

3. Reports by investment analysts for the utility and corporate parent since 2006, where applicable:

B. Equity Investment Analyst Reports

- There are no equity investment analyst reports for FEI or its direct parent, FHI.
- Enclosed are equity investment analyst reports for FEI's ultimate parent, Fortis Inc. (FTS) from the following investment brokerages:
 - Beacon
 - BMO
 - Canaccord
 - CIBC
 - Citadel
 - Credit Suisse
 - Macquarie
 - MorningStar
 - National Bank Financial
 - RBC
 - Scotiabank
 - Toronto Dominion
 - UBS



February 9, 2006
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*Please view the disclaimer at the end of this report

Fortis Inc. (FTS) Q4 and 2005 Earnings Release

12-month target \$22.60 (maintained)
Market Perform (unchanged)

Market Highlights

Ticker	FTS
Current Price	\$22.16
52-wk High	\$25.64
52-wk Low	\$17.25
Shares O/S	103.2M
Market Cap	\$2.3B
Current P/E	19.3
Dividend Yield	2.9%

Financial Highlights

Q4 05 Earnings	\$22.3M
Q4 04 Earnings	\$21.2M
Q4 05 EPS (basic)	\$0.22
Q4 04 EPS (basic)	\$0.22
Q4 05 Total Assets	\$4.3B
Q4 04 Total Assets	\$3.9B
Debt to Total Cap Q4 05	58.7%
Debt to Total Cap Q4 04	61.4%

Estimates

EPS (basic) 05 (A)	\$1.35
EPS (diluted) 05 (A)	\$1.24
EPS (basic) 06 (E)	\$1.28
EPS (diluted) 06 (E)	\$1.25
EPS (basic) 07 (E)	\$1.37
EPS (diluted) 07 (E)	\$1.33
CFPS* 05 (A)	\$3.05
CFPS* 06 (E)	\$3.04
CFPS* 07 (E)	\$3.22
P/E on 07 EPS	17.3
P/E on 08 EPS	16.2
12-mth return (E)	4.9%

Event

Fortis released its Q4 and '05 earnings on February 7th. EPS for the quarter were \$0.22, comparable to earnings during Q4 '04 of \$0.22.

Quarterly results were slightly better than our expectation of \$0.19, based on a number of small variances in both the regulated and unregulated businesses.

Basic EPS for '05 were \$1.35, up from \$1.07 in '04. The increase during the year is primarily attributable to a full year of contribution from FortisBC and FortisAlberta, higher wholesale energy prices in Ontario, higher equity from Caribbean Utilities and a \$7.9M (after tax) gain in Q2 relating to the Ontario Power Generation Inc. (OPGI) settlement.

Quarterly Highlights

Decreased Earnings from Regulated Canadian Utilities

Earnings from Fortis's regulated Canadian utilities were \$14.7M in the quarter, down \$10.4M from Q4 '04, due primarily to reduced earnings in FortisAlberta and FortisBC.

The decrease in FortisAlberta of \$3.3M, to quarterly earnings of \$4.2M, was due primarily to a one-time adjustment of approximately \$3.0M related to the implementation of the negotiated rate settlement reached in May, and higher operating costs.

FortisBC earned \$5.7M in the quarter, compared to \$11.6M in Q4 '04. The variance is due primarily to a \$3.7M (after-tax) adjustment in '04 relating to unbilled revenue. A \$1.4M increase in operating costs, due to increased customer service and system maintenance, also impacted earnings, as did interest on increased debt to fund capital expansion.

Quarterly earnings in FortisOntario decreased \$0.7M, to \$0.2M, due to an early retirement program and an increase in shared service costs from non-regulated Ontario generation operations.

Significant Earnings Growth from Caribbean Utilities

Equity earnings from Fortis's 39.6% interest in Caribbean Utilities were \$2.8M in the quarter, compared to a loss of \$5.8M in Q4 '04. Hurricane Ivan had a significant impact on earnings in Q4 '04. The loss in the period included uninsured hurricane related costs.

Unregulated Generation Up 81%

Fortis's unregulated generation assets had a strong quarter, with earnings increasing to \$8.5M, compared to \$4.7M in Q4 '04. The majority of the increase was due to higher average wholesale energy prices in Ontario and Upper New York State. The average wholesale energy price in Ontario for the quarter was \$71.46, a 41% increase above the average price in the same period last year. Prices in New York were up 52% in the same period.

Capital Structure at 59% Debt

At the end of Q4 total debt, net of cash, as a percentage of total capital was 58.7%, up from 57.9% at the end of Q3, and improved from 61.4% at the end of Q4 '04. Net debt was increased by approximately \$89M in the period as Fortis continued to invest significant capital in BC and Alberta.

Stable Cash from Operations

Cash generated from operating activities in the quarter, not including changes in non-cash working capital, were relatively stable quarter over quarter, at \$71.4M. Including change in non-cash working capital cash from operations was down \$17.2 in the quarter. The variance was due to higher accounts payable balances at year end '04, due to construction of the Chalillo project and purchased power payments at Belize Electric.

Capital Investment Continues

As noted, Fortis continues to make significant capital expenditures in Alberta and BC. In the quarter \$133.9M was spent on utility capital assets. For the year, Fortis has invested

* Includes operating cash flow before non-cash working capital

\$424.7M on utility capital assets, and another \$83.9M on its income producing properties.

Changes to our Forecast

We have adjusted our annual forecast for '06 and introduced our forecast for '07. Our projected EPS for '06 has decreased slightly to \$1.28 from \$1.32. Overall we expect to see Canadian Utilities to deliver higher earnings in '06, based on expected improvements in Ontario, and increased rate base and GWh sales in BC and Alberta. Modest increases are expected from the Caribbean utilities, as well as through Fortis Properties. The biggest negative variance expected in '06 is through the Company's non-regulated generation. Earnings in '05 were extraordinary, with very high prices for wholesale power in Ontario and an after-tax gain of \$7.3M relating to the settlement with OPGI.

Our targeted EPS in '07 is 1.37, with the most growth expected to come from FortisBC and FortisAlberta, with significant capital spending continuing. FortisOntario is also expected to show improved earnings.

Target Price maintained at \$22.60

We have maintained our 12-month target price of \$22.60. Our valuation is based on an average of four approaches, applied against '06 and '07 projections.

- 1) A dividend yield of 3%, based on a 30% discount to an anticipated 10-year bond rate of 4.30%,
- 2) A P/E ratio of 17 against our EPS forecast of \$1.28 in '06 and 1.37 in '07.
- 3) A P/B multiple of 1.8 on an anticipated book value of equity of \$1.3B and \$1.4B at year end '06 and '07 respectively.
- 4) A dividend discount model using a long term growth rate of 5%.

Conclusion

Fortis's operating earnings are expected to continue to grow in '06 and '07, driven primarily by FortisAlberta and FortisBC. Even with this growth, earnings are expected to decrease in '06 due to some non-operational gains experienced in '05.

Based on the current price of \$22.16, dividends expected over the next year of \$0.65 and our target price of \$22.60 we expect a total return over the next 12 months of approximately 5%. We are maintaining our rating of market perform.

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The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

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Conclusion

Fortis's operating earnings are expected to continue to grow in '06 and '07, driven primarily by FortisAlberta and FortisBC. Even with this growth, earnings are expected to decrease in '06 due to some non-operational gains experienced in '05.

Based on the current price of \$22.16, dividends expected over the next year of \$0.65 and our target price of \$22.60 we expect a total return over the next 12 months of approximately 5%. We are maintaining our rating of market perform.

Disclaimer**Analyst Certification**

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Rating System

Market Outperform - Total return is expected to be 15% or higher during the next 12 months.

Speculative Buy - Total return is expected to exceed 25% over the next 12 months, however there is some significant risk associated with the assumptions that we are using. May mean some volatility in the shorter term. May also apply to longer term potential (greater than 12-months) for significant increases.

Market Perform - Total 12-month return is expected to be between 0% and 15%.

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May 3, 2006
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Fortis Inc. (FTS) Q1 Earnings Release

12-month target \$22.60 (maintained)
Market Perform (unchanged)

Market Highlights

Ticker	FTS
Current Price	\$21.49
52-wk High	\$25.64
52-wk Low	\$17.98
Shares O/S	103.2M
Market Cap	\$2.2B
Current P/E	18.0
Dividend Yield	3.0%

Financial Highlights

Q1 06 Earnings	\$36.6M
Q1 05 Earnings	\$39.2M
Q1 06 EPS (basic)	\$0.35
Q1 05 EPS (basic)	\$0.40
Q1 06 Total Assets	\$4.4B
Q1 05 Total Assets	\$4.3B
Debt to Total Cap Q1 06	59.1%
Debt to Total Cap Q1 05	58.7%

Estimates

EPS (basic) 05 (A)	\$1.35
EPS (diluted) 05 (A)	\$1.24
EPS (basic) 06 (E)	\$1.28
EPS (diluted) 06 (E)	\$1.25
EPS (basic) 07 (E)	\$1.32
EPS (diluted) 07 (E)	\$1.29
CFPS* 05 (A)	\$3.05
CFPS* 06 (E)	\$3.04
CFPS* 07 (E)	\$3.19
P/E on 07 EPS	16.8
P/E on 08 EPS	16.3
12-mth return (E)	8.2%

Event

Fortis released its Q1 earnings on May 1st. EPS for the quarter were \$0.35, comparable to earnings during Q1 '05 of \$0.40.

Earnings in Q1, '05 included an after tax settlement gain of \$7.9M relating to Fortis Ontario. Excluding this gain EPS in Q1 '05 would have been approximately \$0.32.

Results were in line with our expectations.

Quarterly Highlights

Increased Earnings from Regulated Canadian Utilities

Earnings from Fortis's regulated Canadian utilities were \$35.0M in the quarter, up \$2.1M from Q1 '05. The growth was due primarily to increased earnings in FortisAlberta and FortisBC, partially offset by decreased earnings in Newfoundland Power.

FortisAlberta's earnings increased \$1.6M due primarily to increased revenue. Revenue growth came from higher electricity sales and the impact of a 2.1% rate increase in 2005, which did not impact Q1 earnings.

FortisBC earned \$11.3M in the quarter, compared to \$8.5M in Q1 '05. The increase is due primarily to a 5.9% interim rate increase and customer growth.

Newfoundland Power recorded decreased earnings of \$2.3M, or 17.7%, in the first quarter, relating primarily to a change in its revenue recognition policy. Revenue is now recorded on the accrual basis, rather than billed. This change is not expected to have an impact on the Company's annual earnings, but will result in a timing difference on a quarterly basis.

Earnings down Slightly in Caribbean Utilities
Equity earnings from Fortis's 39.6% interest in Caribbean Utilities were \$1.6M in the quarter, compared to \$2.5M in Q1 '05. This decrease was due primarily to timing of previously de-

ferred fuel costs.

Normalized Unregulated Generation Up 157%
Fortis's unregulated generation assets had a strong quarter, with earnings increasing to \$5.4M, compared to \$2.1M in Q1 '05, when adjusted for the one time \$7.9M after-tax Ontario Settlement. The majority of the growth was due to increased production in Belize and New York, and lower operating and financing costs. These improvements were partially offset by lower average wholesale energy prices in Ontario, which were 10% lower than the average price in the same period last year

Decrease in Cash from Operations

Cash generated from operating activities in the quarter, not including changes in non-cash working capital, were stable quarter over quarter, at \$79.6M. Including change in non-cash working capital, cash from operations was down \$30M in the quarter. The variance was due to the timing of income tax installments and general timing of receipt and payment of other working capital items.

Capital Investment Continues

Fortis continues to make significant capital expenditures in Alberta and BC, with \$104.3M spent on utility capital assets in the quarter. Approximately \$80M of this investment was in the West. A total of \$450M is expected to be invested in capital projects this year. This compares with a total of \$424.7M spent in '05.

Forecast for 2006 and 2007

Our projected EPS for '06 and '07 are \$1.28 and \$1.32. Overall we continue to expect to see the Canadian utilities deliver increased earnings in '06, based on expected improvements in Ontario, as well as increased rate base and GWh sales in BC and Alberta. Modest increases are expected from the Caribbean utilities, as well as through Fortis Properties. The biggest negative variance expected in '06 is through the Company's non-regulated generation, due to the \$7.9M after tax settlement in 2005.

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Target Price maintained at \$22.60

We have maintained our 12-month target price of \$22.60. Our valuation is based on an average of four approaches, applied against '06 and '07 projections.

- A dividend yield of 3%, based on a 30% discount to an anticipated 10-year bond rate of 4.30%,
- A P/E ratio of 17 against our EPS forecast of \$1.28 in '06 and 1.32 in '07.
- A P/B multiple of 1.8 on an anticipated book value of equity of \$1.3B and \$1.4B at year end '06 and '07 respectively.
- A dividend discount model using a long term growth rate of 5%.

Conclusion

Fortis's operating earnings are expected to continue to grow in '06 and '07, driven primarily by FortisAlberta and FortisBC.

Even with this growth, earnings are expected to decrease in '06 due to non-operational gains experienced in '05.

Based on the current price of \$21.49, dividends expected over the next year of \$0.65 and our target price of \$22.60 we expect a total return over the next 12 months of approximately 8%. We are maintaining our rating of market perform.

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May 3, 2006
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*Please view the disclaimer at the end of this report

Fortis Inc. (FTS) Q1 Earnings Release

12-month target \$22.60 (maintained)
Market Perform (unchanged)

Market Highlights

Ticker	FTS
Current Price	\$21.49
52-wk High	\$25.64
52-wk Low	\$17.98
Shares O/S	103.2M
Market Cap	\$2.2B
Current P/E	18.0
Dividend Yield	3.0%

Financial Highlights

Q1 06 Earnings	\$36.6M
Q1 05 Earnings	\$39.2M
Q1 06 EPS (basic)	\$0.35
Q1 05 EPS (basic)	\$0.40
Q1 06 Total Assets	\$4.4B
Q1 05 Total Assets	\$4.3B
Debt to Total Cap Q1 06	59.1%
Debt to Total Cap Q1 05	58.7%

Estimates

EPS (basic) 05 (A)	\$1.35
EPS (diluted) 05 (A)	\$1.24
EPS (basic) 06 (E)	\$1.28
EPS (diluted) 06 (E)	\$1.25
EPS (basic) 07 (E)	\$1.32
EPS (diluted) 07 (E)	\$1.29
CFPS* 05 (A)	\$3.05
CFPS* 06 (E)	\$3.04
CFPS* 07 (E)	\$3.19
P/E on 07 EPS	16.8
P/E on 08 EPS	16.3
12-mth return (E)	8.2%

Event

Fortis released its Q1 earnings on May 1st. EPS for the quarter were \$0.35, comparable to earnings during Q1 '05 of \$0.40.

Earnings in Q1, '05 included an after tax settlement gain of \$7.9M relating to Fortis Ontario. Excluding this gain EPS in Q1 '05 would have been approximately \$0.32.

Results were in line with our expectations.

Quarterly Highlights

Increased Earnings from Regulated Canadian Utilities

Earnings from Fortis's regulated Canadian utilities were \$35.0M in the quarter, up \$2.1M from Q1 '05. The growth was due primarily to increased earnings in FortisAlberta and FortisBC, partially offset by decreased earnings in Newfoundland Power.

FortisAlberta's earnings increased \$1.6M due primarily to increased revenue. Revenue growth came from higher electricity sales and the impact of a 2.1% rate increase in 2005, which did not impact Q1 earnings.

FortisBC earned \$11.3M in the quarter, compared to \$8.5M in Q1 '05. The increase is due primarily to a 5.9% interim rate increase and customer growth.

Newfoundland Power recorded decreased earnings of \$2.3M, or 17.7%, in the first quarter, relating primarily to a change in its revenue recognition policy. Revenue is now recorded on the accrual basis, rather than billed. This change is not expected to have an impact on the Company's annual earnings, but will result in a timing difference on a quarterly basis.

Earnings down Slightly in Caribbean Utilities
Equity earnings from Fortis's 39.6% interest in Caribbean Utilities were \$1.6M in the quarter, compared to \$2.5M in Q1 '05. This decrease was due primarily to timing of previously de-

ferred fuel costs.

Normalized Unregulated Generation Up 157%
Fortis's unregulated generation assets had a strong quarter, with earnings increasing to \$5.4M, compared to \$2.1M in Q1 '05, when adjusted for the one time \$7.9M after-tax Ontario Settlement. The majority of the growth was due to increased production in Belize and New York, and lower operating and financing costs. These improvements were partially offset by lower average wholesale energy prices in Ontario, which were 10% lower than the average price in the same period last year

Decrease in Cash from Operations

Cash generated from operating activities in the quarter, not including changes in non-cash working capital, were stable quarter over quarter, at \$79.6M. Including change in non-cash working capital, cash from operations was down \$30M in the quarter. The variance was due to the timing of income tax installments and general timing of receipt and payment of other working capital items.

Capital Investment Continues

Fortis continues to make significant capital expenditures in Alberta and BC, with \$104.3M spent on utility capital assets in the quarter. Approximately \$80M of this investment was in the West. A total of \$450M is expected to be invested in capital projects this year. This compares with a total of \$424.7M spent in '05.

Forecast for 2006 and 2007

Our projected EPS for '06 and '07 are \$1.28 and \$1.32. Overall we continue to expect to see the Canadian utilities deliver increased earnings in '06, based on expected improvements in Ontario, as well as increased rate base and GWh sales in BC and Alberta. Modest increases are expected from the Caribbean utilities, as well as through Fortis Properties. The biggest negative variance expected in '06 is through the Company's non-regulated generation, due to the \$7.9M after tax settlement in 2005.

* Includes operating cash flow before non-cash working capital

Target Price maintained at \$22.60

We have maintained our 12-month target price of \$22.60. Our valuation is based on an average of four approaches, applied against '06 and '07 projections.

- A dividend yield of 3%, based on a 30% discount to an anticipated 10-year bond rate of 4.30%,
- A P/E ratio of 17 against our EPS forecast of \$1.28 in '06 and 1.32 in '07.
- A P/B multiple of 1.8 on an anticipated book value of equity of \$1.3B and \$1.4B at year end '06 and '07 respectively.
- A dividend discount model using a long term growth rate of 5%.

Conclusion

Fortis's operating earnings are expected to continue to grow in '06 and '07, driven primarily by FortisAlberta and FortisBC.

Even with this growth, earnings are expected to decrease in '06 due to non-operational gains experienced in '05.

Based on the current price of \$21.49, dividends expected over the next year of \$0.65 and our target price of \$22.60 we expect a total return over the next 12 months of approximately 8%. We are maintaining our rating of market perform.

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Rating System

Market Outperform - Total return is expected to be 15% or higher during the next 12 months.

Speculative Buy - Total return is expected to exceed 25% over the next 12 months, however there is some significant risk associated with the assumptions that we are using. May mean some volatility in the shorter term. May also apply to longer term potential (greater than 12-months) for significant increases.

Market Perform - Total 12-month return is expected to be between 0% and 15%.

Market Underperform - Total return is expected to be negative over the next 12 months.

The percentage of its recommendations that fall into each category of their recommended terminology is compiled quarterly, and is also available upon request.

Dissemination

Beacon Securities' policies and procedures regarding the dissemination of research are available upon request.

Valuation Techniques

A combination of valuation methods are used by Beacon Securities' analysts to determine the 12-month target price for issuers; including but not limited to discounted cash flow techniques, historical trading multiples and capitalization rates, and peer average trading multiples and capitalization rates.

FORTIS INC.

