Credit Facilities as at Sept. 30, 2008 (CAD millions)

	HoldCo	Other	Regulated Subsidiaries	Non-regulated Subsidiaries	Total
Total credit facilities	615	100	1,491	13	2,219
Drawing on credit facilities (S-T)	-	-	(440)	-	(440)
Drawing on credit facilities (L-T)	(46)	-	(110)	-	(156)
Letters of credit	(1)	-	(89)	(1)	(91)
Credit facilities available	**568**	**100**	**852**	**12**	**1,532**

Repayment of Long-Term Debt and Capital Lease Obligations as at Sept. 30, 2008 (CAD millions)

	2008	2009	2010	2011	2012
Fortis Inc. Senior debt	-	-	100	0	-
Subsidiary debt (excludes Terasen Inc.)		116	82	0	71
Terasen Inc.	200				
Total	**200**	**116**	**182**	**0**	**71**

Holdco - Fortis Inc.

Outstanding (1)	Amount (CAD millions)
Senior Unsecured	
7.40% Debentures, due 2010	100
6.6% Notes due 2037 (US$200)	200
5.74% Notes due 2014 (US$150M)	150
Drawing on credit facility	46
Total	**496**
Unsecured Subordinated Convertible Debentures	
5.50%, due 2016 (US$40M)	40
Total	**40**

Consolidated Long-term Debt *

	Amount (CAD millions)
Fortis Senior	496
Fortis Subordinated	40
Subsidiary Regulated	4,043
Subsidiary Non-regulated	311
Total	**4,890**

* Excludes capital lease obligations.

Description of Operations

Summary of Operating Companies

Fortis is a holding company whose principal operating companies are involved in regulated and non-regulated electricity operations in Canada, the United States and the Caribbean, and property ownership and management in Canada. The Company's primary businesses consist of the following:

Terasen Inc. (rated BBB (high) and BBB, see separate DBRS report, May 20, 2008) is a holding company that owns regulated natural gas distribution businesses that primarily include (1) TGI (rated "A" and R-1 (low), see separate DBRS report, May 20, 2008), the largest natural gas distributor in British Columbia, serving approximately 828,200 residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia; (2) TGVI, which owns a combined distribution and transmission system and serves approximately 93,600 residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island; and (3) Terasen Gas (Whistler) Inc., which owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers.

Newfoundland Power Inc. (rated "A", see separate DBRS report, May 5, 2008) is the principal distributor of electricity on the island portion of Newfoundland, serving more than 234,000 customers. NPI purchases over 90% of its electricity needs from government-owned Newfoundland and Labrador Hydro and generates the balance from owned generation facilities (approximately 139 MW). Fortis owns 100% of the common shares and 25% of the preference shares.

FortisAlberta Inc. (rated A (low), see separate DBRS report, May 30, 2008) is a regulated electricity distribution company with approximately 456,800 customers that accounts for 56% of the Alberta distribution grid. The Company serves over 143 communities, of which 140 are on standardized, individual franchise agreements. Substantially all have initial terms that expire between 2011 and 2018, and can be renewed for an additional five years upon mutual consent of the parties. Its franchise area includes central and southern Alberta, the suburbs surrounding Edmonton and Calgary, Red Deer, Lethbridge and Medicine Hat. FortisAlberta is indirectly wholly owned by Fortis.

FortisBC Inc. (rated BBB (high), see separate DBRS report, April 30, 2008) is a vertically integrated regulated utility holding company operating in south-central British Columbia, serving over 155,000 customers. Its generation assets include four hydroelectric generating plants (totaling 223 MW) on the Kootenay River in south-central British Columbia. FortisBC is indirectly wholly owned by Fortis Inc.

FortisOntario is an integrated electric utility that owns and operates the regulated distribution businesses of Canadian Niagara Power and Cornwall Electric. Its utilities serve approximately 52,000 customers, mainly in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario. FortisOntario operations primarily include Canadian Niagara Power Inc. (Canadian Niagara Power) and Cornwall Street Railway, Light and Power Company, Limited. Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the city of Port Colborne under a ten-year lease agreement expiring in April 2012.

Caribbean Utilities Company, Ltd. (rated A (low), see separate DBRS report, November 5, 2008) is a fully integrated electricity utility on Grand Cayman, Cayman Islands, serving over 24,000 customers. CUC has an installed generating capacity of approximately 137 MW. Fortis has an approximate 57% controlling ownership interest in CUC and the remaining ownership is publicly traded on the Toronto Stock Exchange.

Belize Electricity Limited is the principal distributor of electricity in Belize, Central America, serving approximately 73,900 customers. It has an installed generating capacity of 36 MW. Fortis holds an approximate 70% controlling interest.

Belize Electric is a non-regulated 32 MW hydro generation facility in Belize. All output is sold to Belize Electricity Limited under a 50-year power purchase agreement expiring in 2055. BECOL is currently constructing a US$52.5 million 18 MW hydroelectric generating facility at Vaca on the Macal River in Belize (completion expected in late 2009).

P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as **Fortis Turks and Caicos**) serves approximately 9,000 customers, or 80%, of electricity consumers in the Turks and Caicos Islands pursuant to 50-year licenses that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 48 MW.

Fortis Properties owns and operates 19 hotels, offering more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate, primarily in Atlantic Canada.

Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 73,000 customers. Maritime Electric also maintains on-island generating facilities with a combined capacity of 150 MW. Substantially all of the power is purchased from New Brunswick Power Holding Corporation and imported into P.E.I. via two submarine cables under the Northumberland Strait. Maritime Electric is indirectly owned by Fortis through Fortis Properties.

Regulated Operating Company	Jurisdiction & Regulator	Rate Methodology	Rate Base (CAD millions)	Deemed Equity in Capital Structure	Allowed ROE for 2008	Rating
TGI	BC, BCUC	Cost of Service	2,328	35%	8.62%	A
TGVI	BC, BCUC	Cost of Service	515	40%	9.32%	-
Newfoundland Power	Newfoundland, PUB	Cost of Service	820	45%	8.95%	A
FortisAlberta	Alberta, AEUB	Cost of Service	1,135	37%	8.75%	A (low)
FortisBC	BC, BCUC	Cost of Service (multi-year PBR)	823	40%	9.02%	BBB (high)
FortisOntario	Ontario, OEB	Cost of Service / Price Cap (Cornwall Electric)	107	50%	9.0%	-
Maritime Electric	PEI, IRAC	Cost of Service	293	41%	10%	-
CUC	Grand Cayman (under licence)	Cost of Service	US$336	n/a	Allowed RORB 9-11%	A (low)
Fortis Turks and Caicos	Turks and Caicos (under licence)	Cost of Service	US$95.23	n/a	-	-
Belize Electricity	Belize, PUC	Cost of Service (four-year tariff agreement)	BZ$247.6	n/a	Per tariff setting methodology 10-15% RORA	-

Fortis Inc.

Report Date:
November 20, 2008

Fortis Inc.

Consolidated Balance Sheet

(CAD millions)		As at December 31				As at December 31	
Assets	Sept. 30 '08	2007	2006	**Liabilities & Equity**	Sept. 30 '08	2007	2006
Cash & equivalents	68	58	41	S.T. debt	440	475	98
Accounts rec.	458	635	278	L.T. debt due one year	377	436	85
Materials & supplies	308	233	33	A/P & accrued liabilities	719	800	335
S.T. Regulatory assets	133	119	36	Dividends payable	42	43	22
Income taxes receivable	-	-	8	S.T. Regulatory liabilities	18	20	26
Prepaids	26	19	14	Income taxes payable	49	30	-
Current Assets	993	1,064	409	**Current Liabilities**	1,645	1,804	565
Regulatory assets	177	193	133	Def'd credits & fut. taxes	335	316	137
L.T. Utility assets	7,124	6,722	3,575	L.T. Regulatory liabilities	389	372	339
Income-producing properties	519	519	469	Non-controlling interests	130	115	131
Long-term investments	-	-	3	Long-term debt	4,785	4,629	2,566
Deferred charges & other assets	215	179	181	Preferred shares	667	442	442
Future income taxes	40	37	7	Shareholders' equity	2,686	2,595	1,268
Goodwill & intangibles	1,569	1,559	671				
Total	10,637	10,273	5,447	**Total**	10,637	10,273	5,447

Consolidated Metrics

	12 mos ended	For the year ended December 31				
	Sept 30 '08	2007	2006	2005	2004	2003
Liquidity & Cash Flow Ratios						
Current ratio	0.60	0.59	0.72	0.73	0.55	0.65
Cash flow / Adjusted total debt	9.9%	8.5%	10.4%	13.0%	10.1%	11.5%
Cash flow / CAPEX	0.73	0.67	0.69	0.79	0.92	0.89
(Cash flow - Dividends) / CAPEX	0.51	0.47	0.52	0.62	0.71	0.65
Leverage Ratios						
Adjusted total debt / EBITDA	5.61	6.92	5.35	4.44	5.78	4.47
% adjusted debt in capital structure	63.8%	65.2%	62.5%	60.7%	63.6%	61.6%
Coverage Ratios						
EBIT interest coverage	1.93	1.85	2.21	2.41	2.25	2.22
EBITDA interest coverage	2.86	2.78	3.32	3.47	3.21	2.91
Fixed-charges coverage	1.74	1.86	1.90	2.07	1.96	2.12
Earnings Quality						
Operating margin	18.6%	19.9%	24.3%	25.0%	23.2%	24.3%
Net margin (before extras, after prefs)	7.9%	8.5%	12.4%	11.2%	10.1%	9.8%
Return on average equity (before extras)	16.0%	12.8%	16.8%	16.0%	13.2%	12.3%
Common dividend payout (before extras)	68.4%	72.6%	50.3%	43.6%	55.6%	49.5%

Note: 70% equity treatment is given to the cumulative preferred shares.

Fortis Inc.

Non-Consolidated Balance Sheet

(CAD millions)	As at	As at December 31			As at	As at December 31	
Assets:	Sept. 30 '08	2007	2006	**Liabilities & Equity:**	Sept. 30 '08	2007	2006
Cash & equivalents	3	-	6	Short-term debt	-	5	-
Accounts receivable	9	13	9	A/P + accr'd liab	54	58	35
Prepaids & other	0	58	2	Interest payable	9	-	4
Current Assets	12	71	17	**Current Liabilities**	63	63	39
Fixed assets	13	13	12	Other liabilities	13	11	13
Advances to affiliates	856	701	516	Related-party loans	89	-	-
Long-term investments	3,178	3,021	1,630	Sub. conv. debt.	40	40	64
Deferred charges	7	2	17	Senior debt	518	658	359
Future income taxes	21	17	6	Preferred shares	667	442	442
				Shareholders' equity	2,701	2,611	1,283
Total	4,087	3,826	2,199	**Total**	4,090	3,826	2,199

Non-Consolidated Metrics

	12 mos ended	For years ended December 31				
	Sept. 30 '08	2007	2006	2005	2004	2003
Leverage Ratios						
Percent adjusted debt in capital structure	19.2%	22.2%	25.6%	21.7%	26.9%	21.4%
Cash avail. for fixed charges/Senior debt	34.4%	11.4%	24.3%	29.9%	18.4%	27.0%
Cash avail. for fixed charges/Total debt	23.7%	9.0%	15.8%	21.9%	14.1%	20.1%
Coverage Ratios						
Cash avail. for fixed charges/Senior interest	5.58	3.85	4.28	4.63	3.91	3.51
Cash avail. for fixed charges/(Total interest + Prefs)	2.54	1.44	2.16	2.38	2.12	2.37
Earnings Quality						
Return on avg equity (before extras)	15.6%	12.9%	21.8%	20.7%	15.3%	34.5%
Common dividend payout (before extras)	63.3%	66.4%	49.3%	45.5%	53.7%	49.5%
Total Hybrids-to-Common Equity	26.3%	18.7%	40.2%	28.1%	34.2%	24.1%

Note: 70% equity treatment is given to the cumulative preferred shares.

Fortis Inc.

Report Date:
November 20, 2008

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	BBB (high)	Confirmed	Stable
Preferred Shares	Pfd-3 (high)	Confirmed	Stable

Rating History

	Current	2007	2006	2005	2004	2003
Unsecured Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Preferred Shares	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)

Related Research

- Terasen Inc., May 20, 2008.
- Newfoundland Power Inc., May 5, 2008.
- FortisAlberta Inc., May 30, 2008.
- FortisBC Inc., April 30, 2008.
- Caribbean Utilities Company, Ltd., November 5, 2008.

Note:
All figures are in Canadian dollars unless otherwise noted.

Press Release

Date of Release: September 29, 2008

Insight beyond the rating.

DBRS Places Fortis at R-1 (middle) Under Review with Developing Implications

Industry: Fin.Svc.--Banks & Trusts

DBRS has today placed the R-1 (middle) short-term rating of Fortis Bank SA/NV (Fortis Bank or the Bank) and related entities, including FB Funding Company, a Canadian corporation, Under Review with Developing Implications. The Bank is the principal banking subsidiary of Fortis Group (Fortis or the Group). (DBRS does not currently rate the long-term debt of Fortis.)

The rating action follows announcements that Belgium, the Netherlands and Luxembourg have agreed to invest EUR 11.2 billion ($16.4 billion) into each country's respective banking operations, for which they will receive a 49% ownership in Fortis' banking operations in each respective country. As part of the plan, Fortis will be divesting its stake in ABN AMRO (RFS Holdings B.V.).

In addition to analysing all details related to today's announcements, the review will focus on Fortis' ability to retain customer deposits, the financial impact of the divestiture of ABN AMRO and the other initiatives discussed in today's announcement, as well as the extent to which the government actions are able to stabilise investor confidence in Fortis. While DBRS views the actions of these governments positively, the broader ramifications for the Bank are still evolving.

The ratings are underpinned by the Bank's strong franchise position that is helping it cope with the impact of disrupted financial markets. In Belgium, Fortis banks approximately half of the population, which points to considerable franchise strength. Additionally, the Bank benefits from its central position within the larger Group, which includes substantial insurance operations.

Note:
All figures are in U.S. dollars unless otherwise noted.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Bank SA/NV	Short-Term Obligations	Under Review - Developing	R-1 (middle)	--	Sep 29, 2008
FB Funding Company	Short-Term Promissory Notes	Under Review - Developing	R-1 (middle)	--	Sep 29, 2008

Roger Lister
Chief Credit Officer - Financial Institutions Group
+1 212 806 3231
rlister@dbrs.com

Alan G. Reid
Managing Director - Financial Institutions Group
+1 212 806 3232
areid@dbrs.com

Peter Bethlenfalvy
Group Managing Director - Global Corporate Finance
+1 416 597 7361
pbethlenfalvy@dbrs.com

Press Release

Date of Release: May 6, 2008

Insight beyond the rating.

DBRS Rates Fortis Inc.’s $200 Million First Preference Shares Issue, Series G issue at Pfd-3 (high)

Industry: Energy

DBRS has today assigned a rating of Pfd-3 (high) with a Stable trend to Fortis Inc’s (Fortis) $200 million, Cumulative Redeemable Five-Year Fixed Rate Reset Series G First Preference Shares (the Series G Preference Shares). The underwriters will also have the option to purchase up to an additional $30 million in Series G Preference Shares during the 30 days following the closing of the offering. The offering is expected to close on or about May 23, 2008 and is subject to the receipt of all necessary regulatory and stock exchange approvals.

The Series G Preferred Shares will rank equally with any other series of Preferred Shares of Fortis. Proceeds from this issue will be used to repay borrowings made under the Fortis credit facility and for general corporate purposes.

Note:
All figures are in Canadian dollars unless otherwise noted.

DBRS's rating definitions and the terms of use of such ratings are available at www.dbrs.com.

Robert Filippazzo
Assistant Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Roshan Thiru, MBA
Senior Financial Analyst
+1 416 597 7357
rthiru@dbrs.com

Michael J. Caranci
Senior Vice President
+1 416 597 7304
mcaranci@dbrs.com

Press Release

Date of Release: January 12, 2010

Insight beyond the rating.

DBRS Rates Fortis Inc.'s Issue of $250 Million First Preference Shares, Series H at Pfd-3 (high)

Industry: Utilities & Independent Power

DBRS has today assigned a rating of Pfd-3 (high) with a Stable trend to the prospective issue of $250 million Cumulative Redeemable Five-Year Fixed-Rate Reset Series H First Preference Shares (the Series H Preference Shares) issued by Fortis Inc. (Fortis or the Company). The Series H Preference Shares rank equally with any other series of Preferred Shares of Fortis. The offering is expected to settle on January 26, 2010.

Proceeds from this issue will be used to repay borrowings made under the Company's credit facility and to inject equity into a regulated subsidiary.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Utilities (Electric, Pipelines & Gas Distribution), which can be found on the DBRS website under Methodologies.

This is a Corporate (Utilities & Independent Power) rating.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Robert Filippazzo
Assistant Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Michael J. Caranci
Managing Director - Energy
+1 416 597 7304
mcaranci@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS.

PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Press Release

Insight beyond the rating.

Date of Release: May 30, 2011

DBRS Confirms Fortis Inc. Following the Acquisition Announcement of Central Vermont Public Service Corporation

Industry: Utilities & Independent Power

DBRS has today confirmed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. (Fortis or the Company) at A (low) and Pfd-2 (low), respectively, both with Stable trends.

The rating confirmation follows the announcement by Fortis of its intention to acquire 100% of the common shares of Central Vermont Public Service Corporation (CVPS) for total consideration of approximately US$700 million, including the assumption of approximately US$230 million in debt. The proposed acquisition is considered manageable for Fortis as it is anticipated to increase the Company's total consolidated assets by a modest 7%.

CVPS is the largest integrated electric utility in Vermont. CVPS purchases, produces, transmits and distributes and sells electricity to approximately 160,000 customers in Vermont. CVPS is also a 41% shareholder in Vermont Transco LLC, the owner of Vermont's high-voltage electric transmission system. Fortis will be adding a regulated utility with a reasonable allowed rate of return on common equity of 9.45% for 2011, and an equity component in the capital structure currently of 57%.

DBRS believes the transaction will have a modestly positive impact on Fortis's overall business risk profile as a result of the acquisition of a stable, lower-risk regulated electric utility that will provide Fortis with further geographic and regulatory diversification. Fortis anticipates using borrowings under its $600 million committed term credit facility to initially purchase the outstanding shares of CVPS. DBRS expects that Fortis will ultimately finance the acquisition in a manner consistent with its current financial profile and the conservative financing philosophy it has displayed in past acquisitions; that is, with a significant portion of the cost to acquire CVPS equity funded with Fortis equity. The Company has stated that it expects the proposed acquisition of CVPS to be accretive to earnings within the first full year of operations.

The transaction is contingent upon obtaining certain shareholder, regulatory and governmental approvals, including that of the Vermont Public Service Board and the U.S. Federal Energy Regulatory Commission. The Company expects the transaction to close in six to 12 months.

DBRS notes that, unrelated to this transaction, Fortis today announced a bought deal share offering for gross proceeds of $300.3 million, with an over-allotment option that would bring the proceeds to $345.345 million, if fully exercised. Proceeds from the transaction will be used to repay amounts outstanding under the Company's credit facility and to finance additional equity injections into western Canadian regulated utilities, as well as the non-regulated Waneta Expansion Limited Partnership, in support of infrastructure investment and for general corporate purposes.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Confirmed	A (low)	Stb	May 30, 2011
Fortis Inc.	Preferred Shares	Confirmed	Pfd-2 (low)	Stb	May 30, 2011

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Robert Filippazzo
Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Yean (Kit) Kitnikone
Assistant Vice President
+1 416 597 7325
kkitnikone@dbrs.com

Michael Caranci
Managing Director - Energy
+1 416 597 7304
mcaranci@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Press Release

Date of Release: June 22, 2011

Insight beyond the rating.

DBRS Comments on Fortis Inc. and Belize

Industry: Utilities & Independent Power

DBRS notes today that Fortis Inc. (Fortis or the Company, rated A (low) with a Stable trend) has announced that the Government of Belize has passed legislation and issued an order to expropriate the Company's ownership interest in Belize Electricity Limited (BEL) and dismiss its board of directors.

While uncertainties remain regarding the amount of compensation to be paid to Fortis and possible legal proceedings, any consequences are not expected to affect Fortis's credit profile or ratings, given BEL's very modest size (less than 2% of Fortis's total assets). Furthermore, from a holding company perspective, BEL has not provided dividends to Fortis in a number of years.

In addition, DBRS notes that Fortis also owns Belize Electric Company Limited (BECOL), a non-regulated generation business that operates three hydroelectric generating facilities in Belize and which has fixed contracts in place with BEL. The Government of Belize has not issued an expropriation order with regard to BECOL; however, as BECOL sells power to BEL, the longer-run implications of the current events for BECOL is uncertain. However, these assets represent approximately 1% of Fortis's assets, and the impact is expected to be minimal.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Robert Filippazzo
Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Michael Caranci
Managing Director - Energy

+1 416 597 7304
mcaranci@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Press Release

Date of Release: September 7, 2011

Insight beyond the rating.

DBRS Confirms Fortis Inc. at A (low), Pfd-2 (low), Stable Trends

Industry: Utilities & Independent Power

DBRS has today confirmed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. (Fortis or the Company) at A (low) and Pfd-2 (low), respectively, both with Stable trends. The confirmation is based on the Company's strong financial profile and low business risk profile, driven by its diverse ownership of regulated electric and gas operating subsidiaries that collectively represent approximately 91% of consolidated EBITDA and assets.

In May 2011, Fortis entered into a Merger Agreement with Central Vermont Public Service Corporation (CVPS) to purchase 100% of the common shares of CVPS for total consideration of approximately US$700 million, including the assumption of approximately US$230 million in debt. Subsequently, CVPS's Board of Directors received a competing acquisition proposal from Gaz Métro Limited Partnership and deemed it superior to Fortis's offer. CVPS terminated the Merger Agreement with Fortis and paid Fortis US$17.5 million plus US$2.0 millions in expenses. DBRS had confirmed Fortis's ratings following the announcement of its intention to acquire CVPS. The subsequent termination of the acquisition does not impact ratings.

In 2010, Fortis entered into a partnership with Columbia Power Corporation and the Columbia Basin Trust (CPC/CBT), both entities of the Government of British Columbia, to construct the 335 MW Waneta Expansion at an estimated cost of approximately $900 million. Fortis owns a controlling 51% interest in the Waneta Expansion and will operate and maintain it when it comes into service, which is expected in spring 2015. Fortis issued common shares in June 2011 for gross proceeds of $345 million. The net proceeds will be used to repay indebtedness outstanding under the Company's committed credit facility, to finance additional equity injections into the Company's western Canadian regulated utilities and the non-regulated Waneta Expansion Limited Partnership. The common equity issuance has further improved Fortis's capital structure.

DBRS commented earlier this year following the announcement by the Government of Belize passing legislation and issuing an order to expropriate the Company's ownership interest in Belize Electricity Limited (BEL) and dismissing its board of directors. While uncertainties remain regarding the amount of compensation to be paid to Fortis and possible legal proceedings, any consequences are not expected to affect Fortis's credit profile or ratings, given BEL's very modest size (less than 2% of Fortis's total assets). Furthermore, from a holding company perspective, BEL has not provided dividends to Fortis in a number of years.

Fortis's low business risk is due to its diversified utility investments, with electric utilities providing approximately 55% of EBITDA and gas utilities 36%. Fortis's credit metrics are strong on both a consolidated and non-consolidated basis. The Company has witnessed a modest improvement over the years as a result of its utility subsidiaries adding new assets into rate base, an increase in rates and favourable regulatory decisions.

Over the next five-year period from 2011 through 2015, Fortis's consolidated capital program is expected to approach $5.7 billion, with approximately 61% of capital spending incurred at the regulated electric utilities (mainly FortisAlberta and FortisBC), 23% at the regulated gas utilities and 16% at the non-regulated operations. Capital expenditures at the regulated utilities are subject to regulatory approval. It is anticipated that the majority of capital expenditures will be funded at the subsidiary level, with a combination of internally generated cash, operating company-level debt and equity from Fortis to fund capital build-out programs, while maintaining their respective regulated capital structures. DBRS views the level of Fortis's equity injections as reasonable, and does not anticipate that the Company will use debt to fund the injections, thereby avoiding double leverage.

Note:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

Issuer	**Debt Rated**	**Rating Action**	**Rating**	**Trend**	**Latest Event**
Fortis Inc.	Unsecured Debentures	Confirmed	A (low)	Stb	Sep 7, 2011
Fortis Inc.	Preferred Shares	Confirmed	Pfd-2 (low)	Stb	Sep 7, 2011

The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

Robert Filippazzo
Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Michael Caranci

Managing Director - Energy
+1 416 597 7304
mcaranci@dbrs.com

Yean (Kit) Kitnikone
Assistant Vice President
+1 416 597 7325
kkitnikone@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Press Release

Date of Release: October 17, 2011

Insight beyond the rating.

DBRS Rates FortisAlberta's Issue of $125 Million 4.54% Medium-Term Notes at A (low)

Industry: Utilities & Independent Power

DBRS has today assigned a rating of A (low), with a Stable trend, to the $125 million 4.54% medium-term notes (MTNs) due October 18 2041, issued by FortisAlberta Inc. (FortisAlberta). The MTNs are expected to settle on October 19, 2011, and are being issued pursuant to FortisAlberta's Short Form Base Shelf Prospectus dated August 16, 2011.

The MTNs will rank equally with all of FortisAlberta's other present and future unsecured and unsubordinated senior obligations.

Proceeds from the sale of the MTNs will be used to repay certain existing indebtedness under FortisAlberta's credit facilities and for other corporate purposes.

FortisAlberta is a wholly owned indirect subsidiary of Fortis Inc.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating North American Energy Utilities (Electric, Natural Gas and Pipelines), which can be found on the DBRS website under Methodologies.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Robert Filippazzo
Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Adeola Adebayo
Vice President - Canadian Utilities
+1 416 597 7421
aadebayo@dbrs.com

James Jung, CFA, FRM, CMA
Vice President - Oil & Gas/Banking
+1 416 597 7577
jjung@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Press Release

Date of Release: February 21, 2012

DBRS Places Fortis Inc. Under Review with Developing Implications Following CH Energy Group Inc. Acquisition Announcement

Industry: Utilities & Independent Power

DBRS has today placed the A (low) Unsecured Debentures and Pfd-2 (low) Preferred Shares ratings of Fortis Inc. (Fortis or the Company) Under Review with Developing Implications. This action follows the announcement that the Company has agreed to acquire CH Energy Group Inc. (CHG) for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt on closing (the Acquisition). The purchase price represents an approximate 10.5% premium above the most recent closing price of CHG. The Acquisition is expected to close within 12 months and is subject to CHG shareholder approval, as well as various regulatory approvals.

CHG’s principal businesses consist of: (1) Central Hudson Gas & Electric Corporation (Central Hudson), which is a regulated utility in New York State with approximately 300,000 electric customers and 75,000 gas customers. Central Hudson accounted for 97% of CHG’s consolidated net income and 93% of assets in 2011. (2) A non-regulated fuel delivery business (3% of net income), which serves 56,000 customers in the mid-Atlantic region. CHG’s total assets were US$1.7 billion as of December 31, 2011, while net income and operating cash flow in 2011 were US$45 million and US$115 million, respectively. Pro forma the CHG acquisition (i.e., post-acquisition), DBRS estimates that CHG will account for 11% of Fortis’s total assets and 12% of Fortis’s total net income (based on December 31, 2011). The Acquisition is expected to be immediately accretive to earnings and cash flow.

In reviewing Fortis’s rating in light of the proposed Acquisition, DBRS’s analysis is focused on (1) the impact of the Acquisition on the business risk profile of Fortis, and (2) the financial impact of the transaction on the Company’s credit profile.

(1) BUSINESS RISK PROFILE – NEUTRAL IMPACT
Based on our preliminary review, DBRS views the proposed Acquisition as neutral with respect to Fortis’s business risk profile. Currently, approximately 90% of Fortis’s consolidated earnings are contributed by its regulated businesses (gas and electric transmission, distribution, generation and storage), with the remaining earnings coming from hotel properties and non-regulated generation. The proposed Acquisition is expected to slightly improve the Company’s earnings mix toward the regulated businesses, since 97% of CHG’s earnings are generated from regulated gas and electric

transmission and distribution. In addition, the regulatory framework in New York is viewed as reasonable in terms of operating and capital cost recovery and returns on investment. CHG has no exposure to commodity price risk since all gas and power purchase costs are passed through to customers. Over the longer term, the Acquisition should help maintain the current mix of regulated and non-regulated earnings as Fortis continues to increase its exposure to non-regulated businesses, including the non-regulated hydroelectric Waneta Expansion Project (estimate: $450 million Fortis share, 51% equity interest) expected to be in service in 2015.

(2) FINANCIAL RISK PROFILE – NEGATIVE IMPACT
The focus of DBRS's analysis is on Fortis' non-consolidated capital structure (parent level) and cash flow from the subsidiaries to the parent to service the parent's debt and corporate expenses. On a non-consolidated basis, the cash flow-to-interest expense ratio was strong at 4.43 times (x) in 2011, while debt-to-capital was near 20%. DBRS notes that, at 20%, non-consolidated leverage is at the upper end of the range for the A (low) rating category.

Fortis expects to use its multi-year committed credit facility to finance the purchase in the short term (Fortis's available credit facility was $845 million at the parent level as at December 31, 2011). The Company intends to finance the acquisition on a long-term basis, consistent with its currently non-consolidated capital structure.

DBRS will further review the Company's financing plan when it is finalized and expects that the Company will finance the Acquisition in such a way that the 20% debt-to-capital structure at the non-consolidated level will be maintained. Any material increase in leverage could cause Fortis's credit risk profile to deteriorate to a level that is no longer commensurate with the current A (low) rating.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on the DBRS website under Methodologies.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Under Review - Developing	A (low)	--	Feb 21, 2012
Fortis Inc.	Preferred Shares	Under Review - Developing	Pfd-2 (low)	--	Feb 21, 2012

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Eric Eng
Vice President - Energy & Mining
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
Senior Vice President - Energy/Banking
+1 416 597 7577
jjung@dbrs.com

Adeola Adebayo
Vice President - Canadian Utilities
+1 416 597 7421
aadebayo@dbrs.com

Endorsement: EU Qualified by Extension.

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Press Release

Date of Release: March 8, 2012

Insight beyond the rating.

DBRS Updates Its Report on Fortis Inc.

Industry: Utilities & Independent Power

DBRS has today updated its report on Fortis Inc. (Fortis or the Company). On February 21, 2012, DBRS placed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. at A (low) and Pfd-2 (low), Under Review with Developing Implications. This rating action was taken following the announced acquisition of CH Energy Group Inc. (CHG) for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt (the "Acquisition"). The Acquisition is expected to close in Q1 2013 subject to CHG's shareholders and various regulatory approvals.

With the proposed Acquisition, Fortis' business risk profile is expected to improve moderately, as approximately 97% of CHG's earnings are generated from its regulated electric and gas regulated businesses. This regulated earnings mix is higher than the Company's current mix at approximately 90%. The remaining 10% of Fortis' consolidated earnings are generated from higher-risk hotel properties and non-regulated generation businesses. The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs and earn adequate returns on investment.

The proposed Acquisition will likely increase Fortis' non-consolidated balance sheet leverage. As at December 31, 2011, Fortis' non-consolidated debt-to-capital was 13.6%, significantly lower than the 2010 level largely as a result of the $300 million equity issuance for the failed acquisition of Central Vermont Public Services Corporation. This leverage was well below the 20% threshold in DBRS rating guidelines for notching a holding company relative to its subsidiaries. (See DBRS' Rating Parent/Holding Companies and Their Subsidiaries, dated March 2010.) DBRS will further review Fortis' financing plan when it is finalized and expects the Company to finance the Acquisition in a prudent manner such that the non-consolidated debt-to-capital remains within the 20% range. The current rating could be affected if the Company's financing plan materially exceeds the 20% threshold.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.) despite the structural subordination and double leverage at the parent. DBRS believes that Fortis' ratings are supported by strong and stable cash flows from diversified sources, with a significant portion of dividends coming from its regulated subsidiaries with "A" ratings (FortisBC Energy Inc.

and Newfoundland Power Inc.).

Notes:
All figures are in Canadian dollars unless otherwise noted.

The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

Eric Eng
Vice President - Energy & Mining
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
Senior Vice President - Energy/Banking
+1 416 597 7577
jjung@dbrs.com

Adeola Adebayo
Vice President - Canadian Utilities
+1 416 597 7421
aadebayo@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRS.COM.

Rating Report

Report Date:
July 26, 2012

Previous Report:
March 8, 2012

Insight beyond the rating.

Fortis Inc.

Analysts

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

Chenny Long
+1 416 597 7451
clong@dbrs.com

The Company

Fortis Inc. is a holding company for a number of regulated electric and natural gas utilities, including wholly owned Newfoundland Power Inc., FortisAlberta Inc., FortisBC Inc., Maritime Electric Company, Limited, FortisOntario Inc. and Fortis Turks and Caicos, as well as majority ownership of Caribbean Utilities Company (slightly over 60%). FortisBC Energy companies (formerly Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.) comprise its gas distribution utilities. Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Recent Actions

July 20, 2012
Confirmed

February 21, 2012
Placed Under Review with Developing Implications

September 7, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating Update

On July 20, 2012, DBRS confirmed the ratings of the Unsecured Debentures and Preferred Shares of Fortis Inc. (Fortis or the Company) at A (low) and Pdf-2 (low), respectively, with Stable trends, and removed the ratings from Under Review with Developing Implications following the announced acquisition of CH Energy Group Inc. (CHG) (the Acquisition) on February 21, 2012. The confirmation is based on the closing of subscription receipt offering (approximately $600 million) in June 2012 and further review of the Company's financing plan. DBRS is comfortable that Fortis' funding strategy includes appropriate measures to maintain a reasonable financial profile while executing its growth strategy, particularly the Acquisition (approximately $1.0 billion) and the Waneta hydropower project (approximately $127.5 million in 2012).

Fortis' non-consolidated balance sheet leverage is expected to increase notably. However, given its current financial flexibility, with non-consolidated debt-to-capital at near 14% and strong cash flow coverage, DBRS believes that Fortis' financing plan is reasonable such that debt leverage within the 20% range can be maintained in line with DBRS's rating guidelines for notching a holding company relative to its subsidiaries (see DBRS's methodology Rating Parent/Holding Companies and Their Subsidiaries, dated March 2010). Following the Acquisition and the financing of the Waneta project, cash flow coverage is expected to weaken temporarily but should remain within the current rating category.

With the proposed Acquisition, Fortis' business risk profile is expected to improve moderately, as approximately 97% of CHG's earnings are generated from its regulated electric and gas regulated businesses. This regulated earnings mix is higher than the Company's current mix at approximately 90%. The remaining 10% of Fortis' consolidated earnings are generated from higher-risk hotel properties and non-regulated generation businesses. The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs and earn good returns on investments.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.), despite the structural subordination and double leverage at the parent. DBRS believes that Fortis' ratings are supported by strong and stable cash flows from diversified sources, with a significant portion of dividends coming from its regulated subsidiaries with "A" ratings (FortisBC Energy Inc. and Newfoundland Power Inc.).

Rating Considerations

Strengths

(1) Strong and stable dividends and cash income
(2) Diversified sources of cash flow
(3) 100% ownership of most subsidiaries
(4) Good liquidity/reasonable interest coverage

Challenges

(1) Potential higher debt levels at the parent
(2) Structurally subordinated to debt at the subsidiaries
(3) Strong ring-fencing at its wholly owned utilities
(4) Considerable capex for Waneta Expansion Project

Financial Information

Non-consolidated Fortis Inc.	12 mos.	Year ended December 31				
($ millions)	Mar. 2012	2011	2010	2009	2008	2007
EBIT	424	419	385	350	326	260
Cash flow from operations	225	216	155	216	145	40
Total debt	780	755	949	832	606	709
Total debt/Capital	13.9%	13.6%	18.4%	17.7%	14.0%	18.9%
EBIT-interest coverage (x)	9.40	9.29	8.65	8.05	8.40	7.67
Cash flow-interest coverage (x)	5.99	5.79	4.48	5.98	4.73	2.18
Cash flow/Total debt	28.9%	28.6%	16.4%	27.5%	25.9%	6.0%

Fortis Inc.

Report Date:
July 26, 2012

Rating Considerations Details

Strengths

(1) **Strong and stable dividends and cash income.** Cash income and dividends have been strong, largely supported by stable earnings and cash flow from regulated entities and long-term power contracts. Regulated operations account for approximately 90% of consolidated EBITDA (12 months to March 2012).

(2) **Diversified sources of cash flow.** Fortis benefits from diversified sources of cash flow through its ownership of regulated natural gas utilities in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries.

(3) **100% ownership of most subsidiaries.** Fortis owns 100% of most of its operating entities. This provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies.

(4) **Good liquidity/reasonable interest coverage.** At the end of March 2012, Fortis had approximately $814 million in available credit facilities (at the parent level), which is sufficient to finance its near-term operational and capital needs. Non-consolidated cash flow-to-interest coverage remained strong for the 12 months ended March 2012.

Challenges

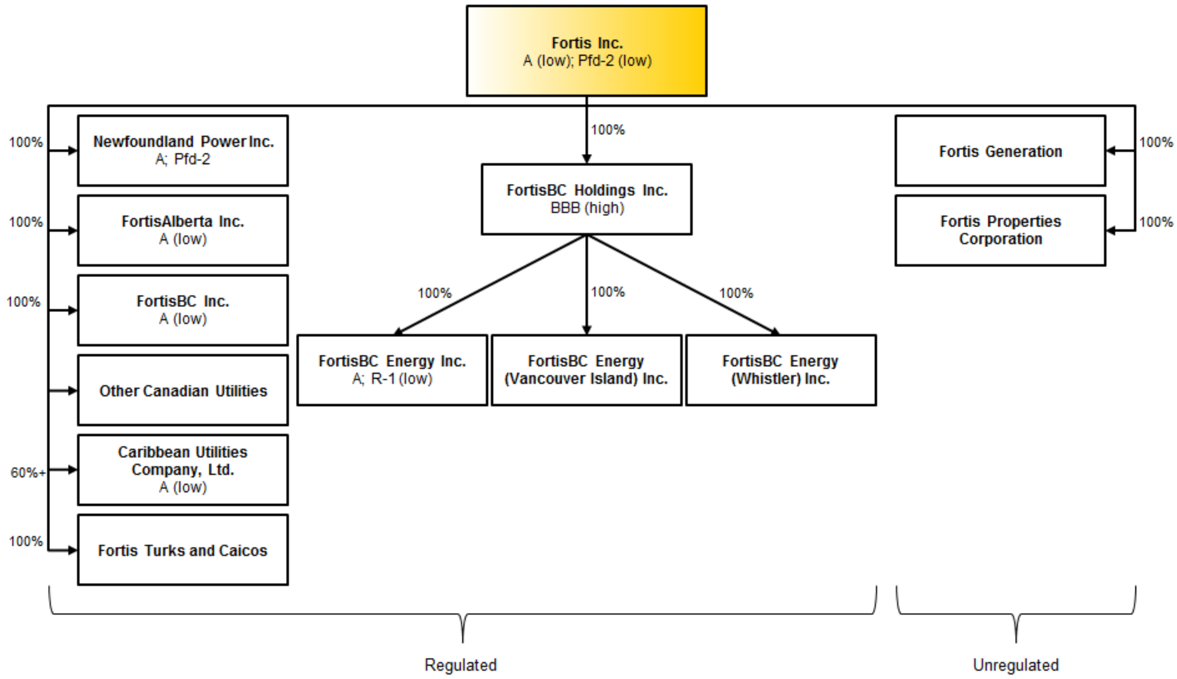
(1) **Potential high debt levels at the parent.** Fortis' agreement to acquire CHG could increase debt levels at the parent considerably. As at March 31, 2012, the non-consolidated debt-to-capital ratio was at 13.9%, which provided Fortis with significant financial flexibility. However, Fortis' non-consolidated leverage will likely increase with the proposed Acquisition.

(2) **Structural subordination.** Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies. This accounts for the lower debt rating of Fortis relative to the debt ratings of some its key regulated subsidiaries.

(3) **Strong ring-fencing.** Fortis faces strong ring-fencings imposed on FortisBC Energy Inc. and FortisBC (Vancouver Island) Inc. with respect to their capital structure and dividend payouts. In addition, it is common for utilities to maintain their capital structure in line with the regulatory capital structure. As a result, dividend payouts to Fortis could be affected should these utilities have a large capital expenditure program.