Initiating Coverage: Well Positioned for Continued Growth

Summary

- We are initiating coverage on Fortis with a **BUY** rating and a **12-month target price of \$32.00**. Our target price is based on a blend of a 21.0x earnings multiple on our fiscal 2008 EPS estimate of \$1.60, and a 2.9% dividend yield.
- The acquisition of Terasen Gas is unique for Fortis on two fronts: (1) it is the first time Fortis purchased a non-electricity utility, and (2) it is the first time where there is overlap in service territories between two of Fortis' utilities. We believe that these factors have many positive implications for the Company's future growth in both top and bottom lines.
- Fortis' exposure to high growth markets coupled with the acquisition of Terasen Gas will result in continued earnings and dividend growth. Fortis is a very compelling investment at current levels.
- We believe that earnings growth can be driven by the Company's anticipated capex over the next five years of approximately \$2.8 billion. **We contend that capex of this magnitude will fuel its earnings growth even in the absence of additional acquisitions.** Furthermore, given the nature of the industry, this capex provides the potential for growth for the Company even in the event of economic downturns.

FTS-TSX

May 30, 2007

Stock Rating: BUY

Target Price: \$32.00

Closing Price (05/29/07) : \$28.66

52 Week Range: \$21.16-\$30.00

(December Year End)	2006A	F2007E	F2008E
EPS	\$1.35	\$1.47	\$1.60
P/E	21.2 x	19.5 x	17.9 x
CFPS	\$3.25	\$3.25	\$3.80

(Millions)

Shares O/S	155.3
Mkt. Cap.	\$4,450.90
Ent. Value	\$7,098.40
Net Debt	\$2,647.50

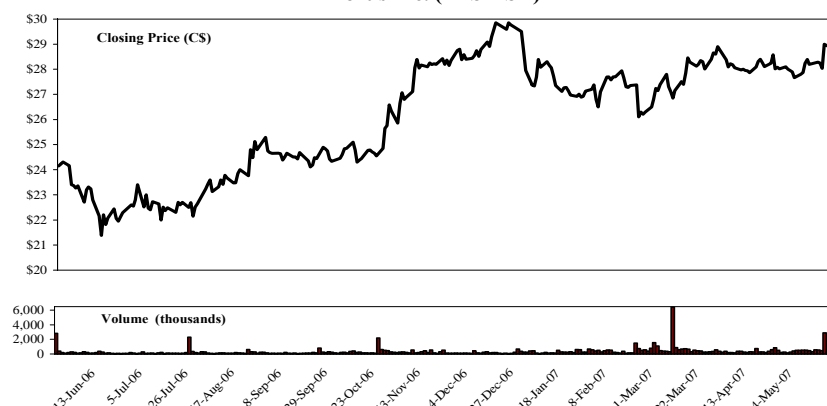
Change in EPS Forecasts

NA—Initiating Coverage

Company Description

Fortis Inc. is a diversified, international distribution utility holding company headquartered in St. John's, Newfoundland. It primarily holds regulated distribution utilities in Canada, as well as some regulated utilities in the Caribbean. Fortis also owns and operates non-regulated hydroelectric generation assets and commercial real estate and hotel assets.

Fortis Inc. (FTS-TSX)



*Please view the disclaimer at the end of this report

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Investment Thesis

We are initiating coverage on Fortis with a **BUY rating and a 12-month target price of \$32.00**. Our target price is based on a blend of a 21.0x earnings multiple on our fiscal 2008 EPS estimate of \$1.60, and a 2.9% dividend yield.

Fortis' successful track record of acquiring utility distribution assets across Canada, as well as a select few in the Caribbean, has driven the Company's top and bottom line, which has boosted its stock performance. In addition to yielding a steady and predictable stream of earnings and cash flow, as a utility should, Fortis also affords investors considerable future growth in both stock price and dividends. In fact, over the past five years, Fortis' stock price has appreciated by 135.9%. This represents a CAGR in stock price of 19.0%. During this period, Fortis has increased its quarterly dividend by 62%, which has helped drive its five-year total return of 178.0%, or 23.0% CAGR. In fact, on a total relative return basis, Fortis has outperformed the S&P/TSX Utility index by 42%. What is even more impressive is that Fortis' shares have outperformed the S&P/TSX Composite, which has been driven by the Canadian resources sector, on a total relative return basis by 28.0% over the same time period.

Fortis' impressive growth has been on the back of its acquisition strategy, and has been further fuelled by its expansion into high growth markets in Western Canada, as well as its investments in the Caribbean. With the recent acquisition of Terasen Gas, we expect to see this trend to continue in years to come.

We expect the acquisition of Terasen Gas to be accretive to earnings in the first full year. However, aside from potential synergies with FortisBC, we do not believe that Terasen will be one of the Company's primary catalysts for earnings growth. We do not believe that Terasen Gas will afford growth rates similar to those experienced by FortisAlberta and FortisBC. We contend that higher, as well as more volatile, natural gas prices will dampen new customer growth, as natural gas is losing, and will continue to lose, its competitive pricing relative to other sources of energy. In addition, the trend of multi-family unit contractors installing electricity, as opposed to natural gas, in an effort to reduce building related costs will also act to reduce natural gas penetration in British Columbia.

So, why are we so bullish on this stock and the recent acquisition? **Our enthusiasm is primarily fuelled by the opportunities that the Terasen transaction affords Fortis to expand into a new territory: natural gas distribution. Fortis did not just purchase a prime natural gas distributor; it bought key expertise in natural gas distribution. This expertise will enable Fortis to expand in this industry in the same successful manner it has with its acquired electricity distribution utilities.**

This acquisition has also opened the door to the U.S., and Fortis' management has made it very clear that they are interested in expanding into natural gas distribution in this market. What is especially interesting about the U.S. is that it has several utilities that operate both natural gas and electricity distribution. Acquiring such utilities would enable Fortis to capitalize on its expertise in both areas, as well as benefit from synergies.

Natural Gas distribution aside, Fortis has considerable potential for growth with its electricity distribution utilities. In fact, Fortis anticipates its electric utility capital expenditures over the next five years to equal approximately \$2.8 billion. The majority of these expenditures are to be related to FortisAlberta, FortisBC, and Fortis' regulated and non-regulated electric utilities in the Caribbean. This is significant given that FortisAlberta and FortisBC accounted for 46.8% of the fiscal 2006 consolidated net earnings.

In summary, Fortis is now in a position to expand its regulated utility assets on two fronts: electric distribution and now natural gas distribution. Clearly, Fortis has been very successful with its past acquisitions. Given the similarities between natural gas and electricity distribution, we see no reason to doubt the Company's ability to successfully integrate Terasen, and use it as a platform for future acquisitions. **We feel that Fortis' exposure to high growth markets coupled with the acquisition of Terasen Gas will result in continued earnings and dividend growth. Fortis is a very compelling investment at current levels.**

Company Overview

Fortis Inc. is a diversified, international distribution utility holding company headquartered in St. John's, Newfoundland. It primarily holds regulated distribution utilities in Canada, as well as some regulated utilities in the Caribbean. Fortis also owns and operates non-regulated hydroelectric generation assets and commercial real estate and hotel assets.

Fortis' regulated utilities are domiciled in both Canada and the Caribbean. The Canadian regulated utilities include Terasen Gas, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, and FortisOntario. The Company's Caribbean regulated utilities include Belize Electricity (70.1% ownership), Caribbean Utilities, (54% ownership), and Fortis Turks and Caicos (100% ownership).

Table 1: Summary of Fortis Regulated Assets

Company	# of Customers	2006 Gas Volumes(PJ) / Electric Sales(GWh) 2006	2006 Total Assets (Millions)	2006 Capex Program (Millions)	Mid-2007 Rate Base (Millions)	Allowed 2006 ROE ⁴	Allowed 2007 ROE ⁴	2006 Earnings (Millions)
Terasen Gas ¹	900,000	209 PJ	\$3,739	\$148	\$2,973	8.80%	8.37%	\$96
FortisAlberta	430,000	14,851 GWh	\$1,387	\$243	\$939	8.93%	8.51%	\$41
FortisBC	152,000	3,038 GWh	\$1,031	\$111	\$765	9.20%	8.77%	\$27
Newfoundland Power	230,000	4,995 GWh	\$936	\$60	\$788	9.24%	8.60%	\$30
Other Canadian ²	123,000	2,162 GWh	\$509	\$37	\$362	9.0%-10.25%	9.0%-10.25%	\$14
Caribbean ³	100,700	889 GWh	\$828	\$27	\$549	10.0% - 17.5%	10.0% - 17.5%	\$24

¹ Terasen Gas pro-forma earnings.

² Includes Maritime Electric and FortisOntario.

³ Includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos.

⁴ Caribbean regulated utilities' return on assets.

Source: Company reports and Beacon Securities

Fortis' non-regulated assets consist of Fortis Generation and Fortis Properties. Fortis Generation includes generating assets in Belize, Ontario, central Newfoundland, British Columbia, and upper New York State. In aggregate, these assets have a generating capacity of 195 MW, of which 190 MW is hydroelectric generation. Fortis Properties owns and operates 18 hotels with more than 3,200 rooms in seven Canadian provinces, and 2.7 million square feet of commercial real estate in Atlantic Canada.

Strategy

Fortis set out in 1987 with a stated goal of pursuing growth through diversification in regulated utilities by utilizing its financial strength and operational experience in electric utilities. In summary, Fortis' strategy to achieve this goal is to buy regulated utilities, and run them independently. What is interesting about Fortis' approach to acquisitions is that they do not seek to capitalize on operational synergies between its subsidiaries. Each of its regulated assets is run independently. However, in some instances, like in the event where scale results in more favourable procurement, Fortis subsidiaries will work together in order to obtain more beneficial prices.

While running each segment independently may be contrary to intuition, the potential cost savings that could be achieved through a more integrated structure is far outweighed by the advantages of running each of its utilities independently. For one, Fortis subsidiaries are able to maintain their

existing relationships with the respective regulators. We believe that relationships would become more complicated if some of these utilities were to attempt to achieve cost synergies through shared services as it would, in all likelihood, complicate regulatory review processes. In addition, by running the utilities as independent entities, there is no integration risk.

The key to Fortis' success has been its ability to capitalize on its most important resources – operational experience. Senior management are continually rotated throughout the organization in order to share their experience in such areas as dealing with regulatory authorities and cost control, which creates organization-wide best practices. That being said, Fortis never loses sight that some situations require custom solutions. The table below lists some of the current and previous positions held by Fortis senior management as an example of how management is rotated throughout the organization.

Table 2: Management Current and Previous Positions

	Current Position	Previous Position
Stanley Marshall	CEO, Fortis Inc.	VP, Newfoundland Power
Barry Perry	CFO, Fortis Inc.	CFO, Newfoundland Power
Karl Smith	CEO, FortisAlberta	CEO, Newfoundland Power
John Walker	CEO, FortisBC	CEO, Fortis Properties
Earl Ludlow	CEO, Newfoundland Power	CEO, Fortis Properties
Fred O'Brien	CEO, Maritime Electric	VP, FortisOntario
Bill Daley	CEO, FortisOntario	VP, FortisOntario
Nora Duke	CEO, Fortis Properties	VP, Fortis Properties

Source: Company reports and website

In addition to Fortis' practice of rotating management, Fortis benefits from raising equity capital more cost efficiently for its smaller subsidiaries than they would individually.

Company History

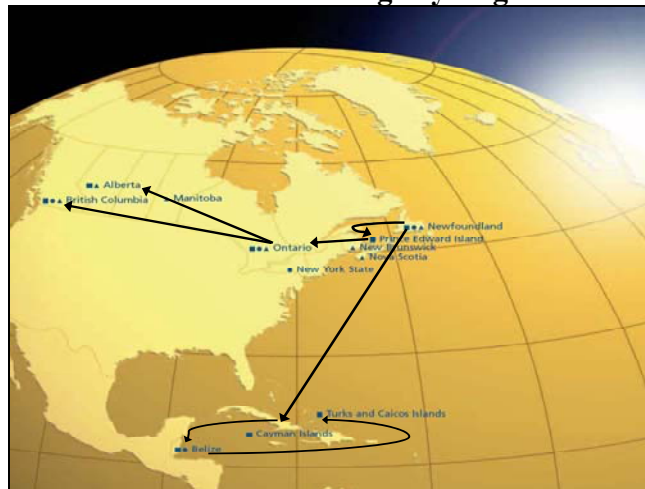
Fortis was derived from Newfoundland Power and formed in 1987. Newfoundland Power, and its predecessor companies, have distributed electricity in Newfoundland since 1885. Newfoundland Power was its sole holding in 1987, and it served as a both a strong financial foundation, and equally important, had strong managerial expertise in operating electric utilities.

Chart 1: Fortis Inc. Regulated Utility Acquisitions

Fortis is Formed	1987	
	1994	Maritime Electric
Canadian Niagara Power (50%)	1996	
	1999	Belize Electricity (67%)
	2000	Caribbean Utilities (20%)
	2001	Port Colborne Hydro Leased
Cornwall Electric	2002	Canadian Niagara Power (remaining 50%)
	2003	Operating subsidiaries of Granite Power
		Caribbean Utilities (increased to 36%)
	2004	FortisAlberta and FortisBC
Caribbean Utilities (increased to 54%)	2006	Belize Electricity (increased to 70%)
		Fortis Turks and Caicos
	2007	Terasen Gas

Source: Company reports and Beacon Securities

Chart 2: Fortis Inc. Holdings by Region



Source: Company reports and Beacon Securities

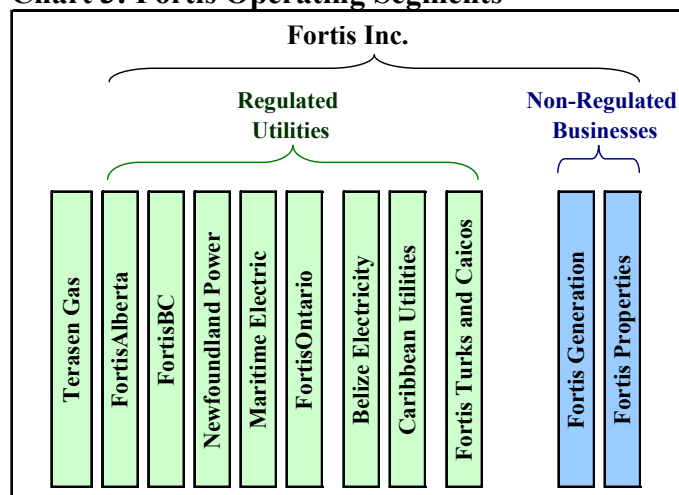
Fortis' more significant acquisitions include FortisAlberta and FortisBC from Aquila Inc. in 2004, and the most-recent acquisition of Terasen Gas in 2007. The investment in Western Canada permits Fortis to participate in the unprecedented growth in these regions. At the time of the acquisition of FortisAlberta and FortisBC, Fortis saw great potential to improve the operating performance of these assets, but did not expect to see growth of this magnitude. Fortis was able to leverage its expertise in operational efficiency with these assets and improve their profitability.

In addition, Fortis' investment in Belize Electricity in 1999 was a vehicle by which Fortis could test utility waters in the Caribbean region. Although utilities in this region do afford higher allowed return-on-assets than their Canadian counterparts, they also present greater risks than North American based utilities in the form of hurricanes and political risk. Although Fortis has done well with its investments in the Caribbean, the investment in the region is expected to remain a small but valuable part of Fortis' overall business. Fortis remains focused on North America as a vehicle for future growth.

Company Structure and Operating Subsidiaries

The Company operates under two operating segments: (1) Regulated Utility operations, and (2) Non-Regulated Businesses. Regulated utilities account for 86% of total assets as at December 31, 2006. Although non-regulated assets do not generate a significant proportion of the Company's revenues, they do have a meaningful impact on net earnings.

Chart 3: Fortis Operating Segments



Source: Company reports and Beacon Securities

REGULATED UTILITIES

The Regulated Utility segment accounted for approximately 85% of Fortis' 2006 total revenues of \$1.5 billion, and approximately 75% of its earnings from operating segments in 2006. Fortis' Regulated Utility operations are governed by their respective regulators, which set target customer service levels, approve capital expenditure programs, and set bands for allowable rates of returns. In the sections below, we discuss the more relevant regulatory requirements for each subsidiary. In Canada, Fortis operates both gas and electric distribution regulated utilities.

Canadian Regulated Gas Utility

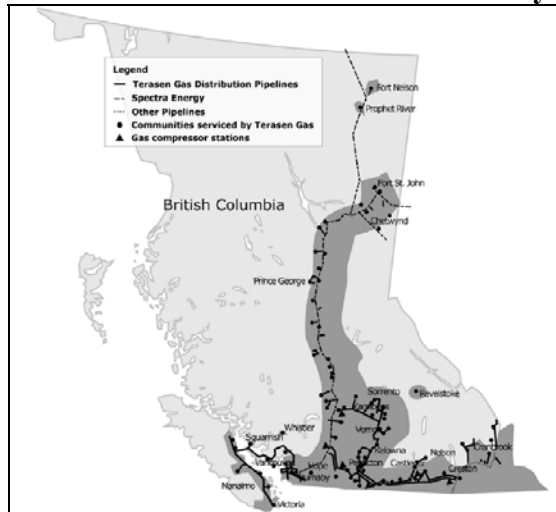
1. Terasen Gas

Fortis' most recent acquisition was Terasen Gas. Fortis paid \$3.7 billion, including the assumption of \$2.3 billion in debt, to Kinder Morgan (KMI-NYSE; Not Rated) for the natural gas distribution assets of Terasen Inc. This transaction, which closed on May 17, 2007, increased Fortis' asset base from approximately \$5.5 billion to \$10 billion, and its regulated assets from \$3.4 billion to \$6.4 billion. This is the largest transaction in Fortis' operating history, and the first time it has invested in a regulated utility other than electricity transmission/distribution.

Fortis paid approximately 1.2x Terasen Gas's estimated mid-2007 rate base of approximately \$2,973 million. The transaction has resulted in regulated utility assets accounting for 92% of the Fortis' total assets, and Regulated utility assets in Canada now account for 84% of total assets. Furthermore, the acquisition of Terasen Gas has resulted in approximately 57% of Fortis' total assets being located in British Columbia.

Terasen Gas is the principal distributor of natural gas in British Columbia, serving 125 communities consisting of 900,000 customers, or 95% of all natural gas users in British Columbia. Terasen Gas owns and operates approximately 44,100 km of natural gas distribution pipeline and 4,300 km of natural gas transmission pipeline.

Chart 4: Terasen Gas Service Territory



Source: Company reports

The operations of Terasen Gas are carried out under three wholly-owned subsidiaries: Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc. In addition, Terasen Gas has a 30% stake in CustomerWorks Ltd, which is a non-regulated service business jointly owned with Enbridge Inc. (ENB-TSX; Not Rated). In the sections below, we provide an overview for each of these gas distribution segments.

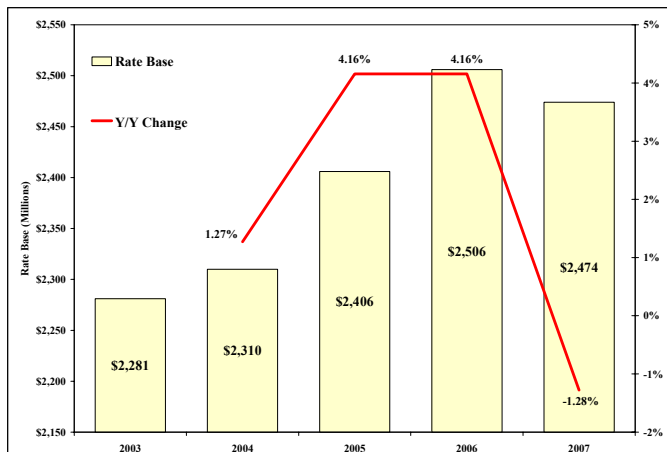
Terasen Gas Inc.

Terasen Gas Inc. (TGI) is the largest of the three operating companies within the Terasen Gas segment, with a service area extending from Vancouver to the Fraser Valley. It accounts for approximately 83% of Terasen Gas' assets, and has a rate base of approximately \$2.5 billion. This area has a population base of approximately 4 million people. TGI transports and distributes natural gas to 100 communities consisting of 735,000 residential and 82,000 industrial customers.

TGI typically provides natural gas distribution to residential, small businesses, and industrial heating customers on a non-contract basis, where customers are charged for general services. In contrast, the majority of TGI's larger commercial and industrial customers are serviced under a contractual basis. Under these agreements, customers are able to purchase natural gas from third-parties and TGI charges a service fee for the transportation of gas, a practise known as unbundling. Since TGI virtually passes the cost of natural gas to customers when they purchase natural gas directly, the Company's margins are unaffected. In fact, having a proportion of its customers buying from third-party suppliers as opposed to buying directly from TGI acts to reduce the Companies overall credit risk exposure. Approximately 79,000 of TGI's customers are eligible for unbundling, and approximately 18,700 customers had arranged for their gas from third-parties as at December 31, 2006. This is up considerably from 2,200 at the end of 2005.

Approximately 150 of TGI's industrial customers are on interruptible services, meaning that they can switch from natural gas to an alternative fuel. TGI also holds transmission and distribution agreements for natural gas distribution under statutes and franchise agreements, which grant TGI the right to operate in municipalities and other areas it serves.

Chart 5: Terasen Gas Rate Base



Source: Company reports

TGI is regulated by the British Columbia Utilities Commission (BCUC). TGI's rates are based on a cost-of-service basis, where TGI is allowed to recover the costs associated with providing service, meet its financial obligations, and earn a reasonable return on common equity (ROE).

The allowable ROE for 2007 has been set at 8.37%, and the deemed equity component has been set at 35%. The average rate base for fiscal 2007 is approximately \$2.5 billion, and its approved capex budget for 2007 is \$129.7 million. Approximately 22% of this amount will be spent to support customer growth, and the balance will be used for asset betterment and upgrades. The allowable rate of return is based on a formula that applies a risk premium to an estimate of the Canadian long-term bond yield. The allowable rate of return is reviewed and, if necessary, adjusted annually.

Similar to FortisBC, TGI operates under a performance-based rate (PBR) setting methodology, where it shares improved cost efficiencies with its customers. In 2004, 2005, and 2006, Terasen Gas generated ROEs of 9.34%, 10.78%, and 10.10%, respectively, while the allowable ROEs for these years were 9.15%, 9.03%, and 8.80%, respectively.

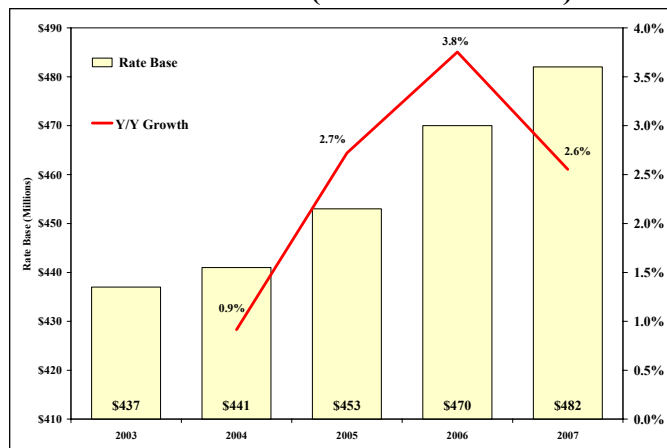
Terasen Gas (Vancouver Island) Inc.

Terasen Gas (Vancouver Island) Inc. (TGVI) owns and operates a transmission pipeline from greater Vancouver area across the Georgia Strait to Vancouver Island, and a distribution network on Vancouver Island and along the Sunshine Coast of B.C. These systems have a combined through-put capacity of 144 million cubic feet of natural gas per day, and serves approximately 88,000 customers.

TGVI is a franchise under development, where it is financially supported by the Vancouver Island Natural Gas Pipeline Agreement. Under the agreement, the province of British Columbia provides TGVI with royalty revenues, which covers approximately 20% of the current cost of

service. These payments are intended to assist with competitive rates during franchise development, as TGVI's customer base and revenues are insufficient to cover its cost of service, as well as recover revenue deficiencies from prior years. This support is due to expire at the end of 2011. At that time, TGVI's customers will have to pay the full cost of gas, as well as the recovery of remaining accumulated deficit. Given that industrial gas usage accounts for approximately 65% of the TGVI's throughput, and two-thirds of this is contracted on a year-to-year basis, TGVI is at even greater risk of being unable to recover its costs post-2011. Although the BCUC's rate-setting mechanism sets rates at sufficient levels for TGVI to recover cost of service, rates will be limited by the price of competitive fuels.

Chart 6: Terasen Gas (Vancouver Island) Inc. Rate Base



Source: Company reports

TGVI's approved rate base for 2007 is approximately \$482 million, and its allowable equity component is 40%. Its allowable ROE is currently set at 9.07%.

Terasen Gas (Whistler) Inc.

Terasen Gas (Whistler) Inc. (TGWI) owns and operates two propane distribution centres that services approximately 2,370 residential and commercial customers in Whistler B.C. In addition, TGWI owns and operates two propane storage and vaporization plants, as well as approximately 130 kilometres of pipeline, with annual deliveries of approximately 750,000 gigajoules (GJ) of propane.

In June 2006, TGWI, in conjunction with TGVI, received approval from the BCUC to extend natural gas service to Whistler via a proposed 50 km pipeline lateral from Squamish to Whistler. TGWI will convert its propane distribution system to natural gas. TGWI's average rate base in 2006 was \$16.5 million, and has an allowable equity component of 40%, and has an allowable ROE of 10.0%.

The Merits of the Acquisition

The acquisition of Terasen Gas is unique for Fortis on two fronts: (1) it is the first time Fortis purchased a non-electricity utility, and (2) it is the first time where there is overlap in service territories between two of Fortis' utilities. These factors have many positive implications for the Company's future growth in both top and bottom lines. For top-line growth, gaining expertise in gas distribution opens a new door for future expansion into new markets, like the U.S.

The geographical overlap between Terasen and FortisBC will also enable Fortis to realize synergies in addition to the ones it typically seeks. Synergies will be more attainable because these utilities are both regulated by the BCUC. This will enable Fortis to consolidate some functions, and therefore reduce costs. Consolidation of functions for two or more utilities regulated by different agencies is not an easy task, as each utility typically argues that the other should absorb more costs.

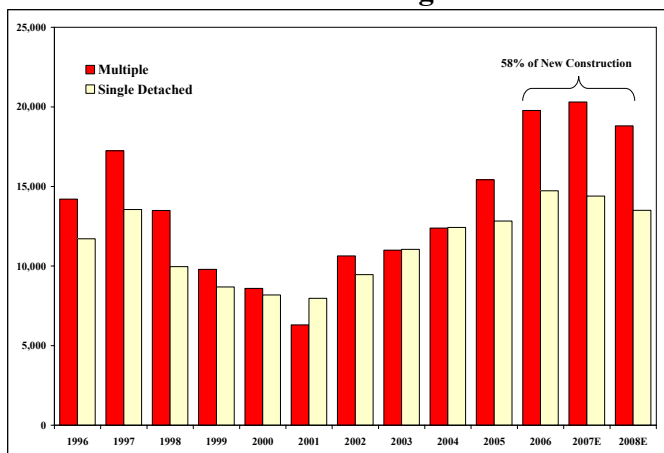
British Columbia Natural Gas Distribution Overview

British Columbia is the third-largest natural gas market in Canada. Industry accounts for the largest proportion of natural gas consumption in British Columbia. In 2003, industry and power generation accounted for 58% of total natural gas consumption. The majority of industrial customers use natural gas for heat and power in the manufacturing process, as well as in manufacturing raw material. The majority of residential and commercial natural gas customers use natural gas for space heating and appliances.

Demand for natural gas typically peaks when the West Coast experiences lower-than-average precipitation, and corresponding low water levels, and when Arctic cold fronts arrive. Lower water levels result in a reduction in hydro generation and a corresponding increase in gas-fired electrical generation.

Higher than historical averages in natural gas prices has resulted in a reduction in residential and commercial gas consumption. These consumers have reduced expenditures in natural gas by conservation or by substituting gas-fired heating furnaces with portable baseboard electrical heaters. The result has been a reduction in demand per household. Furthermore, property developers are installing electric space heaters in new construction in an effort to reduce building costs. This, coupled with consumers' perception that natural gas price volatility poses greater risk of unexpected higher costs, has impeded the penetration of natural gas.

Chart 7: British Columbia Single Detached Residential and Multiple Dwelling Construction



Source: Canadian Mortgage and Housing Corporation

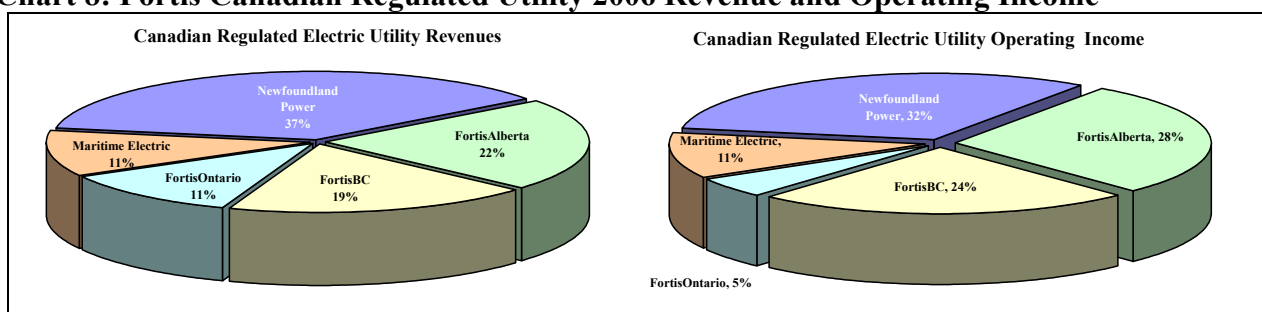
That being said, population growth is a key driver for residential natural gas penetration, and as we discussed in the section above on FortisBC, British Columbia's growth in population is surpassing that of the country. Currently, natural gas accounts for only one-quarter of the British Columbia industrial sector's demand, which leaves potential for growth. The largest users of natural gas in

the province are the pulp and paper, wood product, petroleum refinery and petrochemical industries. Natural gas demand for the industrial sector in the province is correlated with growth in the province's GDP. However, the industrial sector is the most price sensitive market for gas, and therefore, there is potential for future growth to be offset by the continued trend of industrial users of natural gas to seek ways to reduce consumption, as well as looking for alternatives fuels, such as wood waste, hog fuel, coal, and petroleum products.

Canadian Regulated Electric Utilities

Canadian regulated electric utilities accounted for 92% of the Regulated Utility segment's fiscal 2006 revenues of \$1.2 billion, and 87.5% of Regulated Utility operating income. The Canadian Regulated Electric Utilities consist of FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, and FortisOntario.

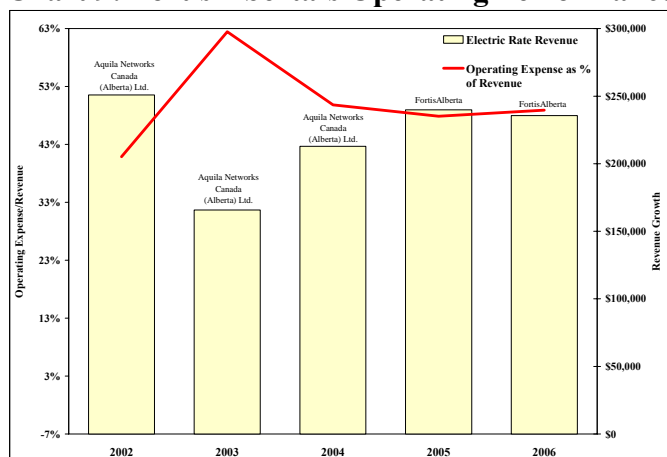
Chart 8: Fortis Canadian Regulated Utility 2006 Revenue and Operating Income



Source: Company reports and Beacon Securities

2. FortisAlberta

Fortis Inc. indirectly owns 100% of FortisAlberta's outstanding common shares. Fortis acquired FortisAlberta and FortisBC from Aquila Inc. (ILA-NYSE; Not Rated) in 2004 for total consideration of approximately \$1.5 billion. FortisAlberta operates primarily in rural central and southern Alberta, with a customer base of approximately 430,000 comprised of residential, commercial, farm and industrial customers. Electricity is disseminated via 104,000 km of low-voltage distribution network. As the table below illustrates, Fortis has not only been successful with its integration of FortisAlberta, but has improved its operational efficiency as well.

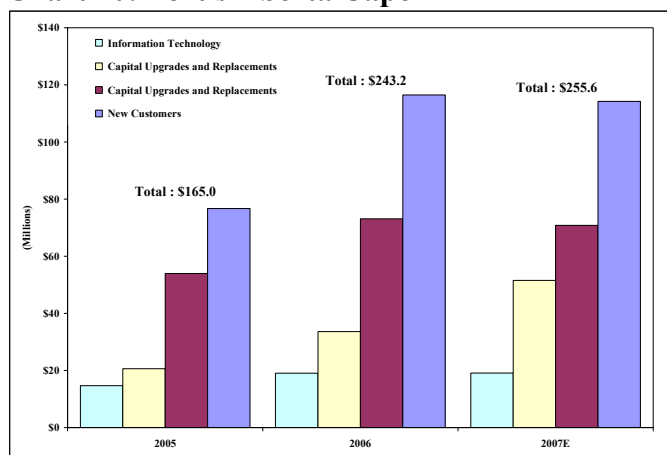
Chart 9: FortisAlberta's Operating Performance Before and After Fortis Acquisition

Note: Fiscal 2003 excludes \$80 million goodwill write-down

Source: Company reports

FortisAlberta is involved solely in the distribution of electricity and does not own any electrical transmission or generating assets. Therefore, FortisAlberta's entire asset base is regulated. FortisAlberta receives electricity from Alberta's transmission system, or from smaller third-party electricity producers. FortisAlberta distributes this electricity to residential, commercial, and industrial customers. The majority of these customers are located within municipality boundaries, and are serviced directly by the respective municipality, who have franchise agreements with FortisAlberta.

In 2006, the Company invested approximately \$243 million (before customer contributions) to improve service reliability and to meet new load growth. It is interesting to note that FortisAlberta invested approximately \$116 million in projects related to customer growth resulting from oil and gas industry activity, as well as the residential housing boom. In aggregate, FortisAlberta has increased its rate base by approximately from \$611 million from the time it was acquired by Fortis in 2004 to approximately \$939 million today.

Chart 10: FortisAlberta Capex

Source: Company reports

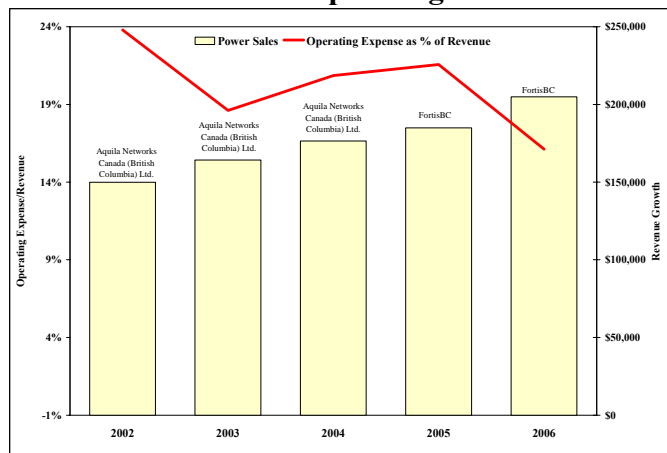
FortisAlberta is regulated by the Alberta Energy and Utilities` Board, with its distribution assets regulated on a cost-of-service basis. Rates are set to cover FortisAlberta's distribution costs and to allow for an approved rate of return on a deemed specified capital structure. This results in FortisAlberta being effectively insulated from volatility in electricity prices. FortisAlberta's regulated capital structure is set at 37% equity, and its allowed ROE for 2006 was 8.93%; however, due to the impact of lower long-term Canadian bond yields on the automatic adjustment formula, the Company's allowed ROE for 2007 has been reduced to 8.51%.

3. FortisBC

FortisBC is an integrated electric utility, which owns and operates hydroelectric generating plants, high voltage transmission lines, and distribution assets located in the southern interior of British Columbia. FortisBC also owns both regulated and non-regulated assets. As we discussed above, Fortis acquired FortisBC, as well as FortisAlberta, from Aquila Inc. in 2004.

Similar to FortisAlberta, Fortis has successfully integrated FortisBC into its portfolio of utilities and improved its operational efficiency.

Chart 11: FortisBC's Operating Performance Before and After Fortis Acquisition



Source: Company reports and Beacon Securities Ltd

In contrast to FortisAlberta, whose customer base is primarily in rural areas, the majority of FortisBC's customer base is primarily located in urban centres. FortisBC serves, both directly and indirectly, 152,000 residential, commercial, wholesale, and industrial customers. Residential Service is the Company's largest customer base, accounting for 41.6% of revenues and 36.8% of electrical sales in 2006. This customer category represents the lower risk of the four categories.

FortisBC serves approximately 102,000 customers in Kelowna, Oliver, Osoyoos, Trail, Castlegar, Creston and Rossland. It serves another 50,000 customers through the wholesale supply of power to municipal distributors in Summerland, Penticton, Kelowna, Grand Forks, and Nelson. As the table below illustrates, these areas have experienced an aggregate population growth level in excess of British Columbia and the Country as a whole.

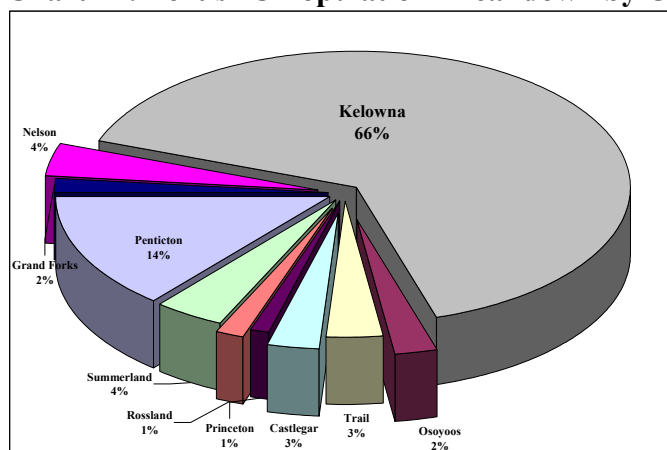
Table 3: Communities Served by FortisBC

	2006	2001	Change	Private Dwellings
Kelowna ¹	162,276	147,739	9.8%	71,889
Osoyoos	4,752	4,295	10.6%	2,717
Trail	7,237	7,575	-4.5%	3,764
Castlegar	7,259	7,585	-4.3%	3,225
Princeton	2,677	2,610	2.6%	1,366
Rossland	3,278	3,646	-10.1%	1,656
Summerland	10,828	10,723	1.0%	4,726
Penticton	31,909	30,985	3.0%	15,271
Grand Forks	4,036	4,054	-0.4%	1,862
Nelson	9,258	9,318	-0.6%	4,427
Group Total	243,510	228,530	7.1%	110,903
British Columbia	4,113,487	3,907,738	5.3%	1,788,474
Canada	31,612,897	30,007,094	5.4%	

¹ Population for the metropolitan area

Source: Statistics Canada

Implications of British Columbia's population growth are greater for FortisBC than the above table implies, as the Kelowna area accounts for approximately 66% of private dwellings in this area (see Chart below), and has experienced an impressive 9.8% growth in population since 2001.