(4) **Large capital expenditures for the Waneta Expansion Project (WEP).** The WEP is a hydroelectric project in British Columbia that is 51% owned by Fortis. The Company's share of capital expenditures is approximately $450 million. Approximately $250 million will be required in 2012 for the project (51% will be contributed by Fortis). The project is expected to be in service in early 2015.

Simplified Corporate Structure*



*Note: The above chart only includes Fortis' major regulated and non-regulated subsidiaries, which directly or indirectly contribute dividends to Fortis.

Based on 2011 Data

Name	Operations	Customers	Rate base (CAD millions)	Allowed Roe for 2012	Net income (CAD millions)	Deemed equity
FortisBC Holdings Inc.	Holding company		3,300	9.6%	139	40%
FortisBC Energy Inc.	Natural gas distribution	851,000	2,500	9.5%	102	40%
FortisBC Energy (Vancouver Island)	Natural gas distribution	102,000	700	10.0%	N/A	40%
FortisBC Energy (Whistler)	Natural gas distribution	2,600	100	10.0%	N/A	40%
FortisAlberta	Electricity distribution	499,000	1,715	8.8%	75	41%
FortisBC	Integrated utility	162,000	1,093	9.9%	48	40%
Newfoundland Power	Electricity distribution	247,000	875	8.4%	34	45%
Other Canadian Utilities	-	177,000	513	8.0-9.8%	22	40%
Fortis Properties	Real estate	22 hotels	-	-	23	-
Caribbean Utilities	Integrated utility	26,000	375	12-14%	20	45-50%
Fortis Turks and Caicos	Integrated utility	9,500	155	-	9	-
Fortis Generation	Power generation	Appro. 292 MW		-	18	-

The Proposed Acquisition of CHG

On February 21, 2012, Fortis announced that it had agreed to acquire CHG for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt on closing. The Acquisition is expected to close within 12 months, subject to various regulatory approvals. The CHG shareholders have approved the Acquisition.

CHG's principal businesses comprise: (1) Central Hudson Gas & Electric Corporation (Central Hudson), which is a regulated utility in New York state with approximately 300,000 electric customers and 75,000 gas customers. Central Hudson accounts for 97% of CHG's 2011 net income and 93% of its assets. (2) A non-regulated fuel delivery business (3% of CHG income), which serves 56,000 customers in the Mid-

Atlantic Region. CHG's total assets as of December 31, 2011, were US$1.7 billion. Net income and operating cash flow in 2011 were US$45 million and US$115 million, respectively.

Non-Consolidated Income & Cash Flows

Earnings - Non-Consolidated	**12 mos.**	Year end December 31	
($ millions)	**Mar. 2012**	**2011**	**2010**
Newfoundland Power	34	34	35
FortisBC Energy Holdings Inc.	138	128	119
FortisWest	80	84	82
Other Canadian utilities/Other	10	10	11
Fortis Energy Bermuda	25	26	28
Regulated investment income	**286**	**282**	**275**
Fortis Properties	34	35	37
FortisUS Inc.	8	12	(3)
Fortis Energy Cayman	17	14	18
Non-regulated	**59**	**61**	**52**
Total Investment Income	**345**	**343**	**327**
Interest income + Management fee	80	77	59
EBITDA	**425**	**420**	**386**

Earnings - Non-Consolidated	**12 mos.**	Year end December 31	
($ millions)	**Mar. 2012**	**2011**	**2010**
Newfoundland Power	34	34	35
FortisBC Energy Holdings Inc.		128	119
FortisWest	80	84	82
Other Canadian utilities/Other		10	11
Fortis Energy Bermuda	25	26	28
Regulated investment income	**286**	**282**	**275**
Fortis Properties	34	35	37
FortisUS Inc.	8	12	(3)
Fortis Energy Cayman	17	14	18
Non-regulated	**59**	**61**	**52**
Total Investment Income		**343**	**327**
Interest income + Management fee	80	77	59
EBITDA	**425**	**420**	**386**

Fortis Inc.

Report Date:
July 26, 2012

Earnings - Non-Consolidated	12 mos.	Year end December 31				
($ millions)	Mar. 2012	2011	2010	2009	2008	2007
EBITDA	**425**	**420**	**386**	**351**	**328**	**262**
Depreciation	2	2	1	2	2	2
EBIT	424	419	385	350	326	260
Interest expense	45	45	44	43	39	34
EBT	379	373	340	306	287	226
Net Income before preferred dividends	367	364	329	297	275	215
Non-consolidated cash flow from operations	225	216	155	216	145	40
Less: Preferred dividends	(45)	(45)	(45)	(35)	(30)	(23)
Less: Common dividends	(145)	(151)	(135)	(133)	(162)	(128)
Free cash flow	35	19	(25)	49	(47)	(111)
Maintenance capex	(5)	(4)	(3)	(0)	(0)	(1)
Acquisitions	0	0	0	0	0	(1,256)
Investments/Advances to subsidiaries	(225)	(208)	(367)	(358)	(306)	(266)
Equity financing (includes preferred)	345	345	264	49	533	1,269
Debt financing	(149)	(165)	141	293	(179)	333
Others, including working capital	(1)	3	(1)	(30)	6	21
Net change in cash flow	(1)	(10)	8	2	7	(11)

Summary

- Overall, Fortis has benefited from good earnings diversification, strongly underpinned by regulated utilities, which account for 90% of consolidated assets.
- EBITDA reflected strong earnings from regulated utilities, long-term contract generation, property management and interest income.
- Earnings have increased over the years, largely reflecting higher ROE in recent years and growing rate bases at the utilities.
- Fortis Properties' performance has been solid, reflecting the recovery of the Canadian economy. Although accounting for 10% of the assets, non-consolidated contributions have been solid at 14% since 2010.

Outlook

- Investment income from regulated utilities is expected to increase considerably in 2013 should the proposed Acquisition of CHG be completed as expected (Q1 2013).
- The Acquisition should also improve Fortis' earnings diversification.
- Non-regulated earnings are expected to increase in 2015 when WEP is scheduled to be in service. The project has obtained a long-term power contract with BC Hydro.

Fortis Inc.

Report Date:
July 26, 2012

Capital Structure and Liquidity

Capital Structure - Non-Consolidated	**12 mos.**	As at December 31				
($ millions)	**Mar. 2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Short-term debt	-	-	-	100	-	5
Credit facilities	31	-	165	36	110	208
Long-term debt	749	755	779	650	450	450
Sub. convertible debentures	-	-	5	45	46	46
Preferred shares	912	912	912	667	667	442
Common shares	3,909	3,867	3,308	3,195	3,046	2,606
Total non-consolidated capital	**5,600**	**5,534**	**5,169**	**4,694**	**4,319**	**3,757**
% total debt-to-total capital	13.9%	13.6%	18.4%	17.7%	14.0%	18.9%
EBIT-interest coverage (x)	9.40	9.29	8.65	8.05	8.40	7.67
Cash flow-interest coverage (x)	5.99	5.79	4.48	5.98	4.73	2.18
Cash flow-to-total debt	28.9%	28.6%	16.4%	27.5%	25.9%	6.0%

Summary

- Fortis' non-consolidated balance sheet remained strong in Q1 2012, reflecting a modest debt-to-capital ratio at 13.9%, which provided the Company with significant financial flexibility.
- This leverage remained well within the 20% threshold in DBRS's notching guidelines for a holding company relative to its subsidiaries.
- Cash flow-to-interest coverage remained strong for a holding company.

Potential Impact of the Proposed Acquisition of CHG

- The price of the Acquisition is approximately $1 billion.
- In June 2012, Fortis completed a subscription receipt offering for approximately $600 million, which will be used to partially finance the Acquisition, with the remainder expected to be financed with debt and preferred shares.
- Based on the Company's financing strategy, the debt-to-capital ratio will likely increase from the current level should the Acquisition be completed.
- However, the new debt-to-capital ratio is expected to remain within the 20% level.

Liquidity

Credit Facilities as at March 31 2012

($ millions)	HoldCo & other	Regulated Subsidiaries	Non-regulated Subsidiaries	To
Total credit facilities	845	1389	13	22
Drawing on credit facilities (S-T)		(73)	(3)	(7
Drawing on credit facilities (L-T)	(31)	(50)		(8
Letters of credit	(1)	(65)		(6
Credit facilities available	813	1201	10	20

Debt Maturity Schedule

Debt maturities - ($ millions)	2012	2013	2014	2015	2016	Thereafter	Total
Fortis Inc. senior debt	0	0	153	0	0	602	755
Total	0	0	153	0	0	602	755
% of total debt	0%	0%	20%	0%	0%	80%	100%

- Fortis has sufficient liquidity to finance its near-term funding requirements.

- Debt maturity is concentrated in 2014, when 20% of Fortis' total debt is due. DBRS believes that the refinancing of this amount is within the Company's capacity, given its strong credit profile.

Description of Operations

Fortis' main subsidiaries and investments are as follows:

FortisBC Holdings Inc. (100% owned) is a holding company for the following utilities:
(1) **FortisBC Energy Inc. (FEI)** is the largest natural gas distributor in British Columbia, serving approximately 851,000 residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia.
(2) **FortisBC Energy (Vancouver Island) Inc. (FEVI)** owns a combined distribution and transmission system and serves approximately 102,000 residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island.
(3) **FortisBC Energy (Whistler) Inc. (FEW)** owns and operates a propane distribution system in Whistler, British Columbia, and provides service to approximately 2,600 residential and commercial customers.

FortisAlberta Inc. (100% owned) is a regulated electricity distributor with approximately 499,000 customers. Its franchise area includes central and southern Alberta, the suburbs surrounding Edmonton and Calgary, Red Deer, Lethbridge and Medicine Hat.

FortisBC Inc. (100% owned) is a vertically integrated regulated utility operating in south-central British Columbia, serving approximately 162,000 customers. Its generation assets include four hydroelectric generating plants (totaling 223 MW) on the Kootenay River in south-central British Columbia.

Newfoundland Power Inc. (100% owned) (NP) is a principal distributor of electricity on the island portion of Newfoundland and Labrador, serving more than 247,000 customers. Fortis also owns 25% of NP's preferred shares.

Other Canadian Utilities
(1) **FortisOntario Inc.** is an integrated electric utility providing services to approximately 64,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies serving approximately 38,000 customers.

(2) **Maritime Electric Company Limited (Maritime Electric)** is the principal distributor of electricity on Prince Edward Island, serving approximately 75,000 customers. It also maintains on-island generating facilities with a combined capacity of 150 MW. Maritime Electric is indirectly owned by Fortis through FortisWest.

Fortis Properties Corporation owns and operates 22 hotels in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate, primarily in Atlantic Canada.

Caribbean Utilities Company, Ltd. (Caribbean Utilities) is a fully integrated electricity utility on Grand Cayman, Cayman Islands, serving over 26,000 customers. It has an installed generating capacity of approximately 151 MW. Fortis has an approximate 60% controlling ownership interest in Caribbean Utilities, and the remaining ownership is publicly traded on the Toronto Stock Exchange.

Fortis Turks and Caicos serves approximately 9,500 customers, or 85% of electricity consumers in the Turks and Caicos Islands pursuant to 50-year licenses that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 54 MW.

Belize Electric Company Limited is a non-regulated 32 MW hydro generation facility in Belize. All output is sold to Belize Electricity Limited under a 50-year power purchase agreement expiring in 2055. The US$53 million 19 MW hydroelectric generating facility at Vaca in Belize was commissioned in March 2010.

Belize Electricity Limited is recorded as equity investment following the expropriation by the Government of Belize in June 2011.

Fortis Inc.

Report Date:
July 26, 2012

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008	2007
Unsecured Debentures	A (low)	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Preferred Shares	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)

Related Research

- FortisBC Holdings Inc., February 29, 2012.
- FortisBC Energy Inc., February 29, 2012.
- Newfoundland Power Inc., July 18, 2012.
- FortisAlberta Inc., June 28, 2012.
- FortisBC Inc., February 22, 2012.
- Caribbean Utilities Company, Ltd., July 5, 2012.

Note:
All figures are in Canadian dollars unless otherwise noted.

STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

February 8, 2006

Summary: Fortis Inc.

Primary Credit Analyst:
Laurie Conheady, Toronto (1) 416-507-2518; laurie_conheady@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Table Of Contents

Summary: Fortis Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in all service territories; and investments in, and exposure to, higher-risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency: CCC-/Negative/C).

Fortis is a utility holding company with regulated and unregulated electricity operations located mainly in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize, as well as property holdings across Canada. Underpinning the quality and stability of the company's cash flows is diversity, with no single business expected to contribute more than 25% of consolidated earnings. Moreover, cash flow reliability is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of Fortis' cash flows are its five regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its equity investments in regulated utilities Caribbean Utilities Co. Ltd. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated) in the Caribbean. The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of their networks and related loss of cash flows.

The regulatory regimes governing the company's electricity network operations for the most part support credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing cash flow quality is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets in Newfoundland and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2% to 3% in Alberta and about 2% in British Columbia. The company's total customer base of more than 1 million in Canada and the Caribbean is well diversified, and there is no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2005 were 3.2x and 15% respectively. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or marginally below 2005 levels. Leverage as measured by total debt-to-total capital was 59% in 2005 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in 2006-2009, close to 75% will be spent in the Alberta and British Columbia service territories to meet the growing demand for energy services in those areas. The program will require the company to raise debt and equity funding, but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory earnings as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its part ownership of Belize Electricity, which together represent 20% to 25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations have more risk than the company's network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utility holdings on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the Belize business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2006-2009, and will require the company to take on modest levels of additional debt and equity. With about C$540 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$33.4 million as of Dec. 31, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$500 million-C$525 million in total capital expenditure, dividend payments, and debt maturities in 2006.

At the holding company, Fortis maintains C$210 million of credit facilities, with C$185 million available as of Dec. 31, 2005. The facilities consist of a C$145 million unsecured revolver that matures in May 2008; and a C$50 million unsecured revolving credit facility that matures in January 2009, both of which are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold close to C$750 million in total credit facilities, the bulk (close to 70%) of which are at the regulated operating companies.

Outlook

The stable outlook on Fortis reflects greater stability in its business and financial risk profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for deterioration in Fortis' financial profile, and if the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

May 11, 2006

Summary: Fortis Inc.

Primary Credit Analyst:
Laurie Conheady, Toronto (1) 416-507-2518; laurie_conheady@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Table Of Contents

Summary: Fortis Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in all service territories; and investments in, and exposure to, higher-risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency: CCC-/Negative/C).

Fortis is a utility holding company with regulated and unregulated electricity operations located mainly in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize, as well as property holdings across Canada. Underpinning the quality and stability of the company's cash flows is diversity, with no single business expected to contribute more than 25% of consolidated earnings. Moreover, cash flow reliability is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of Fortis' cash flows are its five regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its equity investments in regulated utilities Caribbean Utilities Co. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated) in the Caribbean. The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost plus return-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of their networks and related loss of cash flows.

The regulatory regimes governing the company's electricity network operations for the most part support credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs, and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing cash flow quality is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets in Newfoundland and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2% to 3% in Alberta and about 2% in British Columbia. The company's total customer base of more than one million in Canada and the Caribbean is well diversified, and there is no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2005 were 3.2x and 15% respectively. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or marginally below 2005 levels. Leverage as measured by total debt-to-total capital was 59% in 2005 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt. The company's financial results for first quarter 2006 were in line with Standard & Poor's Ratings Services' expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in 2006-2009, close to 75% will be spent in the Alberta and British Columbia service territories to meet the growing demand for energy services in those areas. The program will require the company to raise debt and equity funding, but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short- to medium-term, the expenditure will improve long-term sustainable regulatory earnings as new assets are rolled into the regulated asset base.

Fortis' business profile is weakened by its exposure to unregulated property investments and generation operations, and its part ownership of Belize Electricity, which together represent 20% to 25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations have more risk than the company's network businesses. The creditworthiness of Belize Electricity is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the Belize business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, access to capital markets and available bank facilities. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2006-2009, and will require the company to take on modest levels of additional debt and equity.

The company's liquidity is supported by annual cash flow as represented by FFO of more than C$300 million, and demonstrated access to debt and equity capital markets. Further, as of March 31, 2006, the company had C$543 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$21.5 million. Subsequent to the end of first quarter 2006, Fortis' consolidated liquidity position was enhanced by the refinancing of drawings under FortisAlberta's syndicated credit facility following that subsidiary's successful C$100 million unsecured debenture offering on April 21, 2006. The financial resources available to Fortis and its subsidiaries is sufficient to fund an estimated C$550 million to C$575 million in total capital expenditure, dividend payments, and debt maturities in 2006.

At the holding company, Fortis maintains C$210 million of credit facilities, with close to C$180 million available as of March 31, 2006. The facilities consist of a C$145 million unsecured revolver that matures in May 2008; and a C$50 million unsecured revolving credit facility that matures in January 2009, both of which are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold about C$795 million in total credit facilities, the bulk (close to 75%) of which are at the regulated operating companies.

Outlook

The stable outlook reflects an expectation of no material change to the current mix of regulated and unregulated operations, and the company successfully undertaking its major capital expenditure program. Any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile or material operational, or financial setback in executing the capital expenditure program could lead to a negative outlook or downgrade. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions resulting in a weakening of its credit metrics because there is limited cushion at the current ratings level for deterioration in Fortis' financial profile; and if the unregulated operations are expanded, that they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

STANDARD &POOR'S

Global Credit Portal®
RatingsDirect®

February 26, 2007

Research Update:

Fortis Inc. Ratings Placed On CreditWatch Positive Following Announced Terasen Inc. Purchase

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545;kenton_freitag@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Table Of Contents

Research Update:

Fortis Inc. Ratings Placed On CreditWatch Positive Following Announced Terasen Inc. Purchase

Rationale

On Feb. 26, 2007, Standard & Poor's Ratings Services placed its ratings, including its 'BBB+' corporate credit rating, on St. John's, Nfld.-based utility holding company Fortis Inc. on CreditWatch with positive implications following the announcement that it intends to purchase Terasen Inc. and its regulated British Columbia-based gas distribution businesses (Terasen Gas Inc.) from Kinder Morgan Inc. (BB-/Stable/--) for C$3.7 billion (including C$2.3 billion in debt). Terasen's petroleum pipeline business will not be included in the acquisition. Fortis also announced that it has agreed to a bought deal that will result in at least C$1 billion in new equity being issued via subscription receipts. The equity will be used to finance the C$1.4 billion cash portion of the acquisition.

We believe the acquisition, if completed, will not deteriorate and could even improve Fortis' credit quality.

- Terasen will materially add to the diversity of Fortis and strengthen the business profile of the company. It will account for more than 35% of Fortis' consolidated EBITDA and the proportion of regulated assets will increase to more than 90% of Fortis' total assets.
- Terasen Gas benefits from a rate regulation framework that is predictable and expected to sustain stable long-term profitability and dividend levels. Fortis has developed familiarity with the British Columbia regulatory system since its acquisition of electric transmission and distribution utility FortisBC Inc. two years ago.
- The acquisition is consistent with Fortis' strategy of investing in regulated utilities.
- Fortis intends to finance the majority of the cash purchase price with a common equity issue. Debt coverage at the holding company level will materially improve.

Although Fortis intends to primarily equity finance the cash portion of this purchase, Terasen has higher leverage than Fortis' other operating subsidiaries. Consequently, the consolidated pro forma credit measures for Fortis will modestly decline (funds from operation (FFO)-to-debt of 11%, debt-to-capital of 60%) but will still be acceptable for the 'BBB+' rating level, given the enhancements to the company's business profile.

During the resolution of the CreditWatch, we intend to engage Fortis management in discussions regarding its financial policies, including the amount of leverage it will hold at the parent company level, its tax strategies, its policies toward guaranteeing or supporting subsidiaries, the level of legal, operational, and financial separation it will maintain between subsidiaries, and the overall liquidity support it will maintain at the parent level. Given the broadening diversity of holdings, the outcome of these discussions could result in greater emphasis on nonconsolidated financial measures in our evaluation and reporting on Fortis' financial profile. It may also result in modest rating separation between Fortis and some of its wholly-owned regulated subsidiaries (including Terasen).

The completion of the acquisition is subject to approvals, most notably the British Columbia Utilities Commission, which might not be obtained until mid-2007. It is unclear what regulatory conditions, if any, will be placed on the purchase. We intend to resolve the CreditWatch by no later than May.

Liquidity

Fortis' liquidity is adequate, given its relatively stable cash flow generation, modest debt maturities, access to capital markets and available bank facilities.