Chart 12: FortisBC Population Breakdown by Operating Region

Source: Statistics Canada

In addition to FortisBC's contribution to Fortis' overall future organic growth from an increasing population base, the subsidiary is also in the process of investing to improve the reliability of the utility. In aggregate, FortisBC expects to spend approximately \$500 million in capex over the next five years. FortisBC has an approved capital expenditure program for 2007 of \$135.8 million, before customer contributions of \$7.2 million, and \$119.6 million, before customer contributions of \$8.0 million, for 2008

FortisBC's generating assets are comprised of four hydroelectric generating plants with an aggregate capacity of 235 megawatts (MW). This provides approximately 45% of the energy and 30% of FortisBC's capacity requirements. The balance of its requirements is satisfied through long-term power purchase agreements, and requirement short-falls, when they occur, are fulfilled through short-term power purchases. Such short-falls typically occur in the winter and summer peak demand periods, when energy prices hit cyclical highs. These costs are recovered through

customer rates, and FortisBC typically hedges potential exposure to volatility in hydro prices by power purchase contracts prior to the winter months.

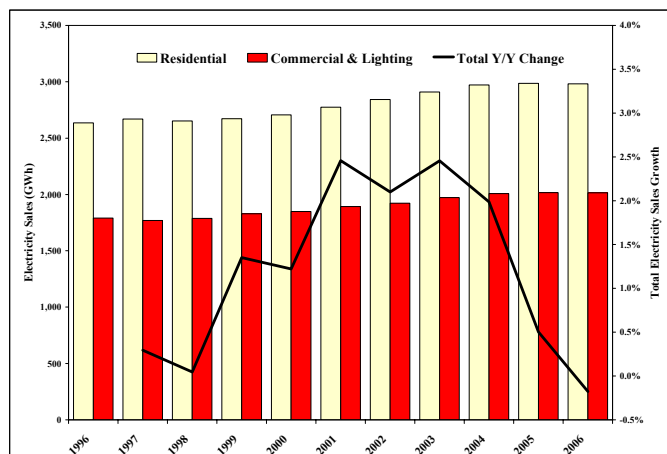
FortisBC is regulated by the BCUC under a performance-based framework (PBR). Under this structure, FortisBC's cost efficiencies/inefficiencies are shared equally between FortisBC and its customers. This is executed by way of a 2% collar around the pre-determined ROE, and any amounts equal to or less than the 2% are split. Therefore, in the event there is a positive variance between the actual financial performance and the allowable rate, both FortisBC and its customers benefit. However, the same scenario holds if there is a negative variance. In the event that the variance exceeds the 2% collar, the excess is placed into a deferral account for review and disposition during the next rate-setting period.

4. Newfoundland Power

Fortis owns 100% of Newfoundland Power's common shares, and 93.7% of the Company's voting rights. Newfoundland Power owns and operates an integrated generation, transmission, and distribution system throughout Newfoundland and Labrador. The Company has approximately 230,000 customers in more than 600 communities, which represents 85% of Province's electricity consumers.

Approximately 85% of Newfoundland Power's customer base is residential, with the balance being commercial. Residential customers account for approximately 58% of revenues. Newfoundland Power is not a significant catalyst for Fortis' future growth. In fact, Newfoundland's population has experienced a 0.47% CAGR over the last four years. In spite of this, electricity sales have experienced a modest CAGR of 1.2% for the past four years, which has been driven equally by both commercial and residential customers.

Chart 13: Newfoundland Power Annual Electricity Sales



Source: Company reports and Beacon Securities

Over the past five years, residential electricity sales have slightly outpaced those of commercial, with an average annual growth rate of 1.4% versus commercial with 1.3%. During this period, residential electricity sales, as a percentage of total electricity sales, have remained consistent at 54.7%. The moderate growth in residential electricity sales has been attributed to many factors, including relatively weak growth in personal disposable income and higher electricity prices which have caused the customer base to conserve electricity usage. These factors have been partially

offset by a strong housing market and higher oil prices. Commercial electricity sales growth has lagged that of residential electricity sales, and has generated growth from the ongoing development of Newfoundland's oil industry.

Newfoundland Power purchases approximately 90% of its electricity requirements from Newfoundland and Labrador Hydro (Crown Corporation). The remaining 10% is generated by 30 small generating stations which are owned by Newfoundland Power.

Newfoundland Power, as well as Newfoundland and Labrador Hydro, is regulated by Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). Newfoundland Power operates under a cost of service regulation, which allows the Company to set rates that permit it to recover all reasonable and prudent costs associated with providing service and earn a reasonable rate of return on its rate base. The regulated return on equity for 2007 is 8.60% (down from 9.24% in 2006), which equates to a rate of return on rate base of 8.47%, with a range of 8.29% to 8.65%. The Company's equity component of its capital structure must not exceed 45%. The rate of return is adjusted annually, and based on an automatically adjusted formula that is based on Canadian 30-year bond yields. Although the use of this formula stream-lines the rate-setting process, the exposure to interest rates makes the Company's earnings susceptible to greater volatility.

5. Maritime Electric

Maritime Electric is located on Prince Edward Island and serves 71,000 customers, which represents 90% of the Province's electricity consumers. Maritime Electric is involved in electricity generation, transmission, and distribution, although it purchases more than 95% of its energy requirement from New Brunswick Power. The remaining electricity requirement is met by the Company's generation facilities and the purchase of wind energy. Revenues are evenly split between residential and commercial customers, although commercial and industrial customers account for almost 60% of electricity sales.

Maritime Electric is regulated on a cost of service basis, where the utility's basic electricity rates are based on estimated cost of service and allow for a predetermined rate of return on an approved rate base. Maritime Electric's maximum allowed ROE for 2007 is 10.25%, and common equity must be at least 40% of the utility's capital structure.

6. FortisOntario

FortisOntario consists of both regulated and non-regulated assets. Regulated assets are comprised of Canadian Niagara Power and Cornwall Electric.

Table 4: FortisOntario Regulated Utilities

Subsidiary	Service Area	# of Customers	2006 Revenue (%)	2006 GWh Sales (%)
Canadian Niagara Power	Fort Erie	15,400	24.0%	24.7%
	Port Colborne	9,200	15.0%	16.9%
	Gananoque	3,600	6.3%	6.5%
	Sub-Total	28,200	45.3%	48.1%
Cornwall Electric	Cornwall	23,400	54.7%	51.9%
	Total	51,600	100%	100%

Source: Company reports

FortisOntario participates in electricity transmission and distribution through its wholly-owned subsidiaries, Canadian Niagara Power and Cornwall Electric.

- **Canadian Niagara Power Inc.:** Transmits and distributes electricity to customers in Fort Erie, Port Colborne, and Gananoque. It also owns and operates a transmission network that extends from Niagara Falls, Ontario through to Fort Erie connecting with National Grid's transmission system in Buffalo, New York through an international inter-tie running between Fort Erie and Buffalo.
- **Cornwall Electric:** Provides utility services to Cornwall, South Glengarry, South Stormont, and the Ontario portion of the Mohawk Territory of Akwesasne.

Caribbean Regulated Utilities

Fortis first entered the Caribbean in 1999 when it purchased 67% of Belize Electricity. Fortis now has ownership in three utilities in the Caribbean: Belize Electricity (70.1% ownership), Caribbean Utilities (54% ownership), and Fortis Turks and Caicos (100% ownership). Although these assets have yielded strong returns, Fortis' primary focus for future growth is on North America.

7. Belize Electricity

Belize Electric is the primary distributor of electricity in Belize, Central America and serves more than 71,000 customers. Fortis has a 70.1% controlling interest in Belize Electricity. It acquires its electricity from multiple sources, including Fortis wholly-owned subsidiary, Belize Electric Company Limited ("BECOL"), Comisión Federal de Electricidad, as well as from its own diesel-fired and gas-turbine generation. Belize Electricity has experienced annual energy demand growth of approximately 3% to 7% over the past three years.

Belize Electricity is regulated by the Public Utilities Commission. The basic electricity rates are determined by value-added delivery ("VAD"), and cost of fuel and purchased power ("COP"). The VAD component permits the Company to recover operating expenses, transmission and distribution expenses, taxes, amortization and earn a rate of return on regulated asset base in the range of 10.0% to 15.0%. The COP includes the variable cost of generation, which is a flow-through in customer rates.

8. Caribbean Utilities

Caribbean Utilities (CUP.U-TSX; Not Rated) is a publicly traded utility located on Grand Cayman, Cayman Islands. It generates, transmits, and distributes electricity to more than 22,000 customers. Fortis recently became the controlling shareholder of Caribbean Utilities after increasing its ownership to approximately 54%. As a result, Fortis is consolidating Caribbean Utilities' financial statements on a two two-month lag basis. Caribbean Utilities anticipates capital expenditures of approximately US\$33 million in fiscal 2008, and US\$190 million over the next five years, which is expected to be fuelled by customer growth.

Caribbean Utilities operates under a 25-year exclusive licence with the Government of the Cayman Islands, which expires in 2011, or until replaced with a new license by mutual agreement. The utility is entitled to earn a 15% rate of return on its rate base.

9. Fortis Turks and Caicos

Fortis Turks and Caicos consists of two electric utilities acquired in 2006: (1) P.P.C. Limited, and (2) Atlantic Equipment & Power (Turks and Caicos) Ltd. for aggregate consideration of approximately US\$90 million. Fortis Turks and Caicos is the primary electricity distributor in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037. The utility serves approximately 7,700 customers, which represents approximately 80% of the electricity customers in the Turks and Caicos Islands.

During 2006, residential customers accounted for 36.6% of revenues and 33.6% of electricity sales, while commercial customers account for 62.2% of revenues and 65.2% of electricity sales. This utility has experienced considerable growth, which has been on the back of tourism and condominium and hotel development. In fact, energy sales on Providenciales, where the majority

(approximately 75%) of customers reside, have increased, on average, 15% annually for the last 12 years. In addition to growth resulting from tourism, utility sales in 2006 increased because of a high level of government-funded public works initiatives. The Company has a combined diesel-fired generating capacity of approximately 37 MW and met a combined peak demand of 25 MW in 2006. The Government of Turks and Caicos is the regulator for Fortis Turks and Caicos, and rates are set to yield a 17.5% return on a calculated rate base.

NON-REGULATED BUSINESSES

Fortis' non-regulated assets, which primarily consist of non-core properties and electric hydro generation facilities, accounted for approximately 14% of the Company's total assets as at December 31, 2006, and approximately 25% of total operating earnings during 2006. As the table below illustrates, the non-regulated segments do not account for a significant proportion of total assets, but did generate approximately 16% of total revenues in 2006.

Table 5: Fortis Non-Regulated Assets as a Percentage of Company Total

(Excluding Corporate and including Inter-segment)		
Generation	<u>2005</u>	<u>2006</u>
Total Revenue	5%	5%
Operating Earnings	18%	15%
Total Assets	6%	5%
Properties		
Total Revenue	11%	11%
Operating Earnings	8%	10%
Total Assets	9%	9%

Source: Company reports

10. Fortis Generation

Fortis Generation consists of non-regulated generation assets in Belize, Ontario, central Newfoundland, British Columbia, and upper New York state. In aggregate, these assets have a generating capacity of 195 MW. Approximately 190 MW, or 97.4%, of this capacity is hydroelectric generation.

Belize: BECOL owns and operates the 25 MW Mollejon and 7 MW Chalillo hydroelectric facilities, located on the Macal River in Belize. BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement.

Ontario: Non-regulated operations in Ontario include 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5 MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. With the exception of the cogeneration plant in Cornwall, the electricity produced from these facilities is sold in the Ontario market.

Central Newfoundland: Fortis indirectly holds a 51% interest in the Exploits River Hydro Partnership with Abitibi-Consolidated Company of Canada (A-TSX; Not Rated). The Exploits River Hydro Partnership achieved record annual energy sales of 168 GWh in 2006. Abitibi-

Consolidated uses generation, and additional produced energy is sold to Newfoundland Hydro under a 30-year power purchase agreement.

British Columbia: Fortis' non-regulated generating asset in British Columbia is a 16-MW run-of-river Walden hydroelectric generating plant near Lillooet, which was acquired in May 2004 as part of the assets of FortisBC. The plant sells its entire output to BC Hydro under a long-term contract.

Upper New York State: Fortis owns four non-regulated hydroelectric generating stations located in upper New York State. These plants have an aggregate capacity of approximately 23 MW, with an average annual energy output of 85 GWh that is sold at wholesale through contracts.

11. Fortis Properties

Fortis Properties owns and operates 18 hotels, consisting of approximately 3,200 rooms, in seven Canadian provinces. In addition, Fortis Properties owns 2.7 million square feet of commercial real estate in Atlantic Canada. Revenue per Available Room in 2006 increased from \$70.95 in 2005 to \$72.67, which was on the back of increases in both average occupancy and average daily room rates.

The 2006 occupancy rate in the real estate division of 94.9% at December 31, 2006 declined 100 basis points from December 31, 2005, but still outpaced the national rate of 92.3%.

Table 6: Hotels Owned by Fortis Properties

Hotels	Location	# of Guest Rooms
Delta St. John's	St. John's, NL	403
Holiday Inn St. John's	St. John's, NL	252
Mount Peyton	Grand Falls-Windsor, NL	150
Greenwood Inn Corner Brook	Corner Brook, NL	102
Four Points by Sheraton Halifax	Halifax, NS	177
Delta Sydney	Sydney, NS	152
Delta Brunswick	Saint John, NB	254
Holiday Inn Kitchener-Waterloo	Kitchener-Waterloo, ON	183
Holiday Inn Peterborough	Peterborough, ON	153
Holiday Inn Sarnia	Point Edward, ON	217
Holiday Inn Cambridge	Cambridge, ON	143
Greenwood Inn Calgary	Calgary, AB	210
Greenwood Inn Edmonton	Edmonton, AB	224
Greenwood Inn Winnipeg	Winnipeg, MB	213
Ramada Hotel and Suites Lethbridge	Lethbridge, AB	119
Holiday Inn Express and Suites Medicine Hat	Medicine Hat, AB	93
Best Western Medicine Hat	Medicine Hat, AB	122
Holiday Inn Express Kelowna	Kelowna, BC	120
Total		3,287

Source: Company reports

Table 7: Office and Retail Properties Owned by Fortis Properties

Property	Location	Type of Property	Gross Lease Area Square feet (000's)
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	133
TD Place	St. John's, NL	Office	93
Fortis Building	St. John's, NL	Office	82
Multiple Office	St. John's, NL	Office and Retail	70
Millbrook Mall	Corner Brook, NL	Retail	122
Fraser Mall	Gander, NL	Retail	102
Marystown Mall	Marystown, NL	Retail	87
Fortis Tower	Corner Brook, NL	Office	70
Viking Mall	St. Anthony, NL	Retail	69
Maritime Centre	Halifax, NS	Office and Retail	562
Brunswick Square	Saint John, NB	Office and Retail	512
Kings Place	Fredericton, NB	Office and Retail	292
Blue Cross Centre	Moncton, NB	Office and Retail	323
Total			2,705

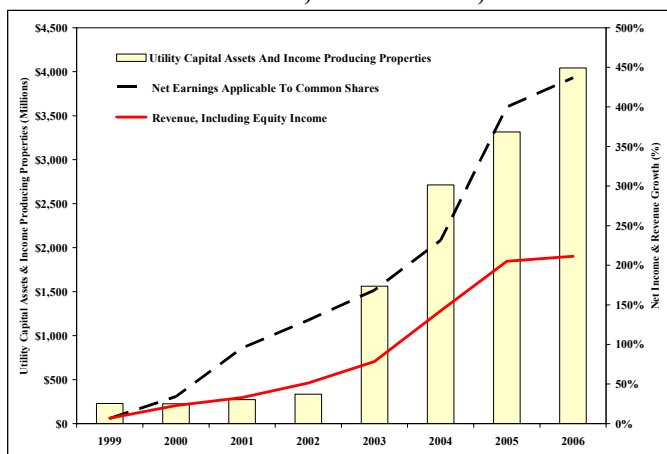
Source: Company reports

The investment in non-core properties was originally made in order to capitalize on tax credits that arose from acquisition. For the most part, a utility can only recover interest expenses from debt used to finance an acquisition equal-to or less-than the allowable proportion of the book value of the purchased assets. **However, this interest provides a tax shield if it can be applied to revenues. Investing in properties has provided such a revenue stream.**

Financials and Past Performance

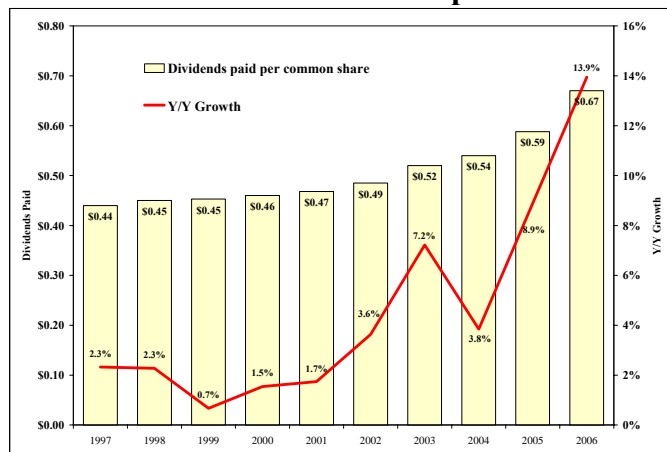
Fortis has exhibited outstanding growth in its assets, revenues, and net earnings over its operating history, which has supported its significant dividend growth over the same period. Since 1999, Fortis has increased its utility capital assets and income producing properties by a CAGR of 50.7%, while increasing its revenue and net income by a CAGR of 16.5% and 26.0%, respectively, over the same period.

Chart 14: Fortis Sales, Net Income, and Fixed Assets Growth

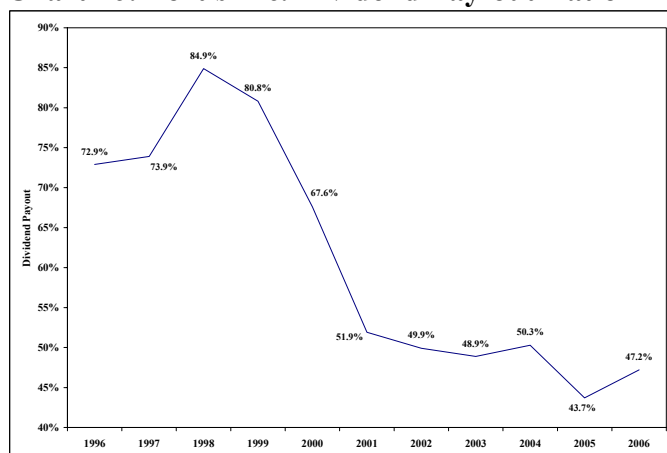


Source: Company reports

Over this period, Fortis has increased its dividends (declared) by 48.0%, with a CAGR of 5.8%. The growth in dividends has been on the back of higher earnings fuelled by acquisition. In fact, during this period, Fortis' dividend payout ratio has declined by 41.6 percentage points to 47.2%. The decline in dividends as a percentage of earnings has, as one would expect, been the result of using a proportion of internally generated funds to finance its aggressive acquisition strategy. Obviously, from the Company's past performance, this was a good use of these funds.