The company's liquidity is supported by its annual cash flow, as represented by FFO of more than C$300 million, and its demonstrated access to debt and equity capital markets. Furthermore, as of Dec. 31, 2006, the company had C$547 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$41 million.

At the holding company, Fortis maintains C$315 million of credit facilities, with close to C$226 million available as of Dec. 31, 2006. The facilities consist of a C$250 million unsecured revolver that matures in May 2010, and a C$50 million unsecured revolving credit facility that matures in January 2011. Both are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold about C$952 million in total credit facilities, the bulk (close to 67%) of which are at the regulated operating companies.

For the purpose of the proposed Terasen acquisition, Fortis has arranged bridge lending facilities of approximately C$1.4 billion, which would finance the entire cash portion of the purchase. The company would subsequently issue a mix of equity, preferred shares, and debt to retire drawings under the bridge. Fortis has announced an agreement to issue at least C$1 billion in equity subscription receipts in relation to this acquisition.

Ratings List

Ratings Placed On CreditWatch Positive

	To	From
Fortis Inc.		
Corporate credit rating	BBB+/Watch Pos/--	BBB+/Stable/--
Senior unsecured debt	BBB/Watch Pos	BBB
Preferred stock		
Global scale	BBB-/Watch Pos	BBB-
Canadian scale	P-2(Low)/Watch Pos	P-2(Low)
Maritime Electric Co. Ltd.		
Corporate credit rating	BBB+/Watch Pos/--	BBB+/Stable/--

Senior secured debt	A-/Watch Pos	A-

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

June 19, 2007

Research Update:

Fortis Inc. Upgraded To 'A-', Off Watch Positive On Improved Diversity; Outlook Stable

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545;kenton_freitag@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Table Of Contents

Research Update:

Fortis Inc. Upgraded To 'A-', Off Watch Positive On Improved Diversity; Outlook Stable

Rationale

On June 19, 2007, Standard & Poor's Ratings Services raised its long-term corporate credit rating on St. John's, Nfld.-based Fortis Inc. to 'A-' from 'BBB+'. At the same time, Standard & Poor's raised the senior unsecured debt rating on Fortis to 'A-' from 'BBB', the global scale preferred stock rating to 'BBB' from 'BBB-', and the Canadian scale preferred stock rating to 'P-2' from 'P-2(Low)'. We also removed the ratings from CreditWatch with positive implications, where they were placed Feb. 26, 2007. The outlook is stable.

The one-notch upgrade reflects:

- Fortis' improved diversity resulting from the recent acquisition of regulated gas-distribution company Terasen Inc. (BBB+/Stable/--);
- Its operation of each regulated subsidiary as a separate stand-alone entity with debt nonrecourse to Fortis;
- Management's commitment to maintaining low levels of debt at the Fortis Inc. holding company level;
- Fortis management's continuing focus on pursuing acquisitions in stable, regulated utilities; and
- The success of key subsidiaries FortisBC and FortisAlberta in executing their capital expansions.

The equalization of the senior unsecured debt rating with the corporate credit rating reflects the increasing diversification of the company and the financial separation among its investments, which we now view as sufficient to mitigate the structural subordination issue for debt providers to Fortis.

The ratings on Fortis reflect its diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; the proportionally low amount of debt held--and expected to be held--at the Fortis Inc. company level; and the company's focused and well-executed growth strategy. These strengths are offset by exposure, albeit limited to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation.

Fortis is a utility holding company with 100% interests in Terasen; FortisBC (regulated electricity distributor for portions of B.C.); Newfoundland Power Inc. (regulated electricity provider for portions of the province); FortisAlberta (regulated electricity distributor in parts of Alberta); Maritime Electric Co. Ltd. (regulated electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (regulated electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos. The company has non-regulated hydro power generation and real estate investments that account for about 10% of EBITDA. Reasonable diversity underpins the quality and stability of the company's cash flows; we expect Terasen, its largest holding, to account for about 36% of consolidated earnings. Moreover, the company's diversity of markets, regulatory regimes, climates, and customer segments enhance cash flow reliability.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions with predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions.

The high degree of financial separation that Fortis maintains with its subsidiaries supports the ratings. Although Fortis' subsidiaries are guided to some extent by Fortis's management, they operate on a standalone basis, and Fortis doesn't guarantee their debt. However, Fortis could assist its subsidiaries should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is consistent with other Canadian regulated utilities at about 60% total debt-to-total capital, but the amount of leverage directly at the holding company level is low. The company's regulated subsidiaries typically are financed at about a 60%-65% leverage level in line with the capital structure dictated by their respective regulators. Leverage at the holding company level is less than 10% of its capital base, as Fortis has historically financed its acquisitions with common and preferred share issuances. Although we expect that Fortis will continue to be acquisitive, we also expect the company will issue sufficient equity to finance the acquisitions to maintain consolidated leverage at 60% and to keep debt at the holding company level proportionally low.

Consolidated interest and debt coverages are somewhat low and reflect the high leverage at each regulated subsidiary. Consolidated funds from operations (FFO) interest coverage has historically run about 3x, while FFO-to-total debt has historically ranged between 12%-14%. On a deconsolidated basis, for 2007, we expect dividends and free cash flow at Fortis from its operating subsidiaries to cover gross interest expense by about 6x and combined interest and preferred dividends by about 4x.

Fortis' CEO highly influences the company's strategic direction. The credit impact has been primarily favorable; acquisitions completed to date have been well executed and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his positive approach to working with regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. Concerns relate to the lack of clarity regarding succession planning and the consequent uncertainty any successor would bring to the company's financial policies and strategic focus.

Liquidity

Fortis' liquidity is adequate, given its relatively stable cash dividends from its subsidiaries, modest debt maturities, access to capital markets and available bank facilities.

- Most of the company's subsidiaries pay out a proportion (typically 50%-80%) of their net income to Fortis in the form of dividends or other

distributions. Collectively, this produces a highly predictable and dependable cash stream for Fortis which provides comfortable coverage of interest and preferred dividends.
- The company's primary subsidiaries are standalone entities, with separate bank credit lines and access to debt markets. Forecast equity injections from Fortis to finance various expansion needs will be well within the company's financial capacity.
- Fortis has little debt at the holding company level. We expect that it could easily refinance its sole C$100 million debt maturity in 2010.
- At the holding company, Fortis maintains C$500 million of credit facilities, with close to C$200 million available. We expect that the company will issue preferred or common equity by the end of the year to reduce drawings under this facility.

Outlook

The stable outlook reflects the underlying operational and financial stability of Fortis' operating companies. We could lower the ratings if Fortis were to materially elevate its leverage or if one of its larger subsidiaries encountered major financial or operational difficulties. A positive outlook or upgrade remains unlikely in the near term but could occur as a result of further diversification. We expect the company to remain acquisitive in the next few years; further acquisitions should not prompt a downgrade, provided they remain consistent within the company's regulated focus and expertise and were financed consistent with current financial policies.

Ratings List

Fortis Inc.

	To	From
Ratings Raised And Removed From CreditWatch		
Corporate credit rating	A-/Stable/--	BBB+/Watch Pos/--
Senior unsecured debt	A-	BBB/Watch Pos
Preferred stock		
Global scale	BBB	BBB-
Canadian scale	P-2	P-2(Low)/Watch Pos

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

The McGraw-Hill Companies
STANDARD &POOR'S RatingsDirect®

RESEARCH

Fortis Inc.

Publication date: 25-Oct-2007
Primary Credit Analyst: Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com
Secondary Credit Analyst: Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Major Rating Factors

Corporate Credit Rating

A-/Stable/--

Strengths:

- Diversified portfolio of low-risk monopoly electricity and gas distribution businesses
- Stable, regulated cash flows, with supportive regulatory regimes
- Limited commodity price and volume exposure
- Focused, well-executed growth strategy

Weaknesses:

- Higher operating and political risk at some smaller subsidiaries

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; the proportionally low amount of debt held--and expected to be held--at the Fortis Inc. company level; and the company's focused and well-executed growth strategy. Offsetting these strengths are exposure (albeit limited) to a low proportion of total assets, higher-risk commercial and hospitality real estate, and merchant electricity generation.

Fortis is a utility holding company with 100% interests in Terasen; FortisBC (regulated electricity distributor for portions of British Columbia (B.C.); Newfoundland Power Inc. (regulated electricity provider for portions of the province); FortisAlberta (regulated electricity distributor in parts of Alberta); Maritime Electric Co. Ltd. (regulated electricity provider in Prince Edward Island (PEI); BBB+/Stable/--); and FortisOntario (regulated electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos. The company has nonregulated hydro power generation and real estate investments that account for about 10% of EBITDA. Reasonable diversity underpins the quality and stability of the company's cash flows; we expect Terasen, its largest holding, to account for about 36% of consolidated earnings. Moreover, the company's diversity of markets, regulatory regimes, climates, and customer segments enhance cash flow reliability.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions with predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions.

The high degree of financial and operational separation Fortis maintains with its subsidiaries supports the ratings. Although the subsidiaries are guided to some extent by Fortis' executives, they operate on a stand-alone basis, and Fortis doesn't guarantee their debt. However, Fortis could assist its subsidiaries should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is consistent with other Canadian regulated utilities, at about 60% total debt-to-total capital, but the leverage directly at the holding company level is low. The company's regulated subsidiaries typically are financed at about a 60%-65% leverage level in line with the deemed capital structure used by their respective regulators. Leverage at the holding company level is less than 10% of its capital base, as Fortis has historically financed its acquisitions with common and preferred share issuances. Although Standard & Poor's Ratings Services expects that Fortis will continue acquiring, we also expect the company will issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and debt at the holding company level proportionally low.

Consolidated interest and debt coverages are somewhat low and reflect the high leverage at each regulated subsidiary. Consolidated funds from operations (FFO) interest coverage has historically run about 3x, while FFO-to-total debt has historically ranged between 12%-14%. On a deconsolidated basis, for 2007, we expect dividends and free cash flow at Fortis from its operating subsidiaries to cover gross interest expense by about 6x and combined interest and preferred dividends by about 4x.

Fortis' CEO influences the company's strategic direction highly. The credit impact has been primarily favorable; acquisitions to date have been well executed and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his positive approach to working with regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. Concerns relate to the lack of clarity regarding succession planning and the consequent uncertainty any successor would bring to the company's financial policies and strategic focus.

Liquidity

Fortis' liquidity is adequate, given its relatively stable cash dividends from its subsidiaries, modest debt maturities, access to capital markets, and available bank facilities.

- Most of the company's subsidiaries pay out part (typically 50%-80%) of their net income to Fortis in the form of dividends or other distributions. Collectively, this produces a highly predictable and dependable cash stream for Fortis which provides comfortable coverage of interest and preferred dividends.
- The company's primary subsidiaries are stand-alone entities, with separate bank credit lines and access to debt markets.
- Forecast equity injections from Fortis to finance various expansion needs will be well within the company's financial capacity.
- Fortis has about C$500 million debt at the holding company level. Its next debt maturity will be in 2010.
- At the holding company, Fortis maintains C$500 million of credit facilities (with an option to increase up to C$600 million), with close to C$350 million available. We expect that the company will issue preferred or common equity by year-end to reduce drawings under this facility.

Outlook

The stable outlook reflects the underlying operational and financial stability of Fortis' operating companies. We could lower the ratings if Fortis were to materially elevate its leverage or if one of its larger subsidiaries encountered major financial or operational difficulties. A positive outlook or upgrade remains unlikely in the near term but could occur as a result of further diversification. We expect the company to remain acquisitive in the next few years; further acquisitions should not prompt a downgrade, provided they remain consistent within the company's regulated focus and expertise and were financed consistent with current financial policies.

Business Description

Fortis is a listed investor-owned electric utility holding company with diversified holdings, mainly in regulated electric distribution companies, regulated natural gas distribution, nonregulated hydroelectric generation, and property holdings. Its primary holdings (more than 85% of assets) are in Canada.

Corporate Structure And Rating Methodology

Fortis is structured as a holding company, and it maintains a high degree of financial and operating separation between itself and its subsidiaries. All major subsidiaries have separate management teams and boards of directors that include both Fortis representation and independent directors. The subsidiaries do not rely on Fortis' assistance in day-to-day operations management. Furthermore, most can raise their own debt capital. Fortis does not guarantee its subsidiaries' debt. It receives dividends or similar payments directly from its subsidiaries but will also inject equity, as required, to maintain a balanced capital structure during growth periods.

Fortis primarily offers strategic support to its subsidiaries. The company is instrumental in identifying the appropriate senior management for each subsidiary. It can also assist those managers in dealing with regulators or advising on major operational difficulties.

In rating Fortis, we recognize the high degree of independence between the parent and its subsidiaries. The company can walk away from a particular investment if a subsidiary encountered severe financial stress (such as bankruptcy caused by political risk, regulatory lags, or extreme operational difficulties). This, combined with the company's good diversity and the low amount of debt at the Fortis level, allows us to consider the company from a deconsolidated perspective and view the parent's credit quality as potentially greater than the average credit quality of its subsidiaries.

We do, however, recognize that Fortis will likely support its subsidiaries through a wide range of adverse operating conditions. We are also sensitive to the potential lure of double leveraging in a holding company structure--even though the company's financial policies permit very little leverage at the holding company level. For this reason, consolidated credit measures continue to factor in our credit evaluation.

Business Risk Profile

Fortis' primary investments include (in order of size):

Terasen Inc.

Terasen Inc. (A/Stable/--) is a holding company based in B.C.; the subsidiary is 100% owned by Fortis subsequent to its purchase from Kinder Morgan Inc. (now Knight Inc. (BB-/Stable/--)) in May 2007. Terasen has two primary subsidiaries: Terasen Gas Inc. (A/Stable/--) and Terasen Gas Vancouver Island Inc. Together, these subsidiaries provide for the transmission and distribution of natural gas to approximately 95% of the province.

Terasen is effectively a monopoly, has a good operating record, and benefits from supportive cost-of-service regulation. Gas costs are flowed through rates. Earnings volatility has been low; the primary drivers of earnings continue to be prescribed returns on equity (which are formula-driven and relate to long-term Government of Canada (AAA/Stable/A-1+) bond yields), the rate base size (which has demonstrated modest growth), and deemed equity levels. The regulation incorporates some earnings incentives that could cause returns to fluctuate beyond the allowed ROE. The company's consolidated rate base is about C$3 billion, the deemed equity layer is about 36%, and the ROE is about 8.5%. The company has earned above its allowed ROE for the past three years.

Earnings' predictability and stability supports expectations of reliable dividend flows to Fortis for several years. We expect annual net income to modestly exceed C$100 million with a dividend payout ratio of about 70%. However, the company has announced its intention to proceed with a natural gas storage facility, which will require equity injections from Fortis. Furthermore, Terasen has a C$200 million debt maturity in 2008; we expect that Fortis will retire this maturity through a cash injection to the company.

FortisBC

FortisBC is a regulated utility in the southern interior of B.C., serving about 150,000 customers. The company owns some generation facilities but more than half of the company's supply is acquired through long-term power purchase agreements. Peak demand in 2006 was 718 MW. The subsidiary was purchased by Fortis in 2002 and remains 100% owned.

Similar to Terasen, FortisBC is effectively a monopoly in its service area, has a good operating record, and benefits from supportive cost-of-service regulation. Electricity costs are flowed through electricity rates. Earnings volatility has been low; the primary drivers of earnings continue to be prescribed ROE (which are formula driven and relate to long-term Government of Canada bond yields), the rate base size, and deemed equity levels. The regulation incorporates some earnings incentives that could cause returns to fluctuate beyond the allowed ROE. The company's consolidated rate base is about C$750 million, the deemed equity layer is 40%, and the 2007 ROE is 8.77%. The company has regularly earned above its allowed ROE.

B.C.'s interior is experiencing good economic growth, and FortisBC is undertaking a C$500 million capital improvement program during the next five years. This program should provide for material growth in its rate base and will spur greater earnings growth (2006 net income was C$26 million). This, in turn, will provide a basis for dividend growth; the company's C$10 million in 2006 dividends represented a payout rate of less than 50% (see table 1). Still, given the growth being undertaken, we expect that the subsidiary will require equity injections from Fortis for at least the next few years.

Table 1

FortisBC Statistics

(Mil. C$)	2006	2005	2004
Earnings	27.0	23.0	22.0
Dividends	10.0	8.0	10.0

FortisAlberta

FortisAlberta is a regulated electricity distribution utility operating in a primarily rural region in southern and central Alberta. The subsidiary was purchased by Fortis in 2004 and remains 100% owned.

FortisAlberta is effectively a monopoly in its service area, it has a good operating record, and it benefits from supportive cost-of-service regulation. Earnings volatility has been low; the primary drivers of earnings continue to be prescribed ROEs (which are formula driven and relate to long-term Government of Canada bond yields), the rate base size (which has demonstrated modest growth), and deemed equity levels. The company's consolidated rate base is about C$960 million, the deemed equity layer is 37%, and the ROE is 8.51%.

Alberta has the strongest growth of any Canadian province, and FortisAlberta is engaged in a substantial expansion of its network that will provide for continued strong growth in its rate base. Accordingly, the subsidiary's contribution to Fortis cash flows will be muted for the next several years; equity injections from Fortis will exceed dividends flowing to Fortis to maintain a constant capital structure at FortisAlberta (see table 2).

Table 2

FortisAlberta Statistics

(Mil. C$)	2006	2005	2004
Earnings	41.0	31.0	24.0
Dividends	14.0	12.0	6.0

Newfoundland Power

Newfoundland Power is the primary provider of electricity transmission and distribution to the province of Newfoundland. Although the company does operate some generation, it purchases about 90% of its electricity from Newfoundland and Labrador Hydro.

Newfoundland Power is effectively a monopoly in its service area, it has a good operating record, and it benefits from supportive cost-of-service regulation (including flow through of electricity costs). Earnings volatility has been low; the primary drivers of earnings continue to be prescribed ROEs (which are formula driven and relate to long-term Government of Canada bond yields), the rate base size (which has demonstrated modest growth), and deemed equity levels. The company's consolidated rate base is about C$790 million, the deemed equity layer is 45%, and the ROE is 8.6%.

Newfoundland has lower growth than Alberta and B.C. Accordingly, we expect the rate base and consequent earnings to remains fairly stable. This will, however, provide a basis for a somewhat higher dividend payout ratio of 70%-80% (see table 3).

Table 3

Newfoundland Power Statistics

(Mil. C$)	2006	2005	2004
Earnings	31.0	31.0	32.0
Dividends	19.0	24.0	15.0

Maritime Electric

Maritime Electric is the principal electricity utility for PEI, with about 71,000 customers. The company owns some generation but purchases the majority of its power from New Brunswick and Nova Scotia. The company's direct parent is Fortis Properties (a wholly owned subsidiary of Fortis).

Maritime Electric is PEI's monopoly electricity provider. It has a reasonable operating record and benefits from cost-of-service regulation (similar to that of FortisBC and FortisAlberta). Its ROE is capped at 10.25% and the company must maintain at least 40% equity as per the province's Electric Power Act. The company's rate base is C$250 million. (See table 4 for earnings and dividends amounts.)

Table 4

Maritime Electric Statistics

(Mil. C$)	2006	2005	2004
Earnings	10.0	9.0	8.0

Dividends	3.5	1.0	1.0

Fortis Ontario

Fortis Ontario owns and operates the regulated electricity distribution of Canadian Niagara Power and Cornwall Electric, two small distribution areas in the province of Ontario. It has about 52,000 customers. (See table 5 for earnings and dividends amounts.)

Table 5

FortisOntario Statistics

(Mil. C$)	2006	2005	2004
Earnings	4.0	4.0	4.0
Dividends	N/A	N/A	N/A

N/A--Not applicable.

Caribbean Utilities Co. Ltd.

Fortis owns a 54% interest in Cayman Islands-based Caribbean Utilities Co. Ltd. (CUC; A/Negative/--) and a 100% interest in two companies in the Turks & Caicos: P.P.C. Ltd. and Atlantic Equipment & Power Ltd. The acquisition of the Turks & Caicos entities closed in August 2006. Fortis has gradually increased its ownership in CUC during the past decade. (See table 6 for earnings and dividends amounts.)

CUC operates the only electric utility on the Cayman Islands subject to a license agreement that expires in 2011 (renewal terms are being negotiated). The company is regulated with an allowed return on capital of 15%. This provides a higher rate of return than for the Canadian utilities but operating risks are higher due to periodic hurricane threats.