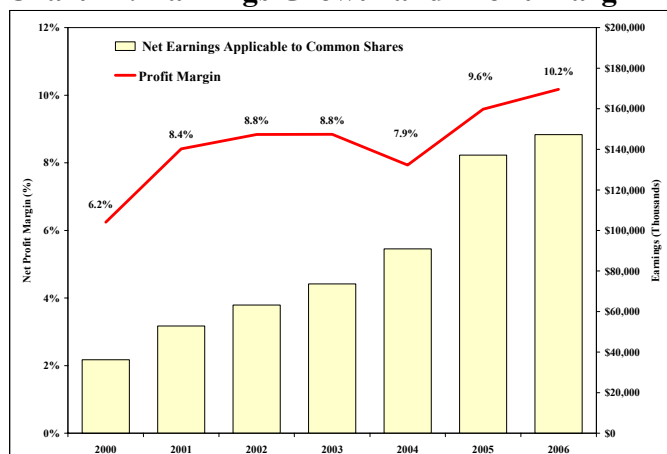
Chart 15: Fortis Dividends Paid per Common Share Growth

Source: Company reports

Chart 16: Fortis Inc. Dividend Pay-out Ratio

Source: Company reports

Although investors seeking exposure to utilities typically prefer relatively higher dividend payout ratios, it is interesting to note that even though Fortis has retained a higher percentage of its earnings, it has still been able to increase dividends on the back of higher dollar earnings, which has been driven by accretive acquisitions and an improving profit margin.

Chart 17: Earnings Growth and Profit Margin

Source: Company reports

In addition, Fortis' ownership of non-regulated utilities and income producing properties, has also benefited the Company's earning profile.

Outlook and Financial Forecast

We are expecting Fortis to generate fiscal 2007 and 2008 EPS of \$1.47 and \$1.60, respectively. For regulated utilities, our fiscal 2007 and 2008 estimates are based on respective allowed ROEs, approved capital expenditures.

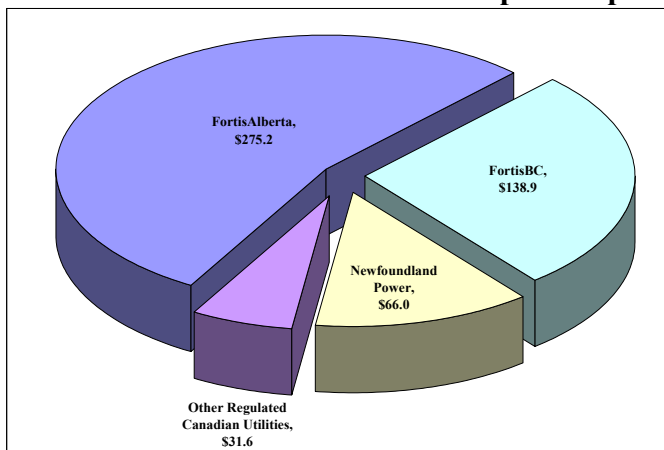
With bond yields on the decline, there is potential for Fortis' earnings growth to stall over the next year. This is because Fortis' regulated utilities are governed under cost recovery regulations, where they are permitted to earn a pre-determined ROE on a specified equity proportion. The majority of Fortis' regulated utilities, which include FortisAlberta, FortisBC, and Newfoundland Power, allowable ROEs are tied to the Canadian long-term bond yield, and the recent decline in bond yields has resulted in a reduction in the ROEs for these utilities. In fact, the allowable ROE for FortisAlberta, FortisBC, and Newfoundland Power have decreased by an average 50 basis points, as illustrated in the table below.

Table 8: Change in Allowed Return on Common Equity

	FortisAlberta	FortisBC	Newfoundland Power	Average	Change
Previous	8.93%	9.20%	9.24%	9.12%	
Current	8.51%	8.77%	8.60%	8.63%	49.7 bps

Source: Company reports

The average 50 basis point decline in allowed ROEs has considerable potential to adversely impact Fortis' trend in growing earnings, as these three utilities accounted for 78% of the Canadian Regulated Utilities 2006 revenues and 88% of net earnings. That being said, the decline in allowable ROEs will likely be offset by the planned capex for 2007 which will increase the rate base.

Chart 18: Fiscal 2007 Forecasted Capital Expenditures (Millions)

Source: Company reports

While Newfoundland Power does have a modest 2007 capex budget of \$66.0 million, it will be primarily allocated towards equipment replacement and electricity system betterment. In contrast, FortisAlberta and FortisBC have considerable capital expenditure budgets for customer growth, in addition to capital expenditures pertaining to asset replacement/upgrade. This is the result of exceptional growth in both population and GDP, which have outpaced the national rates. In fact, Alberta and British Columbia in aggregate, account for approximately 81% Canadian Regulated Utilities forecasted capital expenditures for 2007.

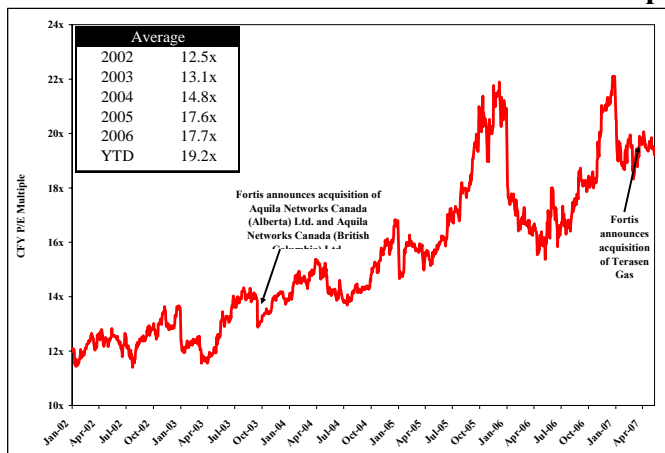
Fortis' exposure to these two high growth markets is compounded with the acquisition of Terasen Gas. As discussed in the sections above, natural gas distribution is likely to experience healthy penetration rates in British Columbia, as it is largely driven by British Columbia's GDP and population growth rates. However, the trend of contractors installing electricity as opposed to natural gas in multi-family units does present a hindrance. But more importantly, the Terasen acquisition opens two unique opportunities for Fortis. The first being a strong and established foothold in natural gas distribution, which is a new catalyst for growth. The second is the opportunity to capitalize on cost-sharing that result from operating two utilities that are governed by the same regulatory body.

Over the next five years, we believe that earnings growth can be driven by the Company's anticipated capex of approximately \$2.8 billion. We contend that capex of this magnitude is equal to purchasing a \$2.8 billion utility, and that even if Fortis does not pursue another acquisition over this period, its rate base will expand as if it had. Furthermore, given the nature of the industry, this capex provides the potential for growth for the Company even in the event of economic downturns.

Valuation and Recommendation

Fortis shares are currently trading at 19.2x on our fiscal 2007 EPS estimate of \$1.44, and 17.9x on fiscal 2008 estimate of \$1.55. Since the Terasen transaction closed on May 17, 2007, the fiscal 2008 EPS estimate is more relevant from an earnings multiple perspective, as it includes Terasen's contribution for a full year. As illustrated in the chart below, Fortis' shares have consistently commanded a higher multiple since 2002.

Chart 19: Fortis Inc. Historical CFY P/E Multiple



Source: Bloomberg, Thomson One Analytic, and Beacon Securities

Since Fortis announced the Terasen acquisition on February 26, 2007, its shares have traded at an average of 19.5x on fiscal 2007 EPS, and 18.2x on fiscal 2008 EPS. Before the announcement, Fortis stock traded at an average multiple of 19.0x on fiscal 2007 EPS, and 18.3x on fiscal 2008 EPS. Surprisingly, the Terasen acquisition has not managed to expand Fortis' current fiscal year earnings multiple. Although the stock has recovered nicely following the issue of 38.5 million subscription receipts (plus approximately 5.8 million in over-allotment) at \$26.00 (each receipt equalling one common share), its earning multiple has remained virtually flat.

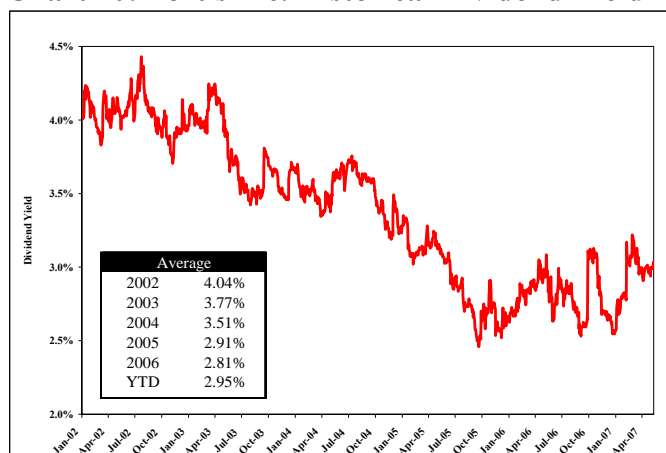
This is despite the fact that, through the acquisition of Terasen, Fortis has purchased a shiny new vehicle for future growth. What's more is that this acquisition is very appealing from a risk perspective. Terasen is a high quality, well run asset. It is regulated by the BCUC, the same regulatory agency that governs FortisBC, and natural gas distribution is probably the most similar utility to electricity distribution. Furthermore, with Terasen, 92% of Fortis' total assets will be regulated utilities versus 86% pre-Terasen. This reduces the Company's overall risk profile significantly.

We must also keep in mind that Fortis' operational history and strong relationships with regulators amplifies the Company's potential for expansion into the U.S. in natural gas distribution. We believe that these factors give Fortis a competitive advantage over potential competing bidders for these assets. With these factors in mind, we believe that Fortis' shares should trade at a premium multiple relative to their historic and current levels.

We are assigning a 21.0x target multiple, which, when applied to our fiscal 2008 EPS estimate of \$1.60, yields a 12-month target price of \$32.00. We are expecting Fortis to increase its dividend

by 10% to \$0.77 later this year. Our target indicated dividend yield is 2.9%, which is consistent with the average for the past three years.

Chart 20: Fortis Inc. Historical Dividend Yield



Source: Bloomberg and Beacon Securities

Although there is potential for the yield to decline from price appreciation due to the flow of capital into non-cyclical stocks in the event that the Canadian markets, eventually, experience a decline, we have not built any such assumptions into our valuation. Our target yield of 2.9% coupled with of fiscal 2007 dividend estimate of \$0.75 generates a target price of \$27.00.

We believe that the target price based on earnings multiple should carry greater weight, given the reduction in volatility that we expect Fortis' earnings to display resulting from a higher proportion of regulated utilities within its portfolio. Our 12-month target price is \$32.00. Including the Company's annualized dividend of \$0.77, we are looking for a total return of 14%. **We are initiating coverage on Fortis with a BUY rating.**

APPENDIX A

North American Utility Comparable Valuations

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BEACON SECURITIES L I M I T E D						Price / Earnings				Enterprise Value / EBITDA				
	Company	Last Price	Enterprise Value (Millions)	Market Capitalization (Millions)	Dividend Yield	P/E (CFY)	P/E (NFY)	P/E (LTM)	P/E (LFY)	EV / EBITDA (LTM)	EV / EBITDA (CFY)	EV / EBITDA (NFY)	EV / EBITDA (LFY)	P/B (Current)
	Canada													
	Fortis Inc.	C\$28.66	C\$4,410	C\$7,437	2.6%	20.1x	18.1x	20.8x	21.2x	9.7x	8.1x	13.9x	14.2x	2.2x
	Enbridge Inc.	C\$37.18	C\$13,650	C\$23,591	3.1%	21.0x	19.8x	NA	21.5x	12.1x	11.1x	13.2x	13.6x	2.6x
	Emera Inc.	C\$21.21	C\$2,341	C\$4,127	4.2%	18.5x	17.2x	NA	18.9x	8.4x	8.0x	8.3x	7.9x	1.7x
	CDN Average:					19.9x	18.4x	20.8x	20.6x	10.1x	9.1x	11.8x	11.9x	2.2x
	U.S.													
	Avista Corp.	\$23.18	\$1,223	\$2,405	2.5%	16.8x	14.6x	21.3x	15.8x	8.0x	8.1x	9.6x	8.4x	1.3x
	IDACORP, Inc.	\$31.87	\$1,402	\$2,545	3.8%	16.6x	14.6x	14.0x	13.4x	8.6x	8.0x	11.9x	8.7x	1.2x
	NorthWestern Corp.	\$32.69	\$1,174	\$1,919	3.8%	na	na	34.1x	30.6x	na	na	11.3x	10.0x	1.6x
	Portland General Electric Company	\$28.83	\$1,802	\$2,874	2.3%	15.9x	15.4x	13.7x	25.3x	6.4x	6.0x	7.4x	7.6x	1.4x
	Puget Energy, Inc.	\$25.20	\$2,945	\$6,018	4.0%	15.7x	14.9x	16.9x	17.5x	7.7x	7.4x	9.8x	8.8x	1.4x
	Cascade Natural Gas Corp.	\$26.34	\$303	\$468	3.6%	22.0x	21.1x	27.2x	24.2x	9.2x	9.1x	11.2x	7.7x	2.4x
	Northwest Natural Gas	\$50.25	\$1,356	\$1,997	2.7%	19.4x	19.7x	19.6x	21.9x	9.9x	8.9x	12.8x	9.9x	2.2x
	U.S. Average:					17.7x	16.7x	20.9x	21.2x	8.3x	7.9x	10.6x	8.7x	1.6x
	Group Average:					18.8x	17.5x	20.9x	20.9x	9.2x	8.5x	11.2x	10.3x	1.9x

* Pricing date: 29-May-07

North American Utility Performance Metrics & Debt Coverage

	Last Price			ROIC			Net Debt / Equity			Net Debt / EBITDA			
Company	Last Price	ROE (LFY-1)	ROE (LFY-2)	ROIC (LFY)	ROIC (LFY-1)	ROIC (LFY-2)	N-Debt / Equity (LFY)	N-Debt / Equity (LFY-1)	N-Debt / Equity (LFY-2)	N-Debt / EBITDA (12-M Trail.)	N-Debt / EBITDA (LFY)	N-Debt / EBITDA (LFY-1)	N-Debt / EBITDA (LFY-2)
Canada													
Fortis Inc.	11.3%	12.5%	10.7%	7.3%	6.7%	6.3%	1.7x	1.7x	1.9x	5.7x	5.0x	4.3x	5.3x
Enbridge Inc.	13.2%	11.9%	15.2%	6.0%	5.5%	5.1%	1.6x	1.6x	1.5x	5.6x	4.9x	4.8x	4.1x
Emera Inc.	8.4%	8.4%	8.9%	7.5%	7.6%	8.4%	0.9x	1.0x	1.0x	3.6x	2.9x	3.6x	3.1x
CDN Average	11.0%	10.9%	11.6%	6.9%	6.6%	6.6%	1.4x	1.4x	1.5x	4.9x	4.3x	4.2x	4.2x
U.S.													
Avista Corp.	8.7%	5.9%	4.6%	6.0%	4.1%	4.2%	1.3x	1.6x	1.5x	4.7x	4.1x	5.1x	5.1x
IDACORP, Inc.	9.3%	8.4%	7.6%	6.6%	6.1%	8.5%	1.0x	1.0x	1.1x	5.4x	3.9x	3.8x	4.9x
NorthWestern Corp.	5.1%	8.5%	879.1%	3.9%	6.0%	15.7%	1.0x	1.0x	1.2x	4.4x	3.9x	3.2x	3.7x
Portland General Electric Comp	5.9%	5.2%	7.5%	4.0%	4.8%	6.2%	0.9x	0.6x	0.6x	2.8x	2.8x	1.9x	1.6x
Puget Energy, Inc.	8.1%	8.0%	7.6%	5.1%	5.5%	5.5%	1.5x	1.2x	1.5x	5.0x	4.5x	4.0x	3.9x
Cascade Natural Gas Corp.	10.4%	NA	11.5%	6.2%	5.4%	7.2%	1.3x	1.6x	1.5x	4.0x	2.7x	4.2x	3.5x
Northwest Natural Gas	10.7%	10.1%	9.4%	7.0%	6.6%	6.2%	1.1x	1.1x	1.0x	4.1x	3.2x	3.4x	3.6x
US Average	8.3%	7.7%	1.3x	5.5%	5.5%	0.1x	1.2x	1.2x	1.2x	4.3x	3.6x	3.7x	3.8x
Group Average	9.6%	9.3%	0.7x	6.2%	6.0%	0.1x	1.3x	1.3x	1.3x	4.6x	3.9x	3.9x	4.0x

* Pricing date: 29-May-07

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FORTIS INC.

Initiating Coverage: Well Positioned for Continued Growth

Summary

- We are initiating coverage on Fortis with a **BUY** rating and a **12-month target price of \$32.00**. Our target price is based on a blend of a 21.0x earnings multiple on our fiscal 2008 EPS estimate of \$1.60, and a 2.9% dividend yield.
- The acquisition of Terasen Gas is unique for Fortis on two fronts: (1) it is the first time Fortis purchased a non-electricity utility, and (2) it is the first time where there is overlap in service territories between two of Fortis' utilities. We believe that these factors have many positive implications for the Company's future growth in both top and bottom lines.
- Fortis' exposure to high growth markets coupled with the acquisition of Terasen Gas will result in continued earnings and dividend growth. Fortis is a very compelling investment at current levels.
- We believe that earnings growth can be driven by the Company's anticipated capex over the next five years of approximately \$2.8 billion. **We contend that capex of this magnitude will fuel its earnings growth even in the absence of additional acquisitions.** Furthermore, given the nature of the industry, this capex provides the potential for growth for the Company even in the event of economic downturns.

FTS-TSX
May 30, 2007
Stock Rating: BUY
Target Price: \$32.00
Closing Price (05/29/07) : \$28.66
52 Week Range: \$21.16-\$30.00

(December Year End)	2006A	F2007E	F2008E
EPS	\$1.35	\$1.47	\$1.60
P/E	21.2 x	19.5 x	17.9 x
CFPS	\$3.25	\$3.25	\$3.80

(Millions)	
Shares O/S	155.3
Mkt. Cap.	\$4,450.90
Ent. Value	\$7,098.40
Net Debt	\$2,647.50

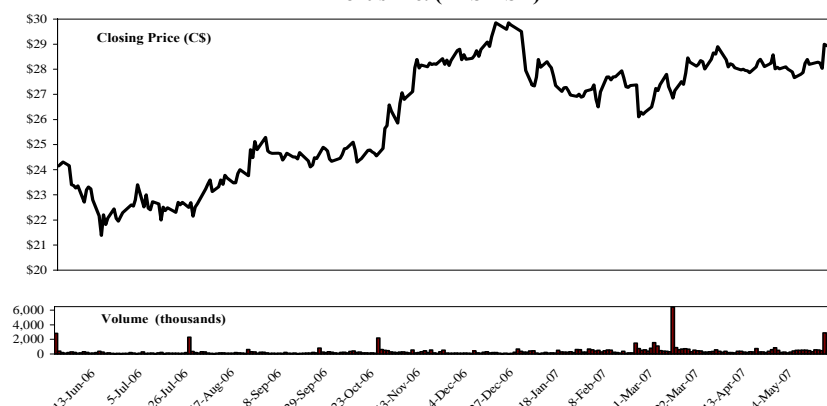
Change in EPS Forecasts

NA—Initiating Coverage

Company Description

Fortis Inc. is a diversified, international distribution utility holding company headquartered in St. John's, Newfoundland. It primarily holds regulated distribution utilities in Canada, as well as some regulated utilities in the Caribbean. Fortis also owns and operates non-regulated hydroelectric generation assets and commercial real estate and hotel assets.

Fortis Inc. (FTS-TSX)



*Please view the disclaimer at the end of this report

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Investment Thesis

We are initiating coverage on Fortis with a **BUY rating and a 12-month target price of \$32.00**. Our target price is based on a blend of a 21.0x earnings multiple on our fiscal 2008 EPS estimate of \$1.60, and a 2.9% dividend yield.

Fortis' successful track record of acquiring utility distribution assets across Canada, as well as a select few in the Caribbean, has driven the Company's top and bottom line, which has boosted its stock performance. In addition to yielding a steady and predictable stream of earnings and cash flow, as a utility should, Fortis also affords investors considerable future growth in both stock price and dividends. In fact, over the past five years, Fortis' stock price has appreciated by 135.9%. This represents a CAGR in stock price of 19.0%. During this period, Fortis has increased its quarterly dividend by 62%, which has helped drive its five-year total return of 178.0%, or 23.0% CAGR. In fact, on a total relative return basis, Fortis has outperformed the S&P/TSX Utility index by 42%. What is even more impressive is that Fortis' shares have outperformed the S&P/TSX Composite, which has been driven by the Canadian resources sector, on a total relative return basis by 28.0% over the same time period.

Fortis' impressive growth has been on the back of its acquisition strategy, and has been further fuelled by its expansion into high growth markets in Western Canada, as well as its investments in the Caribbean. With the recent acquisition of Terasen Gas, we expect to see this trend to continue in years to come.

We expect the acquisition of Terasen Gas to be accretive to earnings in the first full year. However, aside from potential synergies with FortisBC, we do not believe that Terasen will be one of the Company's primary catalysts for earnings growth. We do not believe that Terasen Gas will afford growth rates similar to those experienced by FortisAlberta and FortisBC. We contend that higher, as well as more volatile, natural gas prices will dampen new customer growth, as natural gas is losing, and will continue to lose, its competitive pricing relative to other sources of energy. In addition, the trend of multi-family unit contractors installing electricity, as opposed to natural gas, in an effort to reduce building related costs will also act to reduce natural gas penetration in British Columbia.

So, why are we so bullish on this stock and the recent acquisition? **Our enthusiasm is primarily fuelled by the opportunities that the Terasen transaction affords Fortis to expand into a new territory: natural gas distribution. Fortis did not just purchase a prime natural gas distributor; it bought key expertise in natural gas distribution. This expertise will enable Fortis to expand in this industry in the same successful manner it has with its acquired electricity distribution utilities.**

This acquisition has also opened the door to the U.S., and Fortis' management has made it very clear that they are interested in expanding into natural gas distribution in this market. What is especially interesting about the U.S. is that it has several utilities that operate both natural gas and electricity distribution. Acquiring such utilities would enable Fortis to capitalize on its expertise in both areas, as well as benefit from synergies.

Natural Gas distribution aside, Fortis has considerable potential for growth with its electricity distribution utilities. In fact, Fortis anticipates its electric utility capital expenditures over the next five years to equal approximately \$2.8 billion. The majority of these expenditures are to be related to FortisAlberta, FortisBC, and Fortis' regulated and non-regulated electric utilities in the Caribbean. This is significant given that FortisAlberta and FortisBC accounted for 46.8% of the fiscal 2006 consolidated net earnings.

In summary, Fortis is now in a position to expand its regulated utility assets on two fronts: electric distribution and now natural gas distribution. Clearly, Fortis has been very successful with its past acquisitions. Given the similarities between natural gas and electricity distribution, we see no reason to doubt the Company's ability to successfully integrate Terasen, and use it as a platform for future acquisitions. **We feel that Fortis' exposure to high growth markets coupled with the acquisition of Terasen Gas will result in continued earnings and dividend growth. Fortis is a very compelling investment at current levels.**

Company Overview

Fortis Inc. is a diversified, international distribution utility holding company headquartered in St. John's, Newfoundland. It primarily holds regulated distribution utilities in Canada, as well as some regulated utilities in the Caribbean. Fortis also owns and operates non-regulated hydroelectric generation assets and commercial real estate and hotel assets.

Fortis' regulated utilities are domiciled in both Canada and the Caribbean. The Canadian regulated utilities include Terasen Gas, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, and FortisOntario. The Company's Caribbean regulated utilities include Belize Electricity (70.1% ownership), Caribbean Utilities, (54% ownership), and Fortis Turks and Caicos (100% ownership).

Table 1: Summary of Fortis Regulated Assets

Company	# of Customers	2006 Gas Volumes(PJ) / Electric Sales(GWh) 2006	2006 Total Assets (Millions)	2006 Capex Program (Millions)	Mid-2007 Rate Base (Millions)	Allowed 2006 ROE ⁴	Allowed 2007 ROE ⁴	2006 Earnings (Millions)
Terasen Gas ¹	900,000	209 PJ	\$3,739	\$148	\$2,973	8.80%	8.37%	\$96
FortisAlberta	430,000	14,851 GWh	\$1,387	\$243	\$939	8.93%	8.51%	\$41
FortisBC	152,000	3,038 GWh	\$1,031	\$111	\$765	9.20%	8.77%	\$27
Newfoundland Power	230,000	4,995 GWh	\$936	\$60	\$788	9.24%	8.60%	\$30
Other Canadian ²	123,000	2,162 GWh	\$509	\$37	\$362	9.0%-10.25%	9.0%-10.25%	\$14
Caribbean ³	100,700	889 GWh	\$828	\$27	\$549	10.0% - 17.5%	10.0% - 17.5%	\$24

¹ Terasen Gas pro-forma earnings.

² Includes Maritime Electric and FortisOntario.

³ Includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos.

⁴ Caribbean regulated utilities' return on assets.

Source: Company reports and Beacon Securities

Fortis' non-regulated assets consist of Fortis Generation and Fortis Properties. Fortis Generation includes generating assets in Belize, Ontario, central Newfoundland, British Columbia, and upper New York State. In aggregate, these assets have a generating capacity of 195 MW, of which 190 MW is hydroelectric generation. Fortis Properties owns and operates 18 hotels with more than 3,200 rooms in seven Canadian provinces, and 2.7 million square feet of commercial real estate in Atlantic Canada.

Strategy

Fortis set out in 1987 with a stated goal of pursuing growth through diversification in regulated utilities by utilizing its financial strength and operational experience in electric utilities. In summary, Fortis' strategy to achieve this goal is to buy regulated utilities, and run them independently. What is interesting about Fortis' approach to acquisitions is that they do not seek to capitalize on operational synergies between its subsidiaries. Each of its regulated assets is run independently. However, in some instances, like in the event where scale results in more favourable procurement, Fortis subsidiaries will work together in order to obtain more beneficial prices.

While running each segment independently may be contrary to intuition, the potential cost savings that could be achieved through a more integrated structure is far outweighed by the advantages of running each of its utilities independently. For one, Fortis subsidiaries are able to maintain their

existing relationships with the respective regulators. We believe that relationships would become more complicated if some of these utilities were to attempt to achieve cost synergies through shared services as it would, in all likelihood, complicate regulatory review processes. In addition, by running the utilities as independent entities, there is no integration risk.

The key to Fortis' success has been its ability to capitalize on its most important resources – operational experience. Senior management are continually rotated throughout the organization in order to share their experience in such areas as dealing with regulatory authorities and cost control, which creates organization-wide best practices. That being said, Fortis never loses sight that some situations require custom solutions. The table below lists some of the current and previous positions held by Fortis senior management as an example of how management is rotated throughout the organization.

Table 2: Management Current and Previous Positions

	Current Position	Previous Position
Stanley Marshall	CEO, Fortis Inc.	VP, Newfoundland Power
Barry Perry	CFO, Fortis Inc.	CFO, Newfoundland Power
Karl Smith	CEO, FortisAlberta	CEO, Newfoundland Power
John Walker	CEO, FortisBC	CEO, Fortis Properties
Earl Ludlow	CEO, Newfoundland Power	CEO, Fortis Properties
Fred O'Brien	CEO, Maritime Electric	VP, FortisOntario
Bill Daley	CEO, FortisOntario	VP, FortisOntario
Nora Duke	CEO, Fortis Properties	VP, Fortis Properties

Source: Company reports and website

In addition to Fortis' practice of rotating management, Fortis benefits from raising equity capital more cost efficiently for its smaller subsidiaries than they would individually.

Company History

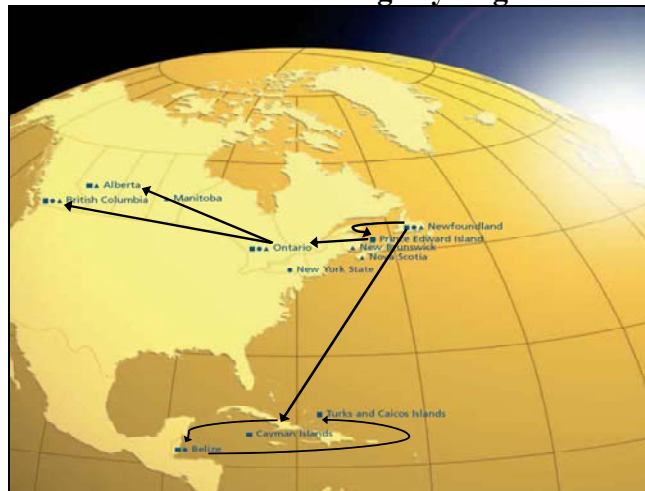
Fortis was derived from Newfoundland Power and formed in 1987. Newfoundland Power, and its predecessor companies, have distributed electricity in Newfoundland since 1885. Newfoundland Power was its sole holding in 1987, and it served as a both a strong financial foundation, and equally important, had strong managerial expertise in operating electric utilities.

Chart 1: Fortis Inc. Regulated Utility Acquisitions

Fortis is Formed	1987	
	1994	Maritime Electric
Canadian Niagara Power (50%)	1996	
	1999	Belize Electricity (67%)
	2000	Caribbean Utilities (20%)
	2001	Port Colborne Hydro Leased
Cornwall Electric	2002	Canadian Niagara Power (remaining 50%)
	2003	Operating subsidiaries of Granite Power
		Caribbean Utilities (increased to 36%)
	2004	FortisAlberta and FortisBC
Caribbean Utilities (increased to 54%)	2006	Belize Electricity (increased to 70%) Fortis Turks and Caicos
	2007	Terasen Gas

Source: Company reports and Beacon Securities

Chart 2: Fortis Inc. Holdings by Region



Source: Company reports and Beacon Securities

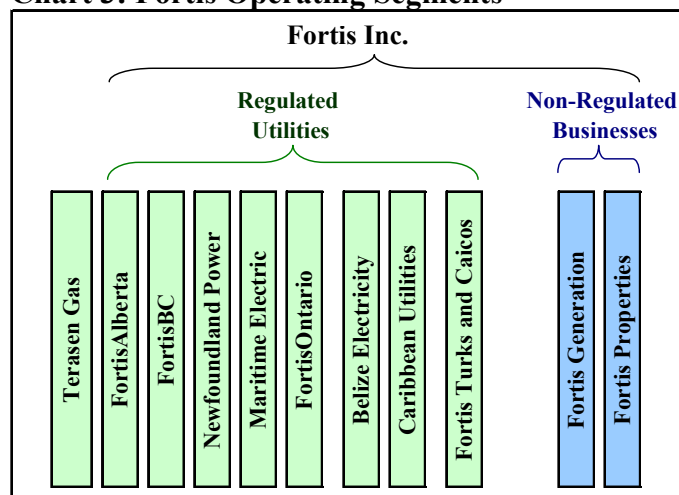
Fortis' more significant acquisitions include FortisAlberta and FortisBC from Aquila Inc. in 2004, and the most-recent acquisition of Terasen Gas in 2007. The investment in Western Canada permits Fortis to participate in the unprecedented growth in these regions. At the time of the acquisition of FortisAlberta and FortisBC, Fortis saw great potential to improve the operating performance of these assets, but did not expect to see growth of this magnitude. Fortis was able to leverage its expertise in operational efficiency with these assets and improve their profitability.

In addition, Fortis' investment in Belize Electricity in 1999 was a vehicle by which Fortis could test utility waters in the Caribbean region. Although utilities in this region do afford higher allowed return-on-assets than their Canadian counterparts, they also present greater risks than North American based utilities in the form of hurricanes and political risk. Although Fortis has done well with its investments in the Caribbean, the investment in the region is expected to remain a small but valuable part of Fortis' overall business. Fortis remains focused on North America as a vehicle for future growth.

Company Structure and Operating Subsidiaries

The Company operates under two operating segments: (1) Regulated Utility operations, and (2) Non-Regulated Businesses. Regulated utilities account for 86% of total assets as at December 31, 2006. Although non-regulated assets do not generate a significant proportion of the Company's revenues, they do have a meaningful impact on net earnings.

Chart 3: Fortis Operating Segments



Source: Company reports and Beacon Securities

REGULATED UTILITIES

The Regulated Utility segment accounted for approximately 85% of Fortis' 2006 total revenues of \$1.5 billion, and approximately 75% of its earnings from operating segments in 2006. Fortis' Regulated Utility operations are governed by their respective regulators, which set target customer service levels, approve capital expenditure programs, and set bands for allowable rates of returns. In the sections below, we discuss the more relevant regulatory requirements for each subsidiary. In Canada, Fortis operates both gas and electric distribution regulated utilities.

Canadian Regulated Gas Utility

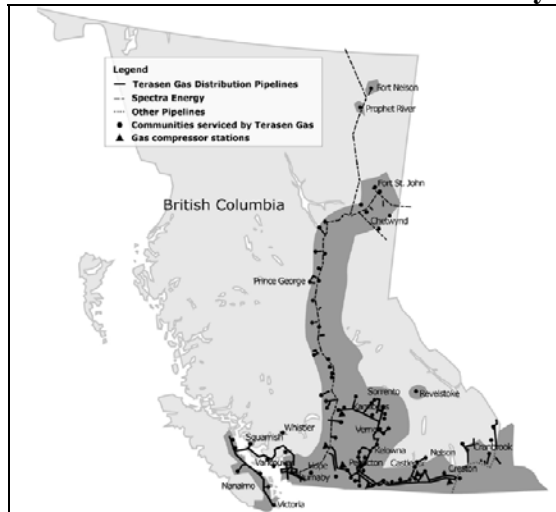
1. Terasen Gas

Fortis' most recent acquisition was Terasen Gas. Fortis paid \$3.7 billion, including the assumption of \$2.3 billion in debt, to Kinder Morgan (KMI-NYSE; Not Rated) for the natural gas distribution assets of Terasen Inc. This transaction, which closed on May 17, 2007, increased Fortis' asset base from approximately \$5.5 billion to \$10 billion, and its regulated assets from \$3.4 billion to \$6.4 billion. This is the largest transaction in Fortis' operating history, and the first time it has invested in a regulated utility other than electricity transmission/distribution.

Fortis paid approximately 1.2x Terasen Gas's estimated mid-2007 rate base of approximately \$2,973 million. The transaction has resulted in regulated utility assets accounting for 92% of the Fortis' total assets, and Regulated utility assets in Canada now account for 84% of total assets. Furthermore, the acquisition of Terasen Gas has resulted in approximately 57% of Fortis' total assets being located in British Columbia.

Terasen Gas is the principal distributor of natural gas in British Columbia, serving 125 communities consisting of 900,000 customers, or 95% of all natural gas users in British Columbia. Terasen Gas owns and operates approximately 44,100 km of natural gas distribution pipeline and 4,300 km of natural gas transmission pipeline.

Chart 4: Terasen Gas Service Territory



Source: Company reports

The operations of Terasen Gas are carried out under three wholly-owned subsidiaries: Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc. In addition, Terasen Gas has a 30% stake in CustomerWorks Ltd, which is a non-regulated service business jointly owned with Enbridge Inc. (ENB-TSX; Not Rated). In the sections below, we provide an overview for each of these gas distribution segments.

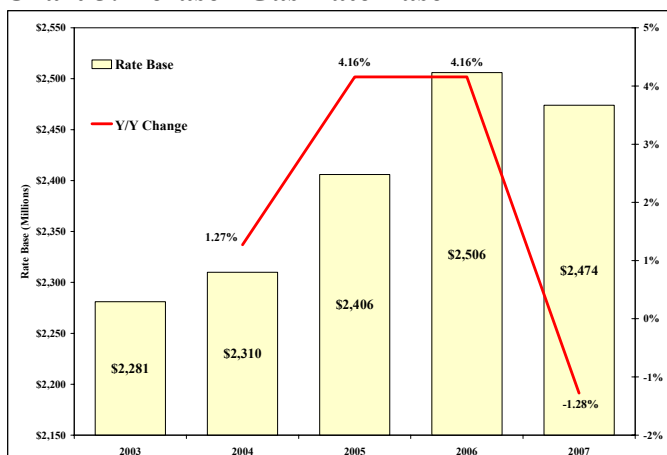
Terasen Gas Inc.

Terasen Gas Inc. (TGI) is the largest of the three operating companies within the Terasen Gas segment, with a service area extending from Vancouver to the Fraser Valley. It accounts for approximately 83% of Terasen Gas' assets, and has a rate base of approximately \$2.5 billion. This area has a population base of approximately 4 million people. TGI transports and distributes natural gas to 100 communities consisting of 735,000 residential and 82,000 industrial customers.

TGI typically provides natural gas distribution to residential, small businesses, and industrial heating customers on a non-contract basis, where customers are charged for general services. In contrast, the majority of TGI's larger commercial and industrial customers are serviced under a contractual basis. Under these agreements, customers are able to purchase natural gas from third-parties and TGI charges a service fee for the transportation of gas, a practise known as unbundling. Since TGI virtually passes the cost of natural gas to customers when they purchase natural gas directly, the Company's margins are unaffected. In fact, having a proportion of its customers buying from third-party suppliers as opposed to buying directly from TGI acts to reduce the Companies overall credit risk exposure. Approximately 79,000 of TGI's customers are eligible for unbundling, and approximately 18,700 customers had arranged for their gas from third-parties as at December 31, 2006. This is up considerably from 2,200 at the end of 2005.

Approximately 150 of TGI's industrial customers are on interruptible services, meaning that they can switch from natural gas to an alternative fuel. TGI also holds transmission and distribution agreements for natural gas distribution under statutes and franchise agreements, which grant TGI the right to operate in municipalities and other areas it serves.

Chart 5: Terasen Gas Rate Base



Source: Company reports

TGI is regulated by the British Columbia Utilities Commission (BCUC). TGI's rates are based on a cost-of-service basis, where TGI is allowed to recover the costs associated with providing service, meet its financial obligations, and earn a reasonable return on common equity (ROE).