The Turks & Caicos entities distribute electricity in the country. Returns are regulated with a maximum 17.5% return on a calculated rate base. Like CUC, the company faces higher operating risk.

Growth prospects for both entities are positive due to tourism-related development on the islands.

Table 6

Caribbean Utilities Co. Ltd. Statistics

(Mil. C$)	2006	2005	2004
Earnings*	23.0	4.0	20.0
Dividends	19.0	10.0	10.0

*2005 earnings include impact of Hurricane Ivan.

Fortis Properties

Fortis Properties consists of a collection of hotels (approximately 56% of division assets) and commercial properties (44%). The hotels are throughout Canada while the commercial real estate is largely in Atlantic Canada. The company's most recent acquisitions have been in hotels and we expect this segment will increase its contribution.

The division's earnings are somewhat more volatile and sensitive to economic conditions than the company's utility holdings (see table 7).

Table 7

Fortis Properties Statistics

(Mil. C$)	2006	2005	2004
Earnings	19.0	14.0	12.0
Dividends	4.0	N/A	1.0

N/A--Not applicable.

Belize Electricity Ltd. (BEL)

BEL is the primary distributor of electricity in the country of Belize (B/Stable/B). Fortis owns 70% of the entity. It has about

70,000 customers. The company is regulated under a cost-of-service methodology that generally allows for a rate of return on assets of 10%-15%. Power is primarily purchased and flowed through rates. The country is vulnerable to hurricanes, and operating risk is elevated compared with that of its Canadian affiliates. (See table 8 for earnings and dividends amounts.)

Table 8

Belize Electricity Ltd. Statistics

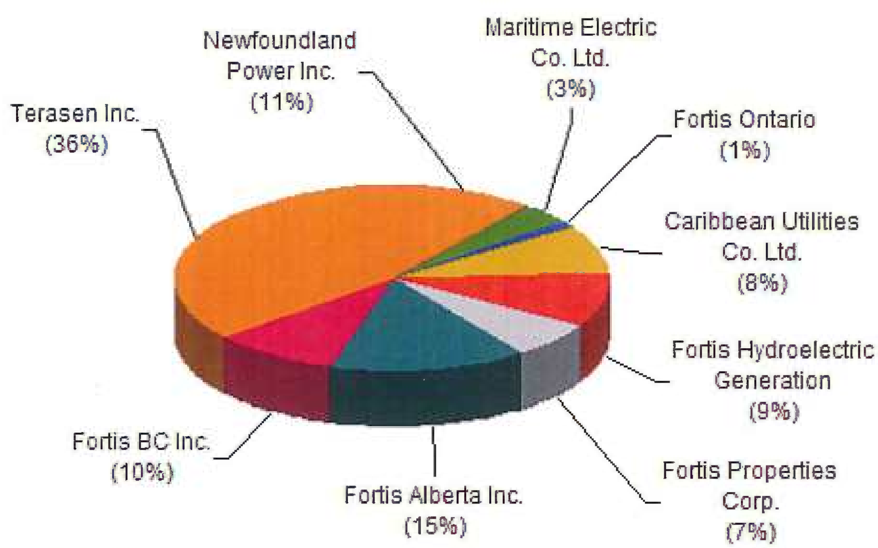
(Mil. C$)	2006	2005	2004
Earnings	26.0	19.0	16.0
Dividends	11.0	6.0	6.0

Other holdings

Fortis' nonregulated generation consists primarily of hydro-electric generation in New York, Newfoundland, Ontario, and Belize. Hydro-electricity is generally the lowest cost provider of electricity but variability comes from uncertainty over rainfall.

Fortis' diversity enhances its business risk profile. More than 75% of earnings come from Canadian regulated utilities. However, these are in five different jurisdictions. At this time, the company's diversity is somewhat constrained by Terasen Inc.'s dominance in the earnings profile (it accounts for more than one-third of pro forma earnings).

Net Income of Fortis Inc. Subsidiaries



Management

Fortis is a holding company with a very lean operating structure. The company is highly decentralized; it relies significantly upon the expertise and independence of the management at each operating subsidiary. Most of its operating subsidiaries have separate boards.

The company's CEO, Stan Marshall, is somewhat dominant within the company. Having developed his career within the utilities business, he brings sound expertise on regulatory matters as well as a good understanding of operational issues. He also carries a track record of successful execution on acquisitions undertaken over the past decade--although this record, in part, reflects low integration risk and low expectation of synergies given the company's decentralized structure. We believe that management remains very much focused on acquisitions.

Intermediate Financial Risk Profile

Financial policy

Fortis' moderate financial risk profile reflects the following factors:

- It employs modest leverage at the holding company, as it favors the use of equity to finance its acquisitions; the company's consolidated total debt-to-capital target is 60%.
- The company's dividend payout of about 50% compares favorably with the 60%-70% levels of other investor-owned utilities.
- Fortis' regulated utilities primarily manage their capital structures at levels consistent with regulatory rulings. The company's financing and operational strategy is to allow its wholly owned subsidiaries to operate largely on a decentralized basis. Subsidiaries are required to act commercially and make annual dividends to Fortis, with equity injections made back to the subsidiary if required. The approach adds greater transparency to subsidiaries' performance and to dealings with individual regulators, but also ensures enough cash flow is directed to the holding company for debt service.
- Goodwill represents about 15% of consolidated assets. This reflects that the company has been willing to pay premiums to book value for the utilities it purchases. The premiums paid to date have been in line with market-based norms and appear to reflect reasonable growth prospects for the companies (such as been demonstrated with FortisAlberta and FortisBC).
- The company does not guarantee the debt of its subsidiaries. It structures some equity injections in the form of loans.
- The company has a proud history of continually increasing dividends; we believe it would be very reluctant to cut dividends as a precaution should operating results disappoint.

Accounting

Fortis' consolidated financial statements are prepared according to Canadian GAAP. Effectively, all of the liabilities of the company's subsidiaries are consolidated at the company level.

The consolidated financial statements do present some challenges to our analysis of Fortis. In particular, it is difficult to track individual cash flows between the parent and subsidiaries (either in the form of equity injections from the parent of dividends from the subsidiaries).

For these reasons, we rely more (but not completely) on deconsolidated financial statements that the company provides us for our rating evaluation. These statements more clearly outline cash flows to and from the subsidiaries.

Cash flow adequacy

Fortis' cash flow provides a comfortable level of coverage of forecast interest and preferred dividend payments.

Fortis' primary sources of operating cash flows are the dividends (or similar distributions of free cash flow) paid to it by its various operating subsidiaries. The operating subsidiaries generally pay dividends in relation to their earnings. In general, each operating subsidiary would pay out 50%-80% of its earnings.

Given these expected payout ratios and the fairly stable and predictable earnings generated by the subsidiaries we would expect that cash inflows from its subsidiaries to exceed C$180 million per year. Reasonable prospects for growth at some of its subsidiaries should support modest growth. The cash flows that would be most vulnerable to fluctuations relate to investments in its property division; still, we expect that these will continue to account for less than 10% of total cash flow.

Primary uses of cash flow include required equity injections into its subsidiaries and interest payments on corporate level debt and dividend payments on preferred shares issued at the corporate level. Residual cash flow finances common-share dividends and new acquisitions.

Equity injections into its subsidiaries will vary and depend on identified major growth opportunities; minor growth initiatives can likely be self-financed at the subsidiary level. Still, we expect a range of C$25 million-C$60 million a year. Interest payments on corporate level debt should run about C$30 million per year--which is covered 6x by expected operating inflows. Preferred dividends will likely exceed C$20 million per year; combined interest and preferred dividend coverage will be 3.5x-4x. Common dividends will absorb most of the remaining cash flow; under the company's dividend payout ratio, we expect C$100 million payments per year.

Credit measures are weaker as viewed from a consolidated perspective. FFO interest coverage runs about 3x, while FFO to consolidated debt is expected to run about 12%. Consolidated free cash flow should be about breakeven or modestly positive for the next few years.

Capital structure/Asset protection

Fortis has just three debt maturities outstanding at the holding company level: a C$100 million maturity due 2010; a US$150 million maturity due 2014; and a US$200 million maturity due 2037. The company also has drawings of about C$150 million on its credit facilities. Under Fortis' current configuration, we don't expect that it would issue much more debt at the holding company level.

Fortis has also issued C$440 million of preferred shares. These shares have some equity content in that they have no fixed maturity date and dividends are deferrable at the option of the company. Nevertheless, about C$120 million of the shares are convertible in to common shares at the option of the shareholder after 2013 and C$200 million are convertible after 2016.

On a consolidated basis, Fortis has more than C$5 billion in debt, with a corresponding debt to capitalization level of about 60% (treating preferred shares as equity). Consolidated debt levels are primarily a function of deemed capitalization levels set by regulators of its major utilities--within Canada, debt levels of utilities are typically 55%-65% of total book capitalization. The bulk (about 85%) of the company's consolidated debt resides at the operating company level. (See tables 9, 10, and 11 for peer comparison, financial statistics, and reconciliation tables.)

Table 9

Fortis Inc.--Peer Comparison*

Industry Sector: Electric Utility

	Fortis Inc.	Canadian Utilities Ltd.	Emera Inc.
Rating as of Oct. 25, 2007	A-/Stable/--	A/Stable/A-1	BBB/Stable/--
	--Average of past three fiscal years--		
(Mil. C$)			
Revenues	1,345.8	2,678.6	1,185.3
Net income from continuing operations	140.8	335.3	125.9
Funds from operations (FFO)	303.9	650.0	360.9
Capital expenditures	393.5	492.9	155.5
Cash and investments	37.2	774.3	35.9
Debt	2,643.1	3,420.0	2,224.6
Preferred stock	159.8	318.3	0.0
Equity	1,298.7	2,534.2	1,390.5
Debt and equity	3,941.8	5,954.2	3,615.2
Adjusted ratios			
EBIT interest coverage (x)	2.2	2.9	2.5
FFO interest coverage (x)	2.9	3.6	3.4
FFO/debt (%)	11.5	19.0	16.2
Discretionary cash flow/debt (%)	(6.0)	0.8	3.6
Net cash flow/capex (%)	59.6	97.8	169.7
Debt/total capital (%)	67.1	57.4	61.5
Return on common equity (%)	11.2	13.4	8.9
Common dividend payout ratio (un-adj.) (%)	48.8	50.2	77.1

*Fully adjusted (including postretirement obligations).

Table 10

Fortis Inc.--Financial Summary*

Industry sector: Electric Utility

	--Average of past three fiscal years--	--Fiscal year ended Dec. 31--				
	Issuer	2006	2005	2004	2003	2002
Rating history		BBB+/Stable/--	BBB+/Stable/--	BBB+/Negative/--	A-/Watch Neg/--	A-/Negative/--

(Mil. C$)						
Revenues	1,345.8	1,462.0	1,430.0	1,145.3	832.6	715.5
Net income from continuing operations	140.8	165.4	153.7	103.2	77.6	63.3
Funds from operations (FFO)	303.9	328.7	334.3	248.8	161.0	149.3
Capital expenditures	393.5	443.2	456.8	280.6	201.8	225.9
Cash and investments	37.2	40.9	33.4	37.2	65.1	26.3
Debt	2,643.1	3,010.8	2,493.4	2,425.2	1,244.1	1,172.7
Preferred stock	159.8	159.7	159.7	159.8	61.5	0.0
Equity	1,298.7	1,567.6	1,283.4	1,045.0	656.0	546.7
Debt and equity	3,941.8	4,578.4	3,776.8	3,470.2	1,900.1	1,719.4
Adjusted ratios						
EBIT interest coverage (x)	2.2	2.2	2.4	2.2	2.2	2.2
FFO int. cov. (x)	2.9	2.9	3.0	2.9	2.6	2.7
FFO/debt (%)	11.5	10.9	13.4	10.3	12.9	12.7
Discretionary cash flow/debt (%)	(6.0)	(7.8)	(8.1)	(1.6)	(5.0)	(8.9)
Net cash flow/capex (%)	59.6	55.6	57.7	69.1	60.7	51.4
Debt/debt and equity (%)	67.1	65.8	66.0	69.9	65.5	68.2
Return on common equity (%)	11.2	11.1	11.8	10.6	11.3	11.4
Common dividend payout ratio (un-adj.) (%)	48.8	48.8	45.5	53.7	49.5	52.4

*Fully adjusted (including postretirement obligations).

Table 11 | View Expanded Table

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts*

(Mil. C$)	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Fortis Inc. reported amounts¶									
	2,740.9	522.9	522.9	345.4	155.2	279.7	279.7	90.8	446.4
Standard & Poor's adjustments									
Operating leases	14.2	4.5	1.0	1.0	1.0	3.5	3.5	N/A	1.1
Debt-like hybrids	159.7	N/A	N/A	N/A	8.3	(8.3)	(8.3)	(8.3)	N/A
Postretirement benefit obligations	95.9	8.8	8.8	8.8	1.4	21.6	21.6	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	4.4	(4.4)	(4.4)	N/A	(4.4)
Share-based compensation expense	N/A	N/A	2.0	N/A	N/A	N/A	N/A	N/A	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	13.2	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	36.6	N/A	N/A
Minority interests	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Standard & Poor's total	269.9	13.2	11.7	23.0	15.1	12.4	49.0	(8.3)	(3.3)

adjustments

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Standard & Poor's adjusted amounts									
	3,010.8	536.2	534.7	368.4	170.3	292.2	328.7	82.5	443.2

*Fortis Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables might feature duplicate descriptions and amounts.¶For fiscal year ended Dec. 31, 2006. N/A--Not applicable.

Ratings Detail (As Of 25-Oct-2007)*

Fortis Inc.	
Corporate Credit Rating	A-/Stable/--
Preferred Stock	
Local Currency	BBB
Canadian Preferred Stock Rating	P-2/Stable
Senior Unsecured	
Local Currency	A-
Corporate Credit Ratings History	
19-Jun-2007	A-/Stable/--
26-Feb-2007	BBB+/Watch Pos/--
07-Dec-2005	BBB+/Stable/--
07-Jan-2004	BBB+/Negative/--
05-Mar-2003	A-/Watch Neg/--
Business Risk Profile	**1 2 3 4 5 6 7 8 9 10**
Financial Risk Profile	Intermediate
Debt Maturities	
Fortis Inc. and Terasen Inc. 2008 C$200 mil. 2010 C$100 mil. 2014 C$150 mil. and US$150 mil. 2037 US$200 mil. Consolidated 2008 C$455 mil. 2009 C$145 mil. 2010 C$167 mil. 2011 C$46 mil. 2012 and thereafter C$3.8 bil.	
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A/Negative/--
Senior Unsecured	
Foreign Currency	A
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured	
Local Currency	A-
Terasen Inc.	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured	
Local Currency	BBB+
Subordinated	
Local Currency	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD &POOR'S

RATINGSDIRECT®

December 17, 2008

Fortis Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Fortis Inc.

Major Rating Factors

Corporate Credit Rating

A-/Stable/--

Strengths:

- Diversified portfolio of low-risk monopoly electricity and gas distribution businesses
- Stable, regulated cash flows, with supportive regulatory regimes
- Limited commodity price and volume exposure
- Focused, low-risk growth strategy
- Subsidiaries that are operationally and financially independent; holding company could withstand severe stress or bankruptcy of one of its subsidiaries

Weaknesses:

- Heightened operating and political risk at some smaller subsidiaries

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect, in Standard & Poor's Ratings Services' opinion, the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; the proportionally low amount of debt held--and expected to be held--at the Fortis Inc. company level; and the company's focused and well-executed growth strategy. We believe that offsetting these strengths are exposure, albeit limited to a low proportion of total assets, higher-risk commercial and hospitality real estate, and merchant electricity generation.

Fortis is a utility holding company with 100% interests in Terasen Inc. (regulated gas distributor in British Columbia [B.C.]; BBB+/Stable/--); FortisBC (regulated electricity distributor for portions of B.C.); Newfoundland Power Inc. (regulated electricity provider for portions of the province); FortisAlberta (regulated electricity distributor in parts of Alberta); Maritime Electric Co. Ltd. (regulated electricity provider in Prince Edward Island [PEI]; BBB+/Stable/--); and FortisOntario (regulated electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos, and has nonregulated hydro power generation and real estate investments that account for about 10% of EBITDA. We believe that reasonable diversity underpins the quality and stability of the company's cash flows; we expect Terasen, its largest holding, to account for about 36% of consolidated earnings. Moreover, Fortis' diversity of markets, regulatory regimes, climates, and customer segments enhance cash flow reliability.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions with predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions.

The high degree of financial separation Fortis maintains with its subsidiaries supports the ratings. Although the subsidiaries are guided to some extent by Fortis' management, they operate on a stand-alone basis, and Fortis doesn't guarantee their debt. However, Fortis could assist its subsidiaries should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is consistent with other Canadian regulated utilities, at about 62% total debt-to-total capital, but the leverage directly at the holding company level is low, in our opinion. The company's regulated subsidiaries typically are financed at about a 60%-65% leverage level in line with the capital structure that their respective regulators dictate. Leverage at the holding company level is less than 10% of the capital base, as Fortis has historically financed its acquisitions with common and preferred share issuances. Although Standard & Poor's expects that Fortis will continue acquiring, we also expect the company will issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and debt at the holding company level proportionally low.

Consolidated interest and debt coverages are somewhat low, in our view, and reflect the high leverage at each regulated subsidiary. Consolidated funds from operations (FFO) interest coverage has historically run about 3x, while FFO-to-total debt has historically ranged from 10%-14%.

We believe Fortis' CEO influences the company's strategic direction greatly. The credit impact has been primarily favorable; acquisitions to date have been well-executed and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his positive approach to working with regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. Concerns relate to the lack of clarity regarding succession planning and the consequent uncertainty any successor would bring to the company's financial policies and strategic focus.

Liquidity

Fortis' liquidity is adequate, given its relatively stable cash dividends from its subsidiaries, modest debt maturities, access to capital markets and available bank facilities:

- Most of the company's subsidiaries pay out part (typically 50%-80%) of their net income to Fortis in the form of dividends or other distributions. Collectively, this produces a highly predictable and dependable cash stream for Fortis which provides comfortable coverage of interest and preferred dividends.
- The company's primary subsidiaries are standalone entities, with separate bank credit lines and access to debt markets.
- Forecast equity injections from Fortis to finance various expansion needs will be well within the company's financial capacity.
- Fortis has about C$500 million debt at the holding company level. Its next debt maturity will be in 2010.
- At the holding company, Fortis maintains C$600 million of credit facilities that are fully available.

Outlook

The stable outlook reflects the underlying operational and financial stability of Fortis' operating companies. We could lower the ratings if Fortis were to materially elevate its leverage or if one of its larger subsidiaries encountered major financial or operational difficulties. A positive outlook or upgrade remains unlikely in the near term but could occur as a result of further diversification. We expect the company to remain acquisitive in the next few years; further acquisitions should not prompt a downgrade, provided they remain consistent within the company's regulated focus and expertise and were financed primarily with common equity.

Business Description

Fortis is a listed investor-owned electric utility holding company with diversified holdings, mainly in regulated electric distribution companies, regulated natural gas distribution, nonregulated hydroelectric generation, and property holdings. Its primary holdings (more than 85% of assets) are in Canada.

Corporate Structure And Rating Methodology

Fortis is structured as a holding company, and it maintains a high degree of financial and operating separation between itself and its subsidiaries. All major subsidiaries have separate management teams and boards of directors that include both Fortis representation and independent directors. The subsidiaries do not rely on Fortis' assistance in day-to-day operations management. Furthermore, most can raise their own debt capital. Fortis does not guarantee its subsidiaries' debt. It receives dividends or similar payments directly from its subsidiaries but will also inject equity, as required, to maintain a balanced capital structure during growth periods.

Fortis primarily offers strategic support to its subsidiaries. The company is instrumental in identifying the appropriate senior management for each subsidiary. It can also assist those managers in dealing with regulators or advising on major operational difficulties.

In rating Fortis, we recognize the high degree of independence between the parent and its subsidiaries. The company can walk away from a particular investment if a subsidiary encountered severe financial stress (such as bankruptcy caused by political or regulatory interference or an operational catastrophe). This, combined with the company's good diversity and the low amount of debt at the Fortis level, allow us to consider the company from a deconsolidated perspective and view the parent's credit quality as potentially greater than the average credit quality of its subsidiaries.

We do, however, recognize that Fortis will likely support its subsidiaries through a wide range of adverse operating conditions. We are also sensitive to the potential lure of double leveraging in a holding company structure--even though the company's financial policies permit very little leverage at the holding company level. For this reason, consolidated credit measures continue to hold considerable weight in our credit evaluation.

Business Risk Profile

Fortis' primary investments include (in order of size):

Terasen Inc.

Terasen Inc. is a holding company based in B.C.; the subsidiary is 100% owned by Fortis subsequent to its purchase from Kinder Morgan Inc. in May, 2007. Terasen has two primary subsidiaries: Terasen Gas Inc. (A/Stable/--) and Terasen Gas Vancouver Island Inc. Together, these subsidiaries provide for the transmission and distribution of natural gas to approximately 95% of the province.

Terasen is effectively a monopoly, has a good operating record, and benefits from supportive cost-of service regulation. Gas costs are flowed through rates. Earnings volatility has been low; the primary drivers of earnings continue to be prescribed returns on equity (ROE; these are formula-driven and relate to long-term Government of

Canada [AAA/Stable/A-1+] bond yields), the rate base size (which has demonstrated modest growth), and deemed equity levels. The regulation incorporates some earnings incentives that could cause returns to fluctuate beyond the allowed ROE. The company's consolidated rate base is about C$3 billion, the deemed equity layer is about 36%, and the return on equity is about 8.6%. It has earned above its allowed ROE for the past three years.

Earnings' predictability and stability supports expectations of reliable dividend flows to Fortis for several years. We expect annual net income to modestly exceed C$100 million with a dividend payout ratio of about 70%. However, the company has announced its intention to proceed with a natural gas storage facility, which will require equity injections from Fortis.

FortisBC

FortisBC is a regulated utility in B.C.'s southern interior, serving about 155,000 customers. The company owns some generation facilities but more than half of the company's supply is acquired through long-term power purchase agreements. Fortis purchased the subsidiary in 2004, and is still 100% owner.

Similar to Terasen, FortisBC is effectively a monopoly in its service area, has a good operating record, and benefits from supportive cost-of service regulation. Electricity costs are flowed through electricity rates. Earnings volatility has been low; the primary drivers of earnings continue to be prescribed returns on equity (which are formula-driven and relate to long-term Government of Canada bond yields), the rate base size and deemed equity levels. The regulation incorporates some earnings incentives that could cause returns to fluctuate beyond the allowed ROE. The company's consolidated rate base is about C$800 million, the deemed equity layer is 40%, and the ROE is 9.02%. The company has regularly earned above its allowed ROE.

B.C.'s interior has experienced good economic growth, and FortisBC is undertaking an extensive capital improvement program during the next few years. This program should provide for material growth in its rate base and will spur greater earnings growth. This, in turn, will provide a basis for dividend growth; the company's C$12 million in 2007 dividends represented a payout rate of about 40%. Still, given the growth the company is undertaking, we expect that the subsidiary will require equity injections from Fortis for at least the next few years. Table 1 looks at some of the company's financial statistics.

Table 1

FortisBC Statistics

(Mil. C$)	2007	2006	2005	2004
Earnings	30	27	24	22
Dividends	12	10	8	10

FortisAlberta

FortisAlberta is a regulated electricity distribution utility operating in a primarily rural region in southern and central Alberta. Fortis purchased the subsidiary in 2004 and remains 100% owner.

FortisAlberta is effectively a monopoly in its service area, it has a good operating record, and it benefits from supportive cost-of service regulation. Earnings volatility has been low; the primary drivers of earnings continue to be prescribed ROEs (which are formula-driven and relate to long-term Government of Canada bond yields), the rate base size (which has demonstrated modest growth), and deemed equity levels. The company's consolidated rate base is about C$1.1 billion, the deemed equity layer is currently 37%, and the ROE is 8.75%.

Alberta has had the strongest growth of any Canadian province, and FortisAlberta is engaged in a substantial expansion of its network that will provide for continued strong growth in its rate base. Accordingly, the subsidiary's contribution to Fortis cash flows will be muted for the next several years; equity injections from Fortis will exceed dividends flowing to Fortis to maintain a constant capital structure at FortisAlberta. Table 2 looks at some of the company's financial statistics.

Table 2

FortisAlberta Statistics

(Mil. C$)	2007	2006	2005	2004
Earnings	48	41	31	25
Dividends	16	14	12	6

Newfoundland Power

Newfoundland Power is the primary provider of electricity transmission and distribution to the province of Newfoundland. While the company does operate some generation, it purchases about 90% of its electricity from Newfoundland and Labrador Hydro.

Newfoundland Power is effectively a monopoly in its service area, it has a good operating record, and it benefits from supportive cost-of service regulation (including flow through of electricity costs). Earnings volatility has been low; the primary drivers of earnings continue to be prescribed returns on equity (which are formula driven and relate to long-term Government of Canada bond yields), the rate base size (which has demonstrated modest growth) and deemed equity levels. The company's consolidated rate base is about C$800 million, the deemed equity layer is 45%, and the ROE is 8.95%.

Newfoundland is not likely to have the same growth as Alberta and B.C. Accordingly, we expect the rate base and consequent earnings to remains fairly stable. This will, however, provide a basis for a somewhat higher dividend payout ratio of 70%-80%. Table 3 looks at some of the company's financial statistics.

Table 3

Newfoundland Power Statistics

(Mil. C$)	2007	2006	2005	2004
Earnings	30	31	31	32
Dividends	9	18	23	14

Maritime Electric

Maritime Electric is the principal electricity utility for PEI, with about 73,000 customers. The company owns some generation but purchases the majority of its power from New Brunswick and Nova Scotia. The company's direct parent is Fortis Properties (a wholly owned subsidiary of Fortis).

Maritime Electric is PEI's monopoly electricity provider. It has a reasonable operating record and benefits from cost-of service regulation (similar to that of Fortis BC and FortisAlberta). Its ROE is capped at 10% and the company must maintain at least 40% equity, as per the province's Electric Power Act. The company's rate base is C$257 million. Table 4 looks at some of the company's financial statistics.

Table 4

Maritime Electric Co. Ltd. Statistics				
(Mil. C$)	2007	2006	2005	2004
Earnings	10	10	9	8
Dividends*	3	4	1	1

*Dividends paid to parent company Fortis Properties, of which Fortis owns 100%.

Fortis Ontario

Fortis Ontario owns and operates the regulated electricity distribution of Canadian Niagara Power and Cornwall Electric, two small distribution areas in Ontario. It has about 52,000 customers. Its annual earnings contributions to Fortis have historically been about C$4 million per year.

Caribbean Utilities Co. Ltd.

Fortis owns a 57% interest in Cayman Islands-based Caribbean Utilities Co. Ltd. (CUC; A/Negative/--) and a 100% interest in two companies in the Turks & Caicos: P.P.C. Ltd. and Atlantic Equipment & Power Ltd. Fortis acquired the Turks & Caicos entities in August 2006; it has gradually increased its ownership in CUC during the past decade.

CUC operates the only electric utility on the Cayman Islands subject to a license agreement that expires in 2028. The company is regulated, with an allowed return on rate base of 9%-11%. This should provide a higher rate of return than for the Canadian utilities but operating risks are higher due to periodic hurricane threats.

The Turks & Caicos entities distribute electricity in the country. Returns are regulated, with a maximum 17.5% return on a calculated rate base. Like CUC, the company faces higher operating risk.

Growth prospects for both entities are positive due to tourism-related development on the islands. Table 5 looks at some of the company's financial statistics.

Table 5

Caribbean Utilities Co. Ltd. Statistics				
(Mil. US$)	2007	2006	2005	2004
Earnings*	10	23	4	20
Dividends	0	19	10	10

*2005 earnings figures include the impact of Hurricane Ivan in 2004.

Fortis Properties

Fortis Properties consists of a collection of hotels (approximately 56% of division assets) and commercial properties (44%). The hotels are throughout Canada while the commercial real estate is largely in Atlantic Canada. The company's most recent acquisitions have been in hotels and we expect this segment will increase its contribution.

The division's earnings are somewhat more volatile and sensitive to economic conditions than the company's utility holdings. Table 6 looks at some of the division's financial statistics.

Table 6

Fortis Properties Statistics				
(Mil. C$)	2007	2006	2005	2004
Earnings	24	19	14	12
Dividends	5	4	0	1

Belize Electricity Ltd. (BEL)

BEL is the primary distributor of electricity in the country of Belize (B/Stable/B). Fortis owns 70% of the entity. It has about 74,000 customers. The company is regulated under a cost-of-service methodology that generally allows for a rate of return on assets of 10%-15% (although the company is currently in a dispute with the government). Power is primarily purchased and flowed through rates. The country is vulnerable to hurricanes, and operating risk is elevated compared with its Canadian affiliates. Table 7 looks at some of the company's financial statistics.

Table 7

Belize Electricity Ltd. Statistics

(Mil. BZ$)	2007	2006	2005	2004
Earnings	30	26	19	16
Dividends	15	11	6	6

Other holdings

Fortis' nonregulated generation consists primarily of hydro-electric generation in New York, Newfoundland, Ontario, B.C., and Belize. Hydro-electricity is generally the lowest cost provider of electricity but variability comes from uncertainty over rainfall. Earnings in the past two years have averaged C$25 million per year.

Diversity

Fortis' diversity enhances its business risk profile. More than 75% of earnings come from Canadian regulated utilities in five different jurisdictions. Currently, Terasen Inc.'s dominance in the earnings profile (it accounts for more than one-third of earnings) somewhat constrains Fortis' diversity; we believe this will decline as FortisBC and FortisAlberta increase their earnings through organic growth.

Management

Fortis is a holding company with a very lean operating structure. The company is highly decentralized; it relies significantly upon the expertise and independence of the management at each operating subsidiary. Most of its operating subsidiaries have separate boards.

Fortis' CEO, Stan Marshall, somewhat dominates the company, in our opinion. Having developed his career within the utilities business, he brings sound expertise on regulatory matters as well as a good understanding of operational issues. He also carries a track record of successful execution on acquisitions in the past decade--although this record, in part, reflects low integration risk and low expectation of synergies, given the company's decentralized structure. We believe that management remains very much focused on acquisitions.

Moderate Financial Policy

In our opinion, Fortis' moderate financial policy reflects the following factors:

- Fortis employs modest leverage at the holding company, as it favors using equity to finance its acquisitions; the company's consolidated total debt-to-capital target is 60%.
- The company's dividend payout of about 50% compares favorably with the 60%-70% levels of other investor-owned utilities.
- Fortis' regulated utilities primarily manage their capital structures at levels consistent with regulatory rulings. The company's financing and operational strategy is to allow its wholly owned subsidiaries to operate largely on a decentralized basis. Subsidiaries are required to act commercially and make annual dividends to Fortis, with

equity injections made back to the subsidiary if required. The approach adds greater transparency to subsidiaries' performance and to dealings with individual regulators, but also ensures enough cash flow is directed to the holding company for debt service.

- Goodwill represents about 15% of consolidated assets. This reflects that the company has been willing to pay premiums to book value for the utilities it purchases. The premiums paid to date have been in line with market-based norms and appear to reflect reasonable growth prospects for the companies (such as been demonstrated with FortisAlberta and FortisBC).
- The company does not guarantee its subsidiaries' debt. It structures some equity injections in the form of loans.
- The company has a long history of annual increases in dividends; we believe it would be very reluctant to cut dividends as a precaution should operating results disappoint.

Financial Risk Profile

Accounting

Fortis' consolidated financial statements are prepared according to Canadian generally accepted accounting principles. Effectively, all of the liabilities of the company's subsidiaries are consolidated at the company level.

The consolidated financial statements present some challenges in analyzing Fortis. In particular, it is difficult to track individual cash flows between the parent and subsidiaries (either in the form of equity injections from the parent of dividends from the subsidiaries).

For these reasons, we rely more (but not completely) on deconsolidated financial statements that the company provides us. These statements more clearly outline cash flows to and from the subsidiaries.

Cash flow adequacy

Fortis' cash flow provides a comfortable level of coverage of forecast interest and preferred dividend payments.

Fortis' primary sources of operating cash flows are the dividends (or similar distributions of free cash flow) paid to it by its various operating subsidiaries. The operating subsidiaries generally pay dividends in relation to their earnings. In general, each operating subsidiary would pay out 50%-80% of its earnings.

Given these expected payout ratios and the fairly stable and predictable earnings generated by the subsidiaries we would expect that cash inflows from its subsidiaries to exceed C$180 million per year. Reasonable prospects for growth at some of its subsidiaries should support modest growth. The cash flows that would be most vulnerable to fluctuations relate to investments in its property division; still, we expect that these will continue to account for less than 10% of total cash flow.

Primary uses of cash flow include required equity injections into its subsidiaries and interest payments on corporate level debt and dividend payments on preferred shares issued at the corporate level. Residual cash flow finances common-share dividends and new acquisitions.

Equity injections into its subsidiaries will vary and depend on identified major growth opportunities; minor growth initiatives can likely be self-financed at the subsidiary level. Still, we expect a range of C$60 million-C$100 million a year. Interest payments on corporate level debt should run about C$30 million per year--which expected operating inflows cover 6x. Preferred dividends will likely exceed C$30 million per year; combined interest and preferred dividend coverage will be 3.5x-4x. Common dividends will absorb most of the remaining cash flow; under the company's dividend payout ratio, we expect at least C$170 million payments per year.

Credit measures are weaker from a consolidated perspective. FFO interest coverage runs about 3x, while we expect FFO-to-consolidated debt to run about 11%. Consolidated free cash flow should be about break-even or modestly positive for the next few years.

Capital structure

Fortis has just three outstanding debt maturities at the holding company level: a C$100 million maturity due 2010; a US$150 million maturity due 2014; and a US$200 million maturity due 2037. The company also has drawings of about C$30 million on its credit facilities. Under Fortis' current configuration, we don't expect that it would issue much more debt at the holding company level.

Fortis has also issued C$667 million of preferred shares. These shares have some equity content in that they have no fixed maturity date and dividends are deferrable at the option of the company. About C$120 million of the shares are convertible into common shares at the option of the shareholder after 2013 and C$200 million are convertible after 2016.

On a consolidated basis, Fortis has more than C$5 billion in debt, with a corresponding debt to capitalization level of about 62%. Consolidated debt levels are primarily a function of deemed capitalization levels set by regulators of its major utilities--within Canada, debt levels of utilities are typically 55%-65% of total book capitalization. The bulk (about 85%) of the company's consolidated debt resides at the operating company level.

Table 8

Fortis Inc.--Peer Comparison*

Industry Sector: Electric Utility

	--Average of past three fiscal years--		
(Mil. C$)	**Fortis Inc.**	**Canadian Utilities Ltd.**	**Emera Inc.**
Rating as of Dec. 17, 2008	A-/Stable/--	A/Stable/A-1	BBB/Positive/--
Revenues	1,870.0	2,450.4	1,224.5
Net income from continuing operations	178.4	360.7	133.1
Funds from operations (FFO)	379.4	695.2	335.0
Capital expenditures	577.8	534.7	193.4
Debt	3,821.0	3,497.1	2,169.3
Equity	1,907.3	2,637.2	1,428.2
Adjusted ratios			
Oper. income (before D&A)/revenues (%)	33.7	40.8	43.0
EBIT interest coverage (x)	2.0	2.9	2.7
EBITDA interest coverage (x)	2.9	4.1	3.8
Return on capital (%)	9.0	11.3	9.9
FFO/debt (%)	9.9	19.9	15.4
Debt/EBITDA (x)	6.1	3.5	4.2

*Fully adjusted (including postretirement obligations). D&A--Depreciation and amortization.

Table 9

Fortis Inc.--Financial Summary*

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2007**	**2006**	**2005**	**2004**	**2003**
Rating history	A-/Stable/--	BBB+/Stable/--	BBB+/Stable/--	BBB+/Negative/--	A-/Watch Neg/--
Revenues	2,718.0	1,462.0	1,430.0	1,145.3	832.6
Net income from continuing operations	216.0	165.4	153.7	103.2	77.6
Funds from operations (FFO)	503.1	313.7	321.3	232.9	149.2
Capital expenditures	833.3	443.2	456.8	280.6	201.8
Cash and short-term investments	58.0	40.9	33.4	37.2	65.1
Debt	5,958.8	3,010.8	2,493.4	2,425.2	1,244.1
Preferred stock	160.3	159.7	159.7	159.8	61.5
Equity	2,870.9	1,567.6	1,283.4	1,045.0	656.0
Debt and equity	8,829.6	4,578.4	3,776.8	3,470.2	1,900.1
Adjusted ratios					
EBIT interest coverage (x)	1.8	2.2	2.4	2.2	2.2
FFO interest coverage (x)	2.5	2.8	2.9	2.7	2.4
FFO/debt (%)	8.4	10.4	12.9	9.6	12.0
Discretionary cash flow/debt (%)	(10.1)	(8.3)	(8.6)	(2.3)	(6.0)
Net cash flow/capex (%)	41.8	52.2	54.9	63.4	54.9
Debt/debt and equity (%)	67.5	65.8	66.0	69.9	65.5
Return on common equity (%)	9.0	11.1	11.8	10.6	11.3
Common dividend payout ratio (unadjusted; %)	66.3	48.8	45.5	53.7	49.5

*Fully adjusted (including postretirement obligations).

Table 10

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts*

	--Fiscal year ended Dec. 31, 2007--								
Fortis Inc. reported amounts (mil. C$)	**Debt**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	5,534.0	814.0	814.0	541.0	293.0	390.0	390.0	163.0	730.0
Standard & Poor's adjustments									
Operating leases	118.1	12.3	4.8	4.8	4.8	7.4	7.4	N/A	111.3
Debt-like hybrids	159.7	N/A	N/A	N/A	8.5	(8.5)	(8.5)	(8.5)	N/A
Postretirement benefit obligations	146.9	8.0	8.0	8.0	2.0	5.2	5.2	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	8.0	(8.0)	(8.0)	N/A	(8.0)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	20.0	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	117.0	N/A	N/A

Table 10

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts* (cont.)									
Minority interests	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	424.8	20.3	12.8	32.8	23.3	(3.9)	113.1	(8.5)	103.3
Standard & Poor's adjusted amounts	**Debt**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	5,958.8	834.3	826.8	573.8	316.3	386.1	503.1	154.5	833.3

*Fortis Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Ratings Detail (As Of December 17, 2008)*	
Fortis Inc.	
Corporate Credit Rating	A-/Stable/--
Preferred Stock (2 Issues)	BBB
Canadian Preferred Stock Rating (2 Issues)	P-2
Senior Unsecured (1 Issue)	A-
Corporate Credit Ratings History	
19-Jun-2007	A-/Stable/--
26-Feb-2007	BBB+/Watch Pos/--
07-Dec-2005	BBB+/Stable/--
07-Jan-2004	BBB+/Negative/--
Debt Maturities	
2009 C$166 mil. 2010 C$224 mil. 2011 C$48 mil. *Consolidated.	
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured (7 Issues)	A
FortisAlberta Inc.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A-
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured (7 Issues)	A
Terasen Gas Inc.	
Issuer Credit Rating	A/Stable/NR
Senior Secured (2 Issues)	AA-
Senior Unsecured (4 Issues)	A
Terasen Inc.	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured (1 Issue)	BBB+

Ratings Detail (As Of December 17, 2008)*(cont.)	
Subordinated (1 Issue)	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD &POOR'S

RATINGSDIRECT®

September 29, 2009

Summary: Fortis Inc.

Primary Credit Analyst:
Kenton Freitag, CFA, Toronto (1) 416-507-2545; kenton_freitag@standardandpoors.com

Table Of Contents

Summary:

Fortis Inc.

Credit Rating: A-/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect, in Standard & Poor's Ratings Services' opinion, the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; the proportionally low amount of debt held--and expected to be held--at the Fortis Inc. company level; and the company's focused and well-executed growth strategy. We believe that exposure, albeit limited to a low proportion of total assets, higher-risk commercial and hospitality real estate, and merchant electricity generation offset these strengths.

Fortis is a utility holding company with 100% interests in Terasen Inc. (regulated gas distributor in British Columbia [B.C.]; BBB+/Stable/--); FortisBC (regulated electricity distributor for portions of B.C.); Newfoundland Power Inc. (regulated electricity provider for portions of the province); FortisAlberta (regulated electricity distributor in parts of Alberta); Maritime Electric Co. Ltd. (regulated electricity provider in Prince Edward Island [PEI]; BBB+/Stable/--); and FortisOntario (regulated electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos, and has nonregulated hydro power generation and real estate investments that account for about 10% of EBITDA. We believe that reasonable diversity underpins the quality and stability of the company's cash flows; we expect Terasen, its largest holding, to account for about 36% of consolidated earnings. Moreover, Fortis' diversity of markets, regulatory regimes, climates, and customer segments enhance cash flow reliability.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions with predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based utilities have spurred growth in distributions.