The allowable ROE for 2007 has been set at 8.37%, and the deemed equity component has been set at 35%. The average rate base for fiscal 2007 is approximately \$2.5 billion, and its approved capex budget for 2007 is \$129.7 million. Approximately 22% of this amount will be spent to support customer growth, and the balance will be used for asset betterment and upgrades. The allowable rate of return is based on a formula that applies a risk premium to an estimate of the Canadian long-term bond yield. The allowable rate of return is reviewed and, if necessary, adjusted annually.

Similar to FortisBC, TGI operates under a performance-based rate (PBR) setting methodology, where it shares improved cost efficiencies with its customers. In 2004, 2005, and 2006, Terasen Gas generated ROEs of 9.34%, 10.78%, and 10.10%, respectively, while the allowable ROEs for these years were 9.15%, 9.03%, and 8.80%, respectively.

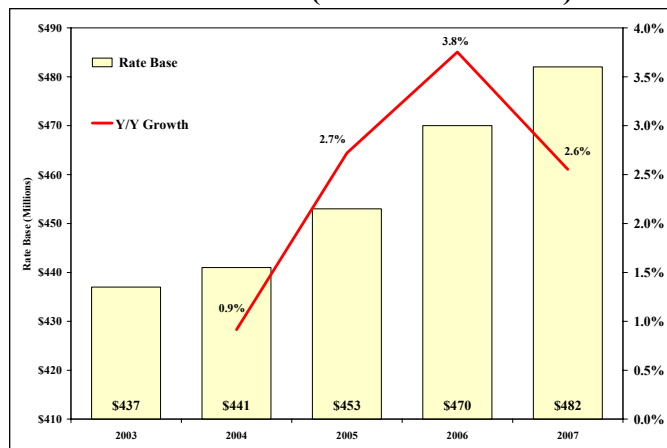
Terasen Gas (Vancouver Island) Inc.

Terasen Gas (Vancouver Island) Inc. (TGVI) owns and operates a transmission pipeline from greater Vancouver area across the Georgia Strait to Vancouver Island, and a distribution network on Vancouver Island and along the Sunshine Coast of B.C. These systems have a combined through-put capacity of 144 million cubic feet of natural gas per day, and serves approximately 88,000 customers.

TGVI is a franchise under development, where it is financially supported by the Vancouver Island Natural Gas Pipeline Agreement. Under the agreement, the province of British Columbia provides TGVI with royalty revenues, which covers approximately 20% of the current cost of

service. These payments are intended to assist with competitive rates during franchise development, as TGVI's customer base and revenues are insufficient to cover its cost of service, as well as recover revenue deficiencies from prior years. This support is due to expire at the end of 2011. At that time, TGVI's customers will have to pay the full cost of gas, as well as the recovery of remaining accumulated deficit. Given that industrial gas usage accounts for approximately 65% of the TGVI's throughput, and two-thirds of this is contracted on a year-to-year basis, TGVI is at even greater risk of being unable to recover its costs post-2011. Although the BCUC's rate-setting mechanism sets rates at sufficient levels for TGVI to recover cost of service, rates will be limited by the price of competitive fuels.

Chart 6: Terasen Gas (Vancouver Island) Inc. Rate Base



Source: Company reports

TGVI's approved rate base for 2007 is approximately \$482 million, and its allowable equity component is 40%. Its allowable ROE is currently set at 9.07%.

Terasen Gas (Whistler) Inc.

Terasen Gas (Whistler) Inc. (TGWI) owns and operates two propane distribution centres that services approximately 2,370 residential and commercial customers in Whistler B.C. In addition, TGWI owns and operates two propane storage and vaporization plants, as well as approximately 130 kilometres of pipeline, with annual deliveries of approximately 750,000 gigajoules (GJ) of propane.

In June 2006, TGWI, in conjunction with TGVI, received approval from the BCUC to extend natural gas service to Whistler via a proposed 50 km pipeline lateral from Squamish to Whistler. TGWI will convert its propane distribution system to natural gas. TGWI's average rate base in 2006 was \$16.5 million, and has an allowable equity component of 40%, and has an allowable ROE of 10.0%.

The Merits of the Acquisition

The acquisition of Terasen Gas is unique for Fortis on two fronts: (1) it is the first time Fortis purchased a non-electricity utility, and (2) it is the first time where there is overlap in service territories between two of Fortis' utilities. These factors have many positive implications for the Company's future growth in both top and bottom lines. For top-line growth, gaining expertise in gas distribution opens a new door for future expansion into new markets, like the U.S.

The geographical overlap between Terasen and FortisBC will also enable Fortis to realize synergies in addition to the ones it typically seeks. Synergies will be more attainable because these utilities are both regulated by the BCUC. This will enable Fortis to consolidate some functions, and therefore reduce costs. Consolidation of functions for two or more utilities regulated by different agencies is not an easy task, as each utility typically argues that the other should absorb more costs.

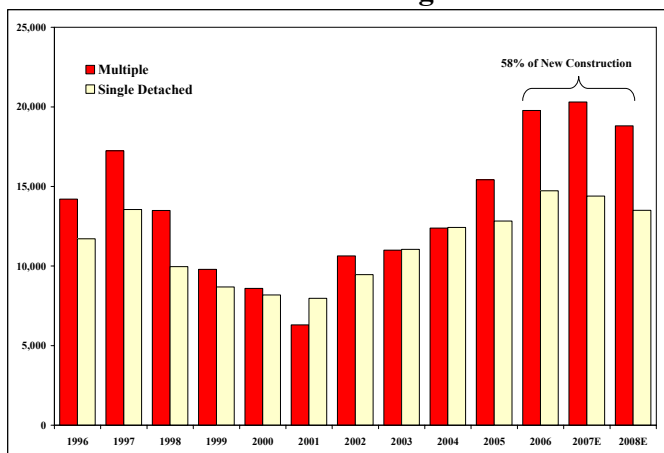
British Columbia Natural Gas Distribution Overview

British Columbia is the third-largest natural gas market in Canada. Industry accounts for the largest proportion of natural gas consumption in British Columbia. In 2003, industry and power generation accounted for 58% of total natural gas consumption. The majority of industrial customers use natural gas for heat and power in the manufacturing process, as well as in manufacturing raw material. The majority of residential and commercial natural gas customers use natural gas for space heating and appliances.

Demand for natural gas typically peaks when the West Coast experiences lower-than-average precipitation, and corresponding low water levels, and when Arctic cold fronts arrive. Lower water levels result in a reduction in hydro generation and a corresponding increase in gas-fired electrical generation.

Higher than historical averages in natural gas prices has resulted in a reduction in residential and commercial gas consumption. These consumers have reduced expenditures in natural gas by conservation or by substituting gas-fired heating furnaces with portable baseboard electrical heaters. The result has been a reduction in demand per household. Furthermore, property developers are installing electric space heaters in new construction in an effort to reduce building costs. This, coupled with consumers' perception that natural gas price volatility poses greater risk of unexpected higher costs, has impeded the penetration of natural gas.

Chart 7: British Columbia Single Detached Residential and Multiple Dwelling Construction



Source: Canadian Mortgage and Housing Corporation

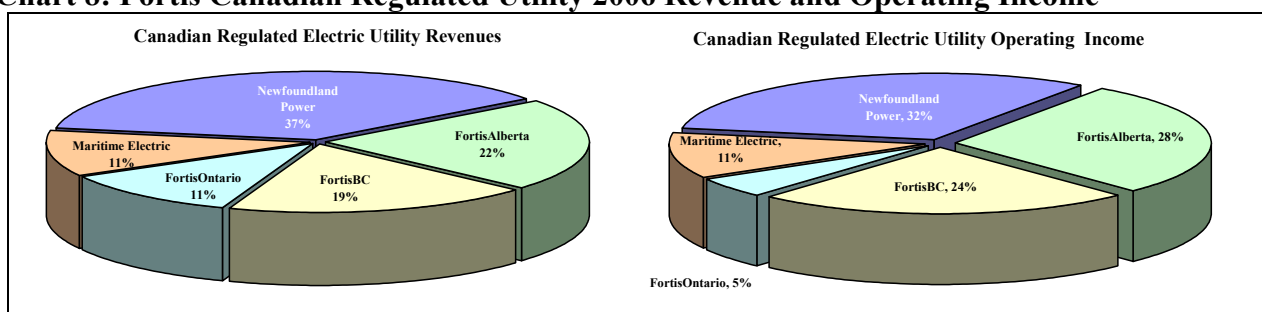
That being said, population growth is a key driver for residential natural gas penetration, and as we discussed in the section above on FortisBC, British Columbia's growth in population is surpassing that of the country. Currently, natural gas accounts for only one-quarter of the British Columbia industrial sector's demand, which leaves potential for growth. The largest users of natural gas in

the province are the pulp and paper, wood product, petroleum refinery and petrochemical industries. Natural gas demand for the industrial sector in the province is correlated with growth in the province's GDP. However, the industrial sector is the most price sensitive market for gas, and therefore, there is potential for future growth to be offset by the continued trend of industrial users of natural gas to seek ways to reduce consumption, as well as looking for alternatives fuels, such as wood waste, hog fuel, coal, and petroleum products.

Canadian Regulated Electric Utilities

Canadian regulated electric utilities accounted for 92% of the Regulated Utility segment's fiscal 2006 revenues of \$1.2 billion, and 87.5% of Regulated Utility operating income. The Canadian Regulated Electric Utilities consist of FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, and FortisOntario.

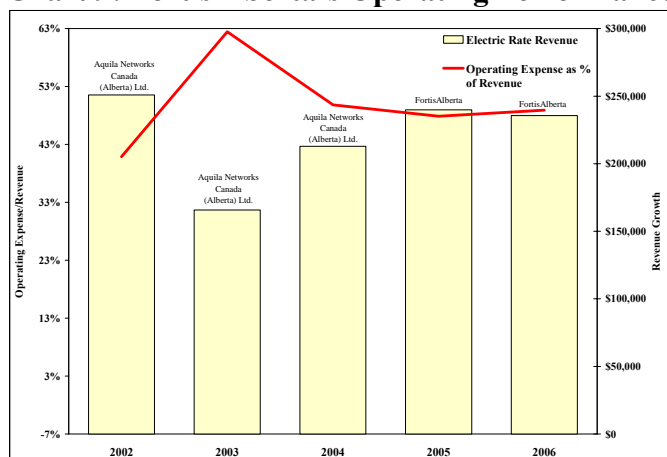
Chart 8: Fortis Canadian Regulated Utility 2006 Revenue and Operating Income



Source: Company reports and Beacon Securities

2. FortisAlberta

Fortis Inc. indirectly owns 100% of FortisAlberta's outstanding common shares. Fortis acquired FortisAlberta and FortisBC from Aquila Inc. (ILA-NYSE; Not Rated) in 2004 for total consideration of approximately \$1.5 billion. FortisAlberta operates primarily in rural central and southern Alberta, with a customer base of approximately 430,000 comprised of residential, commercial, farm and industrial customers. Electricity is disseminated via 104,000 km of low-voltage distribution network. As the table below illustrates, Fortis has not only been successful with its integration of FortisAlberta, but has improved its operational efficiency as well.

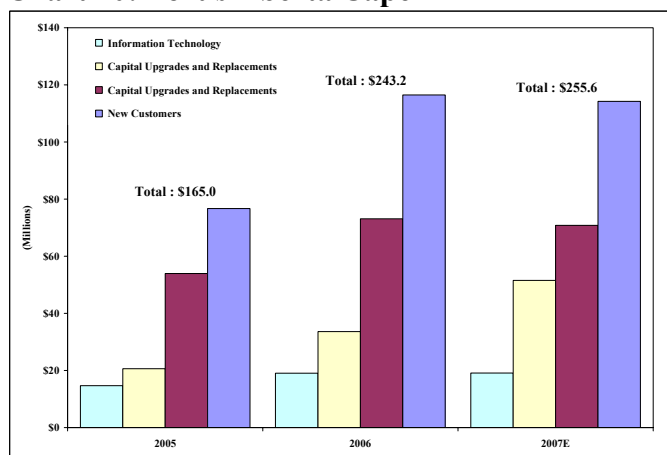
Chart 9: FortisAlberta's Operating Performance Before and After Fortis Acquisition

Note: Fiscal 2003 excludes \$80 million goodwill write-down

Source: Company reports

FortisAlberta is involved solely in the distribution of electricity and does not own any electrical transmission or generating assets. Therefore, FortisAlberta's entire asset base is regulated. FortisAlberta receives electricity from Alberta's transmission system, or from smaller third-party electricity producers. FortisAlberta distributes this electricity to residential, commercial, and industrial customers. The majority of these customers are located within municipality boundaries, and are serviced directly by the respective municipality, who have franchise agreements with FortisAlberta.

In 2006, the Company invested approximately \$243 million (before customer contributions) to improve service reliability and to meet new load growth. It is interesting to note that FortisAlberta invested approximately \$116 million in projects related to customer growth resulting from oil and gas industry activity, as well as the residential housing boom. In aggregate, FortisAlberta has increased its rate base by approximately from \$611 million from the time it was acquired by Fortis in 2004 to approximately \$939 million today.

Chart 10: FortisAlberta Capex

Source: Company reports

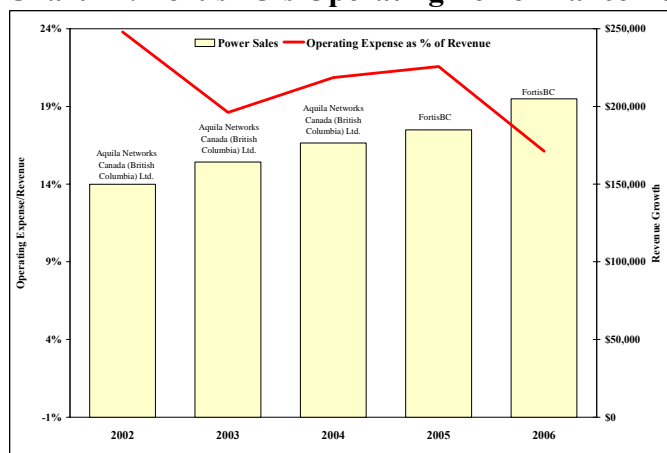
FortisAlberta is regulated by the Alberta Energy and Utilities` Board, with its distribution assets regulated on a cost-of-service basis. Rates are set to cover FortisAlberta's distribution costs and to allow for an approved rate of return on a deemed specified capital structure. This results in FortisAlberta being effectively insulated from volatility in electricity prices. FortisAlberta's regulated capital structure is set at 37% equity, and its allowed ROE for 2006 was 8.93%; however, due to the impact of lower long-term Canadian bond yields on the automatic adjustment formula, the Company's allowed ROE for 2007 has been reduced to 8.51%.

3. FortisBC

FortisBC is an integrated electric utility, which owns and operates hydroelectric generating plants, high voltage transmission lines, and distribution assets located in the southern interior of British Columbia. FortisBC also owns both regulated and non-regulated assets. As we discussed above, Fortis acquired FortisBC, as well as FortisAlberta, from Aquila Inc. in 2004.

Similar to FortisAlberta, Fortis has successfully integrated FortisBC into its portfolio of utilities and improved its operational efficiency.

Chart 11: FortisBC's Operating Performance Before and After Fortis Acquisition



Source: Company reports and Beacon Securities Ltd

In contrast to FortisAlberta, whose customer base is primarily in rural areas, the majority of FortisBC's customer base is primarily located in urban centres. FortisBC serves, both directly and indirectly, 152,000 residential, commercial, wholesale, and industrial customers. Residential Service is the Company's largest customer base, accounting for 41.6% of revenues and 36.8% of electrical sales in 2006. This customer category represents the lower risk of the four categories.

FortisBC serves approximately 102,000 customers in Kelowna, Oliver, Osoyoos, Trail, Castlegar, Creston and Rossland. It serves another 50,000 customers through the wholesale supply of power to municipal distributors in Summerland, Penticton, Kelowna, Grand Forks, and Nelson. As the table below illustrates, these areas have experienced an aggregate population growth level in excess of British Columbia and the Country as a whole.

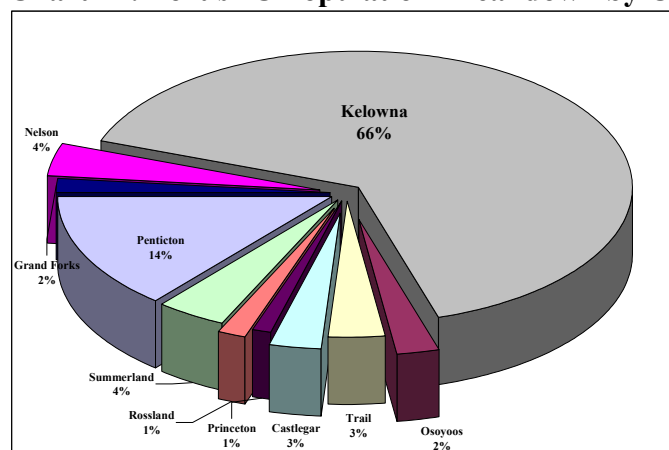
Table 3: Communities Served by FortisBC

	2006	2001	Change	Private Dwellings
Kelowna ¹	162,276	147,739	9.8%	71,889
Osoyoos	4,752	4,295	10.6%	2,717
Trail	7,237	7,575	-4.5%	3,764
Castlegar	7,259	7,585	-4.3%	3,225
Princeton	2,677	2,610	2.6%	1,366
Rossland	3,278	3,646	-10.1%	1,656
Summerland	10,828	10,723	1.0%	4,726
Penticton	31,909	30,985	3.0%	15,271
Grand Forks	4,036	4,054	-0.4%	1,862
Nelson	9,258	9,318	-0.6%	4,427
Group Total	243,510	228,530	7.1%	110,903
British Columbia	4,113,487	3,907,738	5.3%	1,788,474
Canada	31,612,897	30,007,094	5.4%	

¹ Population for the metropolitan area

Source: Statistics Canada

Implications of British Columbia's population growth are greater for FortisBC than the above table implies, as the Kelowna area accounts for approximately 66% of private dwellings in this area (see Chart below), and has experienced an impressive 9.8% growth in population since 2001.

Chart 12: FortisBC Population Breakdown by Operating Region

Source: Statistics Canada

In addition to FortisBC's contribution to Fortis' overall future organic growth from an increasing population base, the subsidiary is also in the process of investing to improve the reliability of the utility. In aggregate, FortisBC expects to spend approximately \$500 million in capex over the next five years. FortisBC has an approved capital expenditure program for 2007 of \$135.8 million, before customer contributions of \$7.2 million, and \$119.6 million, before customer contributions of \$8.0 million, for 2008

FortisBC's generating assets are comprised of four hydroelectric generating plants with an aggregate capacity of 235 megawatts (MW). This provides approximately 45% of the energy and 30% of FortisBC's capacity requirements. The balance of its requirements is satisfied through long-term power purchase agreements, and requirement short-falls, when they occur, are fulfilled through short-term power purchases. Such short-falls typically occur in the winter and summer peak demand periods, when energy prices hit cyclical highs. These costs are recovered through

customer rates, and FortisBC typically hedges potential exposure to volatility in hydro prices by power purchase contracts prior to the winter months.