The high degree of financial separation Fortis maintains with its subsidiaries supports the ratings. Although the subsidiaries are guided to some extent by Fortis' management, they operate on a stand-alone basis, and Fortis doesn't guarantee their debt. However, Fortis could assist its subsidiaries should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is consistent with other Canadian regulated utilities, at about 62% total debt-to-total capital, but the leverage directly at the holding company level is low, in our opinion. The company's regulated subsidiaries typically are financed at about a 60%-65% leverage level in line with the capital structure that their respective regulators dictate. Leverage at the holding company level is less than 10% of the capital base, as Fortis has historically financed its acquisitions with common and preferred share issuances. Although Standard & Poor's expects that Fortis will continue acquiring, we also expect it will issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and debt at the holding company level proportionally low.

Consolidated interest and debt coverages are somewhat low, in our view, and reflect the high leverage at each regulated subsidiary. Consolidated funds from operations (FFO) interest coverage has historically run about 3x, while FFO-to-total debt has historically ranged from 10%-14%.

We believe Fortis' CEO influences the company's strategic direction greatly. The credit impact has been primarily favorable; acquisitions to date have been well-executed and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his positive approach to working with regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. Concerns relate to the lack of clarity regarding succession planning and the consequent uncertainty any successor would bring to the company's financial policies and strategic focus.

Liquidity

Fortis' liquidity is adequate for the ratings, given its relatively stable cash dividends from its subsidiaries, modest debt maturities, access to capital markets and available bank facilities.

- Most of the company's subsidiaries pay out part (typically 50%-80%) of their net income to Fortis in the form of dividends or other distributions. Collectively, this produces a highly predictable and dependable cash stream for Fortis, which provides comfortable coverage of interest and preferred dividends.
- The company's primary subsidiaries are stand-alone entities, with separate bank credit lines and access to debt markets.
- Forecast equity injections from Fortis to finance various expansion needs will be well within the company's financial capacity.
- Fortis has about C$700 million debt at the holding company level. Its next debt maturity will be in 2010.
- The holding company maintains C$600 million of credit facilities, which is fully available.

Outlook

The stable outlook reflects our assessment of the underlying operational and financial stability of Fortis' operating companies. We could lower the ratings if Fortis were to materially elevate its leverage or if one of its larger subsidiaries encountered major financial or operational difficulties. A positive outlook or upgrade remains unlikely in the near term but could occur as a result of further diversification. We expect the company to remain acquisitive in the next few years; further acquisitions should not prompt a downgrade, provided they remain consistent within the company's regulated focus and expertise and were financed primarily with common equity.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

May 11, 2010

Summary:
Fortis Inc.

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Secondary Credit Analyst:
Greg Pau, Toronto (1) 416-507-2518; greg_pau@standardandpoors.com

Table Of Contents

Summary:
Fortis Inc.

Credit Rating: A-/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect Standard & Poor's Ratings Services' opinion of the company's excellent business risk profile (we categorize business risk profiles from 'excellent' to 'vulnerable') and significant financial risk profile (we rank financial risk profiles from 'minimal' to 'highly leveraged'). Fortis' business risk assessment reflects its diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and the company's focused and well-executed growth strategy. Characterizing its financial risk are the deemed regulatory capital structure at each of its subsidiaries; and a proportionally low amount of actual, and expected, debt held at the parent level. We believe that exposure, albeit limited to a low proportion of total assets; to higher-risk commercial and hospitality real estate; and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a utility holding company with 100% interests in Terasen Inc. (regulated gas distributor in British Columbia [B.C.]; BBB+/Stable/--); FortisBC (regulated electricity distributor for portions of B.C.); Newfoundland Power Inc. (regulated electricity provider for portions of the province); FortisAlberta Inc. (regulated electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (regulated electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (regulated electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos; and has nonregulated hydro power generation and real estate investments that account for about 10% of EBITDA. The quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further add creditworthiness, although we expect Terasen, the largest holding, to account for about 45% of consolidated earnings.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions with predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions.

Fortis' practice of maintaining financial separation with its subsidiaries supports the ratings, in our opinion. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is, in our opinion, "highly leveraged" at about 63% total debt-to-total capital but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company's regulated subsidiaries typically are financed at about a 60%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is considerably less. The leverage directly at the holding company is less than 10% of the capital base and is, in our opinion, manageable. Fortis has historically financed its acquisitions with common and preferred share issuances. We treat the preferred shares as 50% debt and 50% equity. Although Standard & Poor's expects that the company will continue acquiring, we also expect it will issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and debt at the holding company level proportionally low.

Supporting our view that Fortis' financial risk profile is "significant", and somewhat stronger than its key credit metrics would suggest based on our criteria guidelines for corporate ratings, are the following factors:

- The portfolio effect and separation of each of its subsidiaries,
- The direct debt financing of each of its subsidiaries;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverages are 'aggressive'-to-'highly leveraged'. Consolidated adjusted funds from operations (AFFO) interest coverage has historically run about 3x, while AFFO-to-total debt has historically ranged from 10%-14%. Interest payments on corporate level debt should run about C$60 million per year--which expected operating inflows cover about 4x. Preferred dividends will exceed C$30 million per year; combined interest and preferred dividend coverage will be about 3x.

We believe Fortis' CEO influences the company's strategic direction greatly. The credit impact has been primarily favorable, in our view; acquisitions to date have been well-executed and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his collaborative approach to working with local regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. Our concerns relate to the lack of clarity regarding succession planning and the consequent uncertainty any successor would bring to the company's financial policies and strategic focus.

Short-term credit factors

Fortis' liquidity is adequate for the ratings, given its relatively stable cash dividends from its subsidiaries, modest debt maturities, access to capital markets and available bank facilities.

- Most of the company's subsidiaries pay out part (typically 50%-80%) of their net income to Fortis in the form of dividends or other distributions. Collectively, this produces a highly predictable and dependable cash stream for Fortis, which provides comfortable coverage of interest and preferred dividends.
- The company's primary subsidiaries are stand-alone entities, with separate bank credit lines and access to debt markets.
- Forecast equity injections from Fortis to finance various subsidiaries' expansion needs will be well within the company's financial capacity.
- Fortis has about C$705 million debt at the holding company level. Its next debt maturity, C$100 million, is due October 2010.
- At the holding company, Fortis maintains C$645 million of credit facilities. As of Dec. 31, 2009, it had availability of C$519 million under these lines.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability. We could lower the ratings if Fortis were to materially elevate its leverage or if one of its larger subsidiaries encountered major financial or operational difficulties. A positive outlook or upgrade is unlikely, given the company's "highly leveraged" balance sheet. We expect the company to remain acquisitive in the next few years; further moderate-sized and creditworthy purchases should not prompt a downgrade, provided they remain consistent with Fortis' regulated focus and expertise and are financed primarily with common equity.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

December 9, 2010

Research Update:

Fortis Inc. Rating 'A-' Rating Affirmed On Strength Of Its Subsidiaries And Business Diversity; Outlook Stable

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Secondary Contact:
Greg Pau, Toronto (1) 416-507-2518;greg_pau@standardandpoors.com

Table Of Contents

Research Update:

Fortis Inc. Rating 'A-' Rating Affirmed On Strength Of Its Subsidiaries And Business Diversity; Outlook Stable

Overview

- We are affirming our ratings, including our 'A-' long-term corporate credit rating, on Fortis Inc.
- The ratings reflect our opinion of the company's excellent business risk profile and significant financial risk profile.
- The stable outlook reflects our assessment of Fortis' business diversity and its operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings.

Rating Action

On Dec. 9, 2010, Standard & Poor's Ratings Services affirmed its ratings, including its 'A-' long-term corporate credit rating, on St. John's, Nfld.-based Fortis Inc. The outlook is stable.

Rationale

The ratings on Fortis reflect Standard & Poor's opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests a number of regulated utilities in Canada. They include Terasen Inc. (gas distributor in British Columbia [B.C.]); FortisBC (electricity distributor for portions of B.C.); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario). The company also has holdings in regulated utilities in

Belize, Cayman Islands, and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although we expect Terasen, the largest holding, to account for 35%-40% of consolidated earnings.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. However, we believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansion and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 63% total debt-to-total capital but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is considerably less, in our analysis. The leverage directly at the holding company is less than 30% of the capital base and is manageable, in our opinion. Fortis has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company would continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities. We also expect it to issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and holding-company debt at about 30% of its capital base.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries,

- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged, although they have gradually improved since the Terasen acquisition in 2007. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term. We estimate that combined interest payments and preferred share dividends on corporate level debt could range from C$90 million-C$120 million in each of the next five years. We expect cash flow from its subsidiaries should provide about 3x coverage of these combined payments and 25% of company-level debt.

Standard & Poor's believes Fortis' CEO materially influences the company's strategic direction. The credit impact has been primarily favorable, in our view; acquisitions to date have been focused (on Fortis' areas of expertise), well-executed, and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his collaborative approach to working with local regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. As it increases its size and complexity, we believe that it would have to add management depth and develop succession planning to maintain its strategic focus and execution.

Short-term credit factors

Fortis' liquidity is, in our view, adequate. At the holding company level, we expect short-term sources of cash would be sufficient to cover expected uses. Fortis' main cash sources include expected dividends and interests from its subsidiaries estimated to exceed C$250 million a year; and committed credit facilities of C$630 million, of which C$415 million was available as of Sept. 30, 2010. We estimate that Fortis' short-term cash uses would be C$550 million-C$600 million, constituting mainly investments or advances to its subsidiaries to support their growth and dividend payments. The company's corporate level debt was C$828 million at Dec. 31, 2009 and the next material debt maturity was C$150 million in 2014. We recognize that Fortis has regular access to the capital market for issuances of equity, debt, and preferred shares to finance its equity investments in its subsidiaries. The subsidiaries have separate banking relationships and committed credit facilities totaling C$1.34 billion, with C$758 million available as of Sept. 30, 2010.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage to finance its growth, it were to invest in assets with materially high business risks and earning variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could face pressure if company-level debt coverage from cash flows from its subsidiaries falls below 20% or consolidated AFFO to debt falling below 10% on a sustained basis. A positive outlook or upgrade is unlikely, given Fortis' aggressive capital structure. We expect the company to remain acquisitive and seek to increase its asset base in the next few years. Moderate investments in creditworthy businesses should not prompt a downgrade, provided they remain consistent with Fortis' regulated focus and expertise and are financed with an adequate level of common equity.

Related Criteria And Research

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Fortis Inc.	
Corporate credit rating	A-/Stable/--
Preferred stock	
Global scale	BBB
Canada scale	P-2

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

December 16, 2010

Summary:
Fortis Inc.

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Secondary Contact:
Greg Pau, Toronto (1) 416-507-2518; greg_pau@standardandpoors.com

Table Of Contents

Summary:
Fortis Inc.

Credit Rating: A-/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect Standard & Poor's Ratings Services' opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests a number of regulated utilities in Canada. They include Terasen Inc. (gas distributor in British Columbia [B.C.]); FortisBC (electricity distributor for portions of B.C.); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island [PEI]; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although we expect Terasen, the largest holding, to account for 35%-40% of consolidated earnings.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. However, we believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansion and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 63% total debt-to-total capital but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is considerably less, in our analysis. The leverage directly at the holding company is less than 30% of the capital base and is manageable, in our opinion. Fortis has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company would continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities. We also expect it to issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and holding-company debt at about 30% of its capital base.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries,
- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged, although they have gradually improved since the Terasen acquisition in 2007. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term. We estimate that combined interest payments and preferred share dividends on corporate level debt could range from C$90 million-C$120 million in each of the next five years. We expect cash flow from its subsidiaries should provide about 3x coverage of these combined payments and 25% of company-level debt.

Standard & Poor's believes Fortis' CEO materially influences the company's strategic direction. The credit impact has been primarily favorable, in our view; acquisitions to date have been focused (on Fortis' areas of expertise), well-executed, and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his collaborative approach to working with local regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. As it increases its size and complexity, we believe that it would have to add management depth and develop succession planning to maintain its strategic focus and execution.

Short-term credit factors

Fortis' liquidity is, in our view, adequate. At the holding company level, we expect short-term sources of cash would be sufficient to cover expected uses. Fortis' main cash sources include expected dividends and interests from its subsidiaries estimated to exceed C$250 million a year; and committed credit facilities of C$630 million, of which C$415 million was available as of Sept. 30, 2010. We estimate that Fortis' short-term cash uses would be C$550 million-C$600 million, constituting mainly investments or advances to its subsidiaries to support their growth and dividend payments. The company's corporate level debt was C$702 million at Dec. 31, 2009 and the next material debt maturity was C$150 million in 2014. We recognize that Fortis has regular access to the capital market for issuances of equity, debt, and preferred shares to finance its equity investments in its subsidiaries. The subsidiaries have separate banking relationships and committed credit facilities totaling C$1.34 billion, with C$758 million available as of Sept. 30, 2010.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage to finance its growth, it were to invest in assets with materially high business risks and earning variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could face pressure if company-level debt coverage from cash flows from its subsidiaries falls below 20% or consolidated AFFO to debt falling below 10% on a sustained basis. A positive outlook or upgrade is unlikely, given Fortis' aggressive capital structure. We expect the company to remain acquisitive and seek to increase its asset base in the next few years. Moderate investments in creditworthy businesses should not prompt a downgrade, provided they remain consistent with Fortis' regulated focus and expertise and are financed with an adequate level of common equity.

Related Criteria And Research

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

May 31, 2011

Fortis Inc.'s Announced U.S. Acquisition Is In Line With Company Strategies, Report Says

Primary Credit Analyst:
Gavin MacFarlane, Toronto (1) 416-507-2545; gavin_macfarlane@standardandpoors.com

Media Contact:
Edward Sweeney, New York (1) 212-438-6634; edward_sweeney@standardandpoors.com

TORONTO (Standard & Poor's) May 31, 2011--Utility holding company Fortis Inc.'s (A-/Stable/--) announced acquisition of Central Vermont Power Service Corp. (CVPS; not rated) is consistent with its growth strategy and track record of financing acquisitions with bought deals, Standard & Poor's Ratings Services said in a report released today.

"We believe the acquisition provides modest regulatory and geographical diversification benefits to the company's existing portfolio of regulated utilities," Standard & Poor's credit analyst Gavin MacFarlane said in the report, entitled, "The Credit Implications Of Fortis Inc.'s Announced Purchase Of Central Vermont Power Service Corp."

On May 30, 2011, Fortis announced it had agreed to acquire CVPS. Standard & Poor's has not revised its ratings on Fortis following the announcement.

The report is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

October 31, 2011

Summary:
Fortis Inc.

Primary Credit Analyst:
Gavin MacFarlane, Toronto (1) 416-507-2545; gavin_macfarlane@standardandpoors.com

Secondary Contact:
Sandeep Randhawa, Toronto; sandeep_randhawa@standardandpoors.com

Table Of Contents

Summary:
Fortis Inc.

Credit Rating: A-/Stable/--

Rationale

The ratings on Fortis Inc. reflect Standard & Poor's opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although we expect FortisBC Holdings, the largest holding, to account for 35%-40% of consolidated earnings. Fortis had C$5.9 billion of reported, consolidated debt as of June 30, 2011.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. In June 2011, the government of Belize expropriated Fortis's 70% ownership stake in Belize Electricity Ltd. (BEL), highlighting the riskiness of less stable regulatory regimes. This did not have a meaningful impact on Fortis, given BEL's small size relative to the company (less than 2% of its assets). Furthermore, we had already factored the challenging operating environment into the ratings. Fortis continues to own and operate nonregulated hydro-electric generating facilities in the country. We believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansions and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 60% total debt-to-total capital as of June 30, 2011, but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is considerably less, in our analysis. The leverage directly at the holding company is less than 30% of the capital base and is manageable, in our opinion. Fortis has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company would continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities. We also expect it to issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and holding-company debt at about 30% of its capital base.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries;
- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term. We estimate that combined interest payments and preferred share dividends on corporate level debt could range from C$90 million-C$120 million in each of the next five years. We expect cash flow from its subsidiaries should provide about 3x coverage of these combined payments and 25% of company-level debt.

Standard & Poor's believes Fortis' CEO materially influences the company's strategic direction. The credit impact has been primarily favorable, in our view; acquisitions to date have been focused (on Fortis' areas of expertise), well-executed, and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his collaborative approach to working with local regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. As it increases its size and complexity, we believe that it would have to add management depth and develop succession planning to maintain its strategic focus and execution.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.

- Liquidity sources include expected dividends and interests from its subsidiaries of more than C$250 million per year and unused credit facilities of C$409 million as of June 30.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage to finance its growth, it were to invest in assets with materially higher business risks and cash flow variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could also face pressure if company-level debt coverage from cash flows from its subsidiaries falls below 20% or consolidated AFFO to debt falls below 10% on a sustained basis. A positive outlook or upgrade is unlikely, given Fortis' aggressive capital structure. We expect the company to remain acquisitive and seek to increase its asset base in the next few years. Moderate investments in creditworthy businesses should not prompt a downgrade, provided they remain consistent with the company's regulated focus and expertise and are financed with an adequate level of common equity.

Related Criteria And Research:

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011.

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

October 31, 2011

Summary:
Fortis Inc.

Primary Credit Analyst:
Gavin MacFarlane, Toronto (1) 416-507-2545; gavin_macfarlane@standardandpoors.com

Secondary Contact:
Sandeep Randhawa, Toronto; sandeep_randhawa@standardandpoors.com

Table Of Contents

Summary:
Fortis Inc.

Credit Rating: A-/Stable/--

Rationale

The ratings on Fortis Inc. reflect Standard & Poor's opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although we expect FortisBC Holdings, the largest holding, to account for 35%-40% of consolidated earnings. Fortis had C$5.9 billion of reported, consolidated debt as of June 30, 2011.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. In June 2011, the government of Belize expropriated Fortis's 70% ownership stake in Belize Electricity Ltd. (BEL), highlighting the riskiness of less stable regulatory regimes. This did not have a meaningful impact on Fortis, given BEL's small size relative to the company (less than 2% of its assets). Furthermore, we had already factored the challenging operating environment into the ratings. Fortis continues to own and operate nonregulated hydro-electric generating facilities in the country. We believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansions and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 60% total debt-to-total capital as of June 30, 2011, but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is considerably less, in our analysis. The leverage directly at the holding company is less than 30% of the capital base and is manageable, in our opinion. Fortis has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company would continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities. We also expect it to issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and holding-company debt at about 30% of its capital base.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries;
- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term. We estimate that combined interest payments and preferred share dividends on corporate level debt could range from C$90 million-C$120 million in each of the next five years. We expect cash flow from its subsidiaries should provide about 3x coverage of these combined payments and 25% of company-level debt.

Standard & Poor's believes Fortis' CEO materially influences the company's strategic direction. The credit impact has been primarily favorable, in our view; acquisitions to date have been focused (on Fortis' areas of expertise), well-executed, and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his collaborative approach to working with local regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. As it increases its size and complexity, we believe that it would have to add management depth and develop succession planning to maintain its strategic focus and execution.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.

- Liquidity sources include expected dividends and interests from its subsidiaries of more than C$250 million per year and unused credit facilities of C$409 million as of June 30.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage to finance its growth, it were to invest in assets with materially higher business risks and cash flow variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could also face pressure if company-level debt coverage from cash flows from its subsidiaries falls below 20% or consolidated AFFO to debt falls below 10% on a sustained basis. A positive outlook or upgrade is unlikely, given Fortis' aggressive capital structure. We expect the company to remain acquisitive and seek to increase its asset base in the next few years. Moderate investments in creditworthy businesses should not prompt a downgrade, provided they remain consistent with the company's regulated focus and expertise and are financed with an adequate level of common equity.

Related Criteria And Research:

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011.

STANDARD & POOR'S

Global Credit Portal®

RatingsDirect®

February 22, 2012

Research Update:

Fortis Inc. Ratings Put On CreditWatch Negative On Announced C$1.5 Billion Acquisition

Primary Credit Analyst:
Gavin MacFarlane, Toronto (1) 416-507-2545;gavin_macfarlane@standardandpoors.com

Secondary Contact:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Table Of Contents

Research Update:

Fortis Inc. Ratings Put On CreditWatch Negative On Announced C$1.5 Billion Acquisition

Overview

- On Feb. 21, 2012, Fortis Inc. announced it entered into an agreement to acquire all of the shares of CH Energy Group Inc. for about C$1.5 billion.
- As a result, we are placing our ratings, including our 'A-' long-term corporate credit rating, on Fortis Inc. on CreditWatch with negative implications.
- The CreditWatch reflects our expectation of increased debt at the holding company level to finance the acquisition and that post-acquisition, deconsolidated credit metrics may be below our established thresholds.

Rating Action

On Feb. 22, 2012, Standard & Poor's Ratings Services placed the ratings on St. John's, Nfld.-based utility holding company Fortis Inc. on CreditWatch with negative implications.

Standard & Poor's also placed its ratings, including its 'A-' long term corporate credit rating, on FortisAlberta Inc. on CreditWatch with negative implications. See research update "Ratings On FortisAlberta Inc. Put On CreditWatch Negative Due To CreditWatch Placement On Fortis Inc." published today on RatingsDirect on the Global Credit Portal. The ratings on Fortis' other subsidiaries remain unchanged.

Rationale

The CreditWatch reflects our view that following the close of the proposed acquisition of CH Energy Group Inc. (not rated) for about C$1.5 billion, there is at least a one-in-two probability that Fortis' deconsolidated credit metrics may deteriorate below thresholds we have previously established for the current ratings. The acquisition will likely have a smaller impact on consolidated credit metrics, given CH Energy's size (adjusted funds from operations of about 15% of the consolidated entity) relative to Fortis on a consolidated basis. The most likely negative rating action would be a one-notch downgrade. Fortis expects the transaction to close within the next 12 months.

The proposed acquisition slightly improves Fortis' excellent business risk profile and provides both regulatory and cash flow diversification benefits to the company. CH Energy Group's primary asset is its 100% ownership of Central

Hudson Gas & Electric Corp. (A/Watch Neg/--), a regulated electric gas transmission and distribution utility with an excellent business risk profile that provides approximately 90% of CH Energy Group's consolidated EBITDA. The rating on Central Hudson Gas & Electric is based on the consolidated credit profile of its parent.

Maritime Electric Co. Ltd. (BBB+/Stable/--) is rated lower than Fortis and a one-notch downgrade of its parent, Fortis, would not lead to a rating action. Caribbean Utilities Co. Ltd. (CUC) (A-/Stable/--) has been previously rated above Fortis. Factors contributing to CUC's rating separation are its status as a publicly traded entity and Fortis's partial ownership stake.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.
- Liquidity sources include expected dividends and interests from Fortis' subsidiaries of more than C$250 million per year and unused credit facilities of about C$800 million as of Dec. 31, 2011.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

CreditWatch

We will resolve the CreditWatch once greater details related to the transaction become available, including a financing plan, and the transaction closes. We could lower the ratings if debt levels increase as a result of the transaction and the company is unable to meet established thresholds we associate with the current ratings, including company-level debt coverage from cash flows from its subsidiaries of more than 20% and consolidated adjusted funds from operations to debt of more than 10%. However, while less likely, we could still affirm the ratings on Fortis and return to a stable outlook if a very meaningful component of the financing plan consists of equity and we conclude that forecast credit metrics are at levels consistent with the current ratings.

Related Criteria And Research

- Criteria | Corporates | Utilities: Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Ratings On FortisAlberta Inc. Put On CreditWatch Negative Due To CreditWatch Placement On Fortis Inc., Feb. 22, 2012
- Central Hudson Gas & Electric Corp. Ratings Placed On CreditWatch Negative On Acquisition Plan, Feb. 22, 2012

Ratings List

CreditWatch/Outlook Action

	To	From
Fortis Inc.		
Corporate Credit Rating	A-/Watch Neg/--	A-/Stable/--
Fortis Inc.		
Senior Unsecured	A-/Watch Neg	A-
Preferred Stock		
Global scale	BBB/Watch Neg	BBB
Canada scale	P-2/Watch Neg	P-2
Preference Stock	P-2/Watch Neg	P-2

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

February 29, 2012

Fortis Inc.

Primary Credit Analyst:
Gavin MacFarlane, Toronto (1) 416-507-2545; gavin_macfarlane@standardandpoors.com

Secondary Contact:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Table Of Contents

Fortis Inc.

Major Rating Factors

Corporate Credit Rating
A-/Watch Neg/--

Strengths:

- Diversified portfolio of low-risk monopoly electricity and gas distribution businesses
- Stable, regulated cash flows, with supportive regulatory regimes and limited commodity price and volume exposure

Weaknesses:

- Weak consolidated credit metrics for the ratings and deconsolidated metrics that acquisitions could pressure
- Higher business risk in unregulated businesses that account for about 10-15% of consolidated EBITDA

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect Standard & Poor's Ratings Services' opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

We placed our ratings on Fortis on CreditWatch with negative implications Feb. 21, 2012, reflecting our view that following the close of the proposed acquisition of CH Energy Group Inc. (not rated) for about C$1.5 billion, there is at least a one-in-two probability that the company's deconsolidated credit metrics might deteriorate below thresholds we have previously established for the ratings.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although FortisBC Holdings, the largest holding, typically accounts for 35%-40% of consolidated earnings. Fortis had C$5.9 billion of reported, consolidated debt as of Dec. 31, 2011.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. Fortis continues to own and operate nonregulated hydroelectric generating facilities in the country. We believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansions and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 60% total debt-to-total capital as of Dec. 31, 2011, but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is lower, in our analysis. The company has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities, and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company will continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries;
- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.

- Liquidity sources include expected dividends and interests from Fortis' subsidiaries of more than C$250 million per year and unused credit facilities of about C$800 million as of Dec. 31, 2011.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Accounting

On Jan. 1, 2012, Fortis converted to U.S. generally accepted accounting principles (GAAP) for interim and annual financial reporting. We do not expect this to affect the ratings. The company previously prepared its financial statements in accordance with Canadian GAAP.

CreditWatch

We will resolve the CreditWatch placement once greater details related to the CH Energy transaction, including a financing plan, become available and the transaction closes. We could lower the ratings if debt levels increase as a result of the transaction and Fortis is unable to meet established thresholds we associate with the ratings, including company-level debt coverage from cash flows from its subsidiaries of more than 20% and consolidated adjusted funds from operations-to-debt of more than 10%. However, while less likely, we could affirm the ratings on Fortis and return to a stable outlook if a very meaningful component of the financing plan consists of equity and we conclude that forecast credit metrics are at levels consistent with the current ratings.

Table 1

Fortis Inc.--Peer Comparison

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31, 2010--				
(Mil. C$)	**Fortis Inc.**	**Enbridge Inc.**	**TransCanada PipeLines Ltd.**	**CU Inc.**	**EPCOR Utilities Inc.**
Rating as of Feb. 29, 2012	A-/Watch Neg/--	A-/Stable/--	A-/Stable/A-2	A/Stable/A-1	BBB+/Stable/--
Revenues	3,664.0	15,127.0	8,064.0	1,476.7	1,473.0
EBITDA	1,177.2	2,410.0	4,297.1	672.9	309.9
Net income from continuing operations	330.0	970.0	1,256.0	266.5	133.0
Funds from operations (FFO)	716.6	2,075.8	2,959.9	471.7	151.7
Capital expenditures	954.9	2,341.0	4,616.8	696.3	217.1
Free operating cash flow	(240.3)	(528.2)	(1,912.9)	(249.6)	(56.4)
Dividends paid	224.5	430.5	1,220.5	9.9	136.0
Discretionary cash flow	(464.8)	(958.7)	(3,133.4)	(259.4)	(192.4)
Cash and short-term investments	109.0	230.0	752.0	10.3	104.0
Debt	6,895.9	15,011.3	24,955.9	3,160.9	1,804.8
Preferred stock	456.0	62.5	687.0	224.7	0.0
Equity	3,728.5	7,921.6	16,523.6	2,428.5	2,461.4
Debt and equity	10,624.4	22,932.9	41,479.5	5,589.4	4,266.2

Table 1

Fortis Inc.--Peer Comparison (cont.)

Adjusted ratios					
FFO interest coverage (x)	2.6	3.7	2.9	3.1	2.1
FFO/debt (%)	10.4	13.8	11.9	14.9	8.4
Free operating cash flow/debt (%)	(3.5)	(3.5)	(7.7)	(7.9)	(3.1)
Discretionary cash flow/debt (%)	(6.7)	(6.4)	(12.6)	(8.2)	(10.7)
Net cash flow/capex (%)	51.5	70.3	37.7	66.3	7.2
Debt/EBITDA (x)	5.9	6.2	5.8	4.7	5.8
Total debt/debt plus equity (%)	64.9	65.5	60.2	56.6	42.3
Return on capital (%)	7.1	7.8	6.6	8.8	7.1
Return on common equity (%)	7.9	11.2	4.3	10.9	5.2
Common dividend payout ratio (unadjusted; %)	85.6	67.3	89.7	0.0	102.3

Table 2

Fortis Inc.--Financial Summary

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	BBB+/Stable/--
Revenues	3,664.0	3,637.0	3,903.0	2,718.0	1,462.0
EBITDA	1,177.2	1,085.0	1,064.7	827.3	534.7
Net income from continuing operations	330.0	297.0	276.0	216.0	165.4
Funds from operations (FFO)	716.6	656.7	648.4	492.2	346.1
Capital expenditures	954.9	927.0	822.1	837.5	445.0
Dividends paid	224.5	160.5	185.5	151.5	82.5
Debt	6,895.9	6,591.5	6,159.9	6,166.7	3,209.4
Preferred stock	456.0	333.5	333.5	160.3	159.7
Equity	3,728.5	3,497.4	3,385.5	2,871.1	1,567.6
Debt and equity	10,624.4	10,088.9	9,545.4	9,037.7	4,777.0
Adjusted ratios					
EBITDA margin (%)	32.1	29.8	27.3	30.4	36.6
EBIT interest coverage (x)	1.9	1.9	1.8	1.8	2.2
FFO interest coverage (x)	2.6	2.6	2.5	2.5	2.9
FFO/debt (%)	10.4	10.0	10.5	8.0	10.8
Discretionary cash flow/debt (%)	(6.7)	(7.2)	(5.2)	(10.0)	(6.8)
Net cash flow/capex (%)	51.5	53.5	56.3	40.7	59.2
Debt/debt and equity (%)	64.9	65.3	64.5	68.2	67.2
Return on capital (%)	7.1	7.2	7.7	8.2	8.6
Return on common equity (%)	7.9	7.8	7.6	9.0	11.1
Common dividend payout ratio (unadjusted; %)	85.6	50.8	70.1	66.3	48.8

Table 3

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2010--									
Fortis Inc. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	6,023.0	4,217.0	3,664.0	1,150.0	740.0	348.0	740.0	740.0	247.0	960.0
Standard & Poor's adjustments										
Operating leases	101.8	N/A	N/A	6.2	6.2	6.2	10.8	10.8	N/A	7.9
Intermediate hybrids reported as equity	456.0	(456.0)	N/A	N/A	N/A	22.5	(22.5)	(22.5)	(22.5)	N/A
Postretirement benefit obligations	232.6	(194.5)	N/A	17.0	17.0	11.0	(0.7)	(0.7)	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	13.0	(13.0)	(13.0)	N/A	(13.0)
Share-based compensation expense	N/A	N/A	N/A	4.0	N/A	N/A	N/A	N/A	N/A	N/A
Asset retirement obligations	230.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	15.0	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.0	N/A	N/A
Minority interests	N/A	162.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt--other	(148.0)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	872.9	(488.5)	0.0	27.2	38.2	52.7	(25.4)	(23.4)	(22.5)	(5.1)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	6,895.9	3,728.5	3,664.0	1,177.2	778.2	400.7	714.6	716.6	224.5	954.9

N/A--Not applicable.

Related Criteria And Research:

- Research Update: Fortis Inc. Ratings Put On CreditWatch Negative On Announced C$1.5 Billion Acquisition, Feb. 22, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings Detail (As Of February 29, 2012)	
Fortis Inc.	
Corporate Credit Rating	A-/Watch Neg/--
Preference Stock *Canadian Preferred Stock Rating* (1 Issue)	P-2/Watch Neg
Preferred Stock (4 Issues)	BBB/Watch Neg
Canadian Preferred Stock Rating (4 Issues)	P-2/Watch Neg
Senior Unsecured (1 Issue)	A-/Watch Neg
Corporate Credit Ratings History	
22-Feb-2012	A-/Watch Neg/--
19-Jun-2007	A-/Stable/--
26-Feb-2007	BBB+/Watch Pos/--
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (7 Issues)	A-
FortisAlberta Inc.	
Issuer Credit Rating	A-/Watch Neg/--
Senior Unsecured (10 Issues)	A-/Watch Neg
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured (6 Issues)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD &POOR'S

Global Credit Portal®
RatingsDirect®

May 23, 2012

Research Update:

Fortis Inc., Subsidiary 'A-' Ratings Affirmed, Off Watch On Resolution Of Purchase's Financing; Outlook Stable

Primary Credit Analyst:
Gavin MacFarlane, Toronto (1) 416-507-2545;gavin_macfarlane@standardandpoors.com

Secondary Contact:
Nicole Martin, Toronto (1) 416-507-2560;nicole_martin@standardandpoors.com

Table Of Contents

Research Update:

Fortis Inc., Subsidiary 'A-' Ratings Affirmed, Off Watch On Resolution Of Purchase's Financing; Outlook Stable

Overview

- We are affirming our ratings, including our 'A-' long-term corporate credit rating, on Fortis Inc. and subsidiary FortisAlberta Inc.
- We are also removing the ratings from CreditWatch with negative implications, where they were placed Feb. 22, 2012.
- The affirmation reflects Fortis' financing plan for the proposed C$1.5 billion acquisition of CH Energy Group Inc. and the completion of its C$900 million Waneta hydroelectric construction project, on time and on budget in 2015.
- We expect that the company's diversified portfolio, dominated by regulated utilities, should generate adequate and stable cash flow at or above our consolidated targets.
- The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings.

Rating Action

On May 23, 2012, Standard & Poor's Ratings Services affirmed its ratings, including its 'A-' long-term corporate credit rating, on St. John's Nfld.-based utility holding company Fortis Inc. and subsidiary FortisAlberta Inc. The outlook is stable. Standard & Poor's removed the ratings from CreditWatch with negative implications, where they were placed Feb. 22, 2012.

The rating action reflects our view that given the fixed financing assumptions for the proposed acquisition of CH Energy Group Inc. (not rated) for about C$1.5 billion, deconsolidated credit metrics will not deteriorate below levels we associate with the rating on a sustained basis. We expect the company to generally sustain consolidated adjusted funds from operations (AFFO)-to-debt of better than 10% and deconsolidated AFFO-to-debt of 20% or better. Based on our forecast assumptions, deconsolidated AFFO-to-debt might temporarily fall in the 18%-20% range in 2013 and 2014, but we expect the company to be able to sustain FFO-to-debt above 20% in 2015 and beyond with the completion of the C$900 million Waneta hydroelectric project.

Rationale

We have not changed our opinion that the proposed acquisition slightly improves Fortis' excellent business risk profile and provides both regulatory and cash flow diversification benefits to the company. CH Energy's primary asset is its 100% ownership of Central Hudson Gas & Electric Corp. (A/Watch Neg/--), a regulated electric gas transmission and distribution utility with an excellent business risk profile that provides approximately 90% of CH Energy Group's consolidated EBITDA. The rating on Central Hudson reflects the consolidated credit profile of its parent.

Some of our key assumptions include:

- Fortis will finance the CH Energy acquisition with at least C$600 million in equity, C$250 million in preferred shares, and C$150 million in debt at the holding company level. We have assumed that the equity portion of the acquisition financing is put in place shortly after a shareholder vote at CH Energy scheduled for mid-June.
- Fortis will finance the Waneta project with approximately C$350 million in debt. In addition, we assume the project is not delayed beyond 2015 and any cost overruns are not material. We have not incorporated any other material debt issuances into our forecasts.
- The company's consolidated rate base grows on average about 3-4% per annum between 2012 and 2016.
- Its regulated subsidiaries allowed return on equity (ROE), deemed equity, and depreciation rates remain in line with current levels and they are generally able to earn their allowed ROE or better.
- The Waneta project is in service on time and budget in 2015.
- If the CH Energy acquisition closes in early 2013, there are no material changes to the underlying business.

In our view, Fortis has limited headroom in both its consolidated and deconsolidated credit metrics. We expect the company's consolidated AFFO-to-debt to remain in the 10%-12% range, with limited headroom above the 10% floor we have established for the ratings. We expect Fortis's deconsolidated AFFO-to-debt to be lower (18%-20%) in 2013-2014 before improving in 2015, when the Waneta hydroelectric project is completed. The key components of deconsolidated FFO include regulated cash flows, which are based on the forecast rate base; and the regulatory determined ROE and deemed capital structure for each regulated utility, unregulated cash flows, and tax benefits driven by the structure. We adjust both FFO and debt in accordance with our ratio definitions and our criteria on preferred shares, which we treat as 50% debt and 50% equity.

We expect the holding company's cash flows from subsidiaries Fortis Properties and Fortis Generation to increase to about 25% from about 15% post Waneta construction. Fortis Properties cash flows are somewhat riskier than the regulated businesses. However, we expect the Waneta power project to generate long term, stable cash flows once operational in 2015. Key contract features in the 40-year power purchase agreement include limited hydrology and price risk, and strong counterparties in British Columbia Hydro & Power Authority and FortisBC, with some construction risk in the interim.

The ratings on Fortis reflect Standard & Poor's opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of low-risk, monopoly utilities; stable regulated cash flows with generally supportive regulatory regimes and independent subsidiaries Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, which drive the relatively weak consolidated and deconsolidated credit metrics. We believe that exposure, albeit limited, to higher-risk commercial and hospitality real estate, and electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta (electricity distributor in parts of Alberta); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; and it has nonregulated hydro power generation and real estate and hotel investments. Fortis had C$6.3 billion of reported, consolidated debt as of March 31, 2012.

A key ongoing credit strength for the company is the regulatory, geographic, and market diversification of its subsidiaries and their cash flows. There continues to be some concentration in B.C., where about 50% of the postacquisition rate base is located. Fortis' diversification is sufficient that it could survive the bankruptcy of its largest subsidiaries.

The company continues to benefit from stable, regulated cash flows from its regulated utility portfolio. Regulation is typically cost-of-service-based with limited exposure to commodity price or volume risk. The utilities typically have a monopoly position with limited bypass risk. The ongoing rate-base growth is driving the long-term trend in cash-flow growth.

The degree of financial and operating separation supports the ratings. Fortis is structured as a holding company and it does not guarantee its subsidiaries' debt. However, we would expect the company to support its subsidiaries provided it had economic incentive to do so. Fortis primarily provides ongoing strategic support to its subsidiaries and provides equity injections as required to finance growth. Each entity has a high degree of independence both from the parent and typically from other operating units.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.

- Liquidity sources include expected remitted cash flows from Fortis' subsidiaries of about C$300 million per year and unused committed credit facilities of about C$800 million as of March 31, 2012.
- Uses of capital include primarily interest and preferred share dividends of about C$100 million, and capital spending and dividends to shareholders of about C$600 million (excluding the CH Energy acquisition), but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage or if it were to invest in assets with materially higher business risks and cash flow variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could also face pressure if company-level AFFO to debt deteriorates below our forecasts or consolidated AFFO-to-debt falls below 10% on a sustained basis. A positive outlook or upgrade during our two-year forecast horizon is unlikely, given Fortis' weak credit metrics.

Related Criteria And Research

- Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

Ratings Affirmed And Removed From CreditWatch

Fortis Inc.

	To	From
Corporate credit rating	A-/Stable/---	A-/Watch Neg/--
Senior unsecured debt	A-	A-/Watch Neg
Preferred stock		
Global scale	BBB	BBB/Watch Neg

Canada scale	P-2	P-2/Watch Neg
FortisAlberta Inc.		
Corporate credit rating	A-/Stable/--	A-/Watch Neg/--
Senior unsecured debt	A-	A-/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Summary of Fortis Inc. changes in Credit Ratings from 2002-2012
Prepared on July 30, 2012

Unsecured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	BBB (high)
DBRS	November 2011	Upgraded	A (low)

Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	A-
S&P	January 2004	Downgraded	BBB
S&P	June 2007	Upgraded	A-