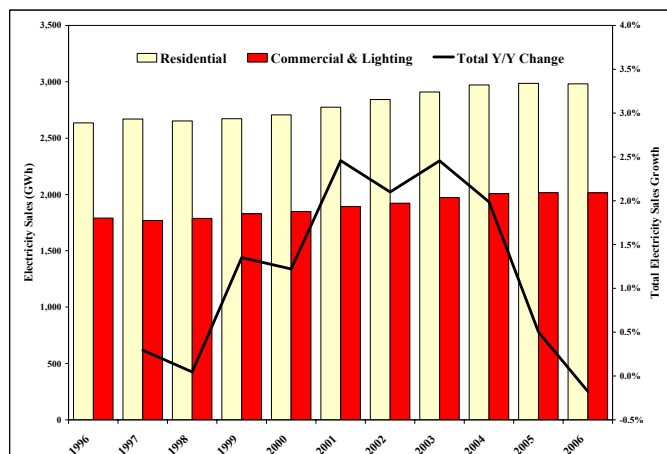
FortisBC is regulated by the BCUC under a performance-based framework (PBR). Under this structure, FortisBC's cost efficiencies/inefficiencies are shared equally between FortisBC and its customers. This is executed by way of a 2% collar around the pre-determined ROE, and any amounts equal to or less than the 2% are split. Therefore, in the event there is a positive variance between the actual financial performance and the allowable rate, both FortisBC and its customers benefit. However, the same scenario holds if there is a negative variance. In the event that the variance exceeds the 2% collar, the excess is placed into a deferral account for review and disposition during the next rate-setting period.

4. Newfoundland Power

Fortis owns 100% of Newfoundland Power's common shares, and 93.7% of the Company's voting rights. Newfoundland Power owns and operates an integrated generation, transmission, and distribution system throughout Newfoundland and Labrador. The Company has approximately 230,000 customers in more than 600 communities, which represents 85% of Province's electricity consumers.

Approximately 85% of Newfoundland Power's customer base is residential, with the balance being commercial. Residential customers account for approximately 58% of revenues. Newfoundland Power is not a significant catalyst for Fortis' future growth. In fact, Newfoundland's population has experienced a 0.47% CAGR over the last four years. In spite of this, electricity sales have experienced a modest CAGR of 1.2% for the past four years, which has been driven equally by both commercial and residential customers.

Chart 13: Newfoundland Power Annual Electricity Sales



Source: Company reports and Beacon Securities

Over the past five years, residential electricity sales have slightly outpaced those of commercial, with an average annual growth rate of 1.4% versus commercial with 1.3%. During this period, residential electricity sales, as a percentage of total electricity sales, have remained consistent at 54.7%. The moderate growth in residential electricity sales has been attributed to many factors, including relatively weak growth in personal disposable income and higher electricity prices which have caused the customer base to conserve electricity usage. These factors have been partially

offset by a strong housing market and higher oil prices. Commercial electricity sales growth has lagged that of residential electricity sales, and has generated growth from the ongoing development of Newfoundland's oil industry.

Newfoundland Power purchases approximately 90% of its electricity requirements from Newfoundland and Labrador Hydro (Crown Corporation). The remaining 10% is generated by 30 small generating stations which are owned by Newfoundland Power.

Newfoundland Power, as well as Newfoundland and Labrador Hydro, is regulated by Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). Newfoundland Power operates under a cost of service regulation, which allows the Company to set rates that permit it to recover all reasonable and prudent costs associated with providing service and earn a reasonable rate of return on its rate base. The regulated return on equity for 2007 is 8.60% (down from 9.24% in 2006), which equates to a rate of return on rate base of 8.47%, with a range of 8.29% to 8.65%. The Company's equity component of its capital structure must not exceed 45%. The rate of return is adjusted annually, and based on an automatically adjusted formula that is based on Canadian 30-year bond yields. Although the use of this formula stream-lines the rate-setting process, the exposure to interest rates makes the Company's earnings susceptible to greater volatility.

5. Maritime Electric

Maritime Electric is located on Prince Edward Island and serves 71,000 customers, which represents 90% of the Province's electricity consumers. Maritime Electric is involved in electricity generation, transmission, and distribution, although it purchases more than 95% of its energy requirement from New Brunswick Power. The remaining electricity requirement is met by the Company's generation facilities and the purchase of wind energy. Revenues are evenly split between residential and commercial customers, although commercial and industrial customers account for almost 60% of electricity sales.

Maritime Electric is regulated on a cost of service basis, where the utility's basic electricity rates are based on estimated cost of service and allow for a predetermined rate of return on an approved rate base. Maritime Electric's maximum allowed ROE for 2007 is 10.25%, and common equity must be at least 40% of the utility's capital structure.

6. FortisOntario

FortisOntario consists of both regulated and non-regulated assets. Regulated assets are comprised of Canadian Niagara Power and Cornwall Electric.

Table 4: FortisOntario Regulated Utilities

Subsidiary	Service Area	# of Customers	2006 Revenue (%)	2006 GWh Sales (%)
Canadian Niagara Power	Fort Erie	15,400	24.0%	24.7%
	Port Colborne	9,200	15.0%	16.9%
	Gananoque	3,600	6.3%	6.5%
	Sub-Total	28,200	45.3%	48.1%
Cornwall Electric	Cornwall	23,400	54.7%	51.9%
	Total	51,600	100%	100%

Source: Company reports

FortisOntario participates in electricity transmission and distribution through its wholly-owned subsidiaries, Canadian Niagara Power and Cornwall Electric.

- **Canadian Niagara Power Inc.:** Transmits and distributes electricity to customers in Fort Erie, Port Colborne, and Gananoque. It also owns and operates a transmission network that extends from Niagara Falls, Ontario through to Fort Erie connecting with National Grid's transmission system in Buffalo, New York through an international inter-tie running between Fort Erie and Buffalo.
- **Cornwall Electric:** Provides utility services to Cornwall, South Glengarry, South Stormont, and the Ontario portion of the Mohawk Territory of Akwesasne.

Caribbean Regulated Utilities

Fortis first entered the Caribbean in 1999 when it purchased 67% of Belize Electricity. Fortis now has ownership in three utilities in the Caribbean: Belize Electricity (70.1% ownership), Caribbean Utilities (54% ownership), and Fortis Turks and Caicos (100% ownership). Although these assets have yielded strong returns, Fortis' primary focus for future growth is on North America.

7. Belize Electricity

Belize Electric is the primary distributor of electricity in Belize, Central America and serves more than 71,000 customers. Fortis has a 70.1% controlling interest in Belize Electricity. It acquires its electricity from multiple sources, including Fortis wholly-owned subsidiary, Belize Electric Company Limited ("BECOL"), Comisión Federal de Electricidad, as well as from its own diesel-fired and gas-turbine generation. Belize Electricity has experienced annual energy demand growth of approximately 3% to 7% over the past three years.

Belize Electricity is regulated by the Public Utilities Commission. The basic electricity rates are determined by value-added delivery ("VAD"), and cost of fuel and purchased power ("COP"). The VAD component permits the Company to recover operating expenses, transmission and distribution expenses, taxes, amortization and earn a rate of return on regulated asset base in the range of 10.0% to 15.0%. The COP includes the variable cost of generation, which is a flow-through in customer rates.

8. Caribbean Utilities

Caribbean Utilities (CUP.U-TSX; Not Rated) is a publicly traded utility located on Grand Cayman, Cayman Islands. It generates, transmits, and distributes electricity to more than 22,000 customers. Fortis recently became the controlling shareholder of Caribbean Utilities after increasing its ownership to approximately 54%. As a result, Fortis is consolidating Caribbean Utilities' financial statements on a two two-month lag basis. Caribbean Utilities anticipates capital expenditures of approximately US\$33 million in fiscal 2008, and US\$190 million over the next five years, which is expected to be fuelled by customer growth.

Caribbean Utilities operates under a 25-year exclusive licence with the Government of the Cayman Islands, which expires in 2011, or until replaced with a new license by mutual agreement. The utility is entitled to earn a 15% rate of return on its rate base.

9. Fortis Turks and Caicos

Fortis Turks and Caicos consists of two electric utilities acquired in 2006: (1) P.P.C. Limited, and (2) Atlantic Equipment & Power (Turks and Caicos) Ltd. for aggregate consideration of approximately US\$90 million. Fortis Turks and Caicos is the primary electricity distributor in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037. The utility serves approximately 7,700 customers, which represents approximately 80% of the electricity customers in the Turks and Caicos Islands.

During 2006, residential customers accounted for 36.6% of revenues and 33.6% of electricity sales, while commercial customers account for 62.2% of revenues and 65.2% of electricity sales. This utility has experienced considerable growth, which has been on the back of tourism and condominium and hotel development. In fact, energy sales on Providenciales, where the majority

(approximately 75%) of customers reside, have increased, on average, 15% annually for the last 12 years. In addition to growth resulting from tourism, utility sales in 2006 increased because of a high level of government-funded public works initiatives. The Company has a combined diesel-fired generating capacity of approximately 37 MW and met a combined peak demand of 25 MW in 2006. The Government of Turks and Caicos is the regulator for Fortis Turks and Caicos, and rates are set to yield a 17.5% return on a calculated rate base.

NON-REGULATED BUSINESSES

Fortis' non-regulated assets, which primarily consist of non-core properties and electric hydro generation facilities, accounted for approximately 14% of the Company's total assets as at December 31, 2006, and approximately 25% of total operating earnings during 2006. As the table below illustrates, the non-regulated segments do not account for a significant proportion of total assets, but did generate approximately 16% of total revenues in 2006.

Table 5: Fortis Non-Regulated Assets as a Percentage of Company Total

(Excluding Corporate and including Inter-segment)		
Generation	<u>2005</u>	<u>2006</u>
Total Revenue	5%	5%
Operating Earnings	18%	15%
Total Assets	6%	5%
Properties		
Total Revenue	11%	11%
Operating Earnings	8%	10%
Total Assets	9%	9%

Source: Company reports

10. Fortis Generation

Fortis Generation consists of non-regulated generation assets in Belize, Ontario, central Newfoundland, British Columbia, and upper New York state. In aggregate, these assets have a generating capacity of 195 MW. Approximately 190 MW, or 97.4%, of this capacity is hydroelectric generation.

Belize: BECOL owns and operates the 25 MW Mollejon and 7 MW Chalillo hydroelectric facilities, located on the Macal River in Belize. BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement.

Ontario: Non-regulated operations in Ontario include 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5 MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. With the exception of the cogeneration plant in Cornwall, the electricity produced from these facilities is sold in the Ontario market.

Central Newfoundland: Fortis indirectly holds a 51% interest in the Exploits River Hydro Partnership with Abitibi-Consolidated Company of Canada (A-TSX; Not Rated). The Exploits River Hydro Partnership achieved record annual energy sales of 168 GWh in 2006. Abitibi-

Consolidated uses generation, and additional produced energy is sold to Newfoundland Hydro under a 30-year power purchase agreement.

British Columbia: Fortis' non-regulated generating asset in British Columbia is a 16-MW run-of-river Walden hydroelectric generating plant near Lillooet, which was acquired in May 2004 as part of the assets of FortisBC. The plant sells its entire output to BC Hydro under a long-term contract.

Upper New York State: Fortis owns four non-regulated hydroelectric generating stations located in upper New York State. These plants have an aggregate capacity of approximately 23 MW, with an average annual energy output of 85 GWh that is sold at wholesale through contracts.

11. Fortis Properties

Fortis Properties owns and operates 18 hotels, consisting of approximately 3,200 rooms, in seven Canadian provinces. In addition, Fortis Properties owns 2.7 million square feet of commercial real estate in Atlantic Canada. Revenue per Available Room in 2006 increased from \$70.95 in 2005 to \$72.67, which was on the back of increases in both average occupancy and average daily room rates.

The 2006 occupancy rate in the real estate division of 94.9% at December 31, 2006 declined 100 basis points from December 31, 2005, but still outpaced the national rate of 92.3%.

Table 6: Hotels Owned by Fortis Properties

Hotels	Location	# of Guest Rooms
Delta St. John's	St. John's, NL	403
Holiday Inn St. John's	St. John's, NL	252
Mount Peyton	Grand Falls-Windsor, NL	150
Greenwood Inn Corner Brook	Corner Brook, NL	102
Four Points by Sheraton Halifax	Halifax, NS	177
Delta Sydney	Sydney, NS	152
Delta Brunswick	Saint John, NB	254
Holiday Inn Kitchener-Waterloo	Kitchener-Waterloo, ON	183
Holiday Inn Peterborough	Peterborough, ON	153
Holiday Inn Sarnia	Point Edward, ON	217
Holiday Inn Cambridge	Cambridge, ON	143
Greenwood Inn Calgary	Calgary, AB	210
Greenwood Inn Edmonton	Edmonton, AB	224
Greenwood Inn Winnipeg	Winnipeg, MB	213
Ramada Hotel and Suites Lethbridge	Lethbridge, AB	119
Holiday Inn Express and Suites Medicine Hat	Medicine Hat, AB	93
Best Western Medicine Hat	Medicine Hat, AB	122
Holiday Inn Express Kelowna	Kelowna, BC	120
Total		3,287

Source: Company reports

Table 7: Office and Retail Properties Owned by Fortis Properties

Property	Location	Type of Property	Gross Lease Area Square feet (000's)
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	133
TD Place	St. John's, NL	Office	93
Fortis Building	St. John's, NL	Office	82
Multiple Office	St. John's, NL	Office and Retail	70
Millbrook Mall	Corner Brook, NL	Retail	122
Fraser Mall	Gander, NL	Retail	102
Marystown Mall	Marystown, NL	Retail	87
Fortis Tower	Corner Brook, NL	Office	70
Viking Mall	St. Anthony, NL	Retail	69
Maritime Centre	Halifax, NS	Office and Retail	562
Brunswick Square	Saint John, NB	Office and Retail	512
Kings Place	Fredericton, NB	Office and Retail	292
Blue Cross Centre	Moncton, NB	Office and Retail	323
Total			2,705

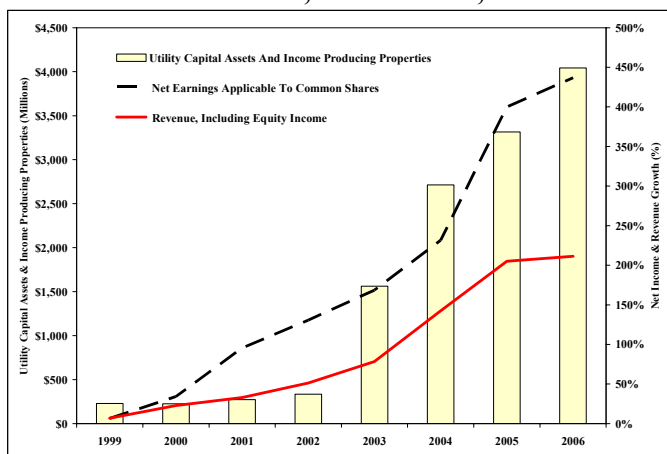
Source: Company reports

The investment in non-core properties was originally made in order to capitalize on tax credits that arose from acquisition. For the most part, a utility can only recover interest expenses from debt used to finance an acquisition equal-to or less-than the allowable proportion of the book value of the purchased assets. **However, this interest provides a tax shield if it can be applied to revenues. Investing in properties has provided such a revenue stream.**

Financials and Past Performance

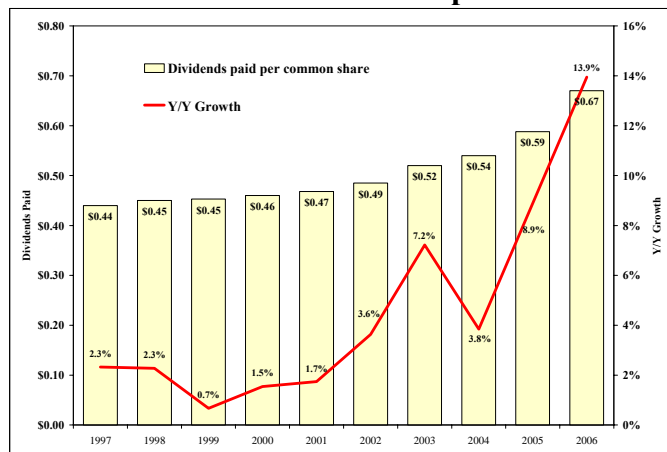
Fortis has exhibited outstanding growth in its assets, revenues, and net earnings over its operating history, which has supported its significant dividend growth over the same period. Since 1999, Fortis has increased its utility capital assets and income producing properties by a CAGR of 50.7%, while increasing its revenue and net income by a CAGR of 16.5% and 26.0%, respectively, over the same period.

Chart 14: Fortis Sales, Net Income, and Fixed Assets Growth

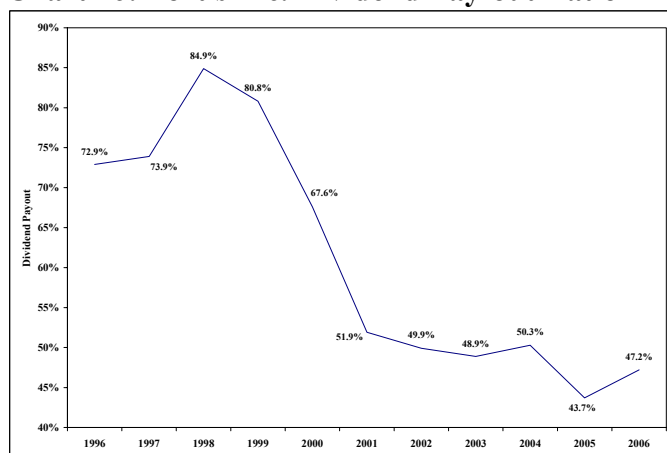


Source: Company reports

Over this period, Fortis has increased its dividends (declared) by 48.0%, with a CAGR of 5.8%. The growth in dividends has been on the back of higher earnings fuelled by acquisition. In fact, during this period, Fortis' dividend payout ratio has declined by 41.6 percentage points to 47.2%. The decline in dividends as a percentage of earnings has, as one would expect, been the result of using a proportion of internally generated funds to finance its aggressive acquisition strategy. Obviously, from the Company's past performance, this was a good use of these funds.

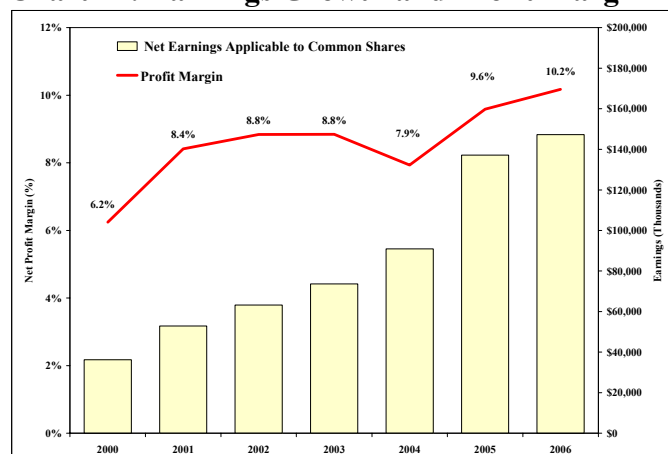
Chart 15: Fortis Dividends Paid per Common Share Growth

Source: Company reports

Chart 16: Fortis Inc. Dividend Pay-out Ratio

Source: Company reports

Although investors seeking exposure to utilities typically prefer relatively higher dividend payout ratios, it is interesting to note that even though Fortis has retained a higher percentage of its earnings, it has still been able to increase dividends on the back of higher dollar earnings, which has been driven by accretive acquisitions and an improving profit margin.

Chart 17: Earnings Growth and Profit Margin

Source: Company reports

In addition, Fortis' ownership of non-regulated utilities and income producing properties, has also benefited the Company's earning profile.

Outlook and Financial Forecast

We are expecting Fortis to generate fiscal 2007 and 2008 EPS of \$1.47 and \$1.60, respectively. For regulated utilities, our fiscal 2007 and 2008 estimates are based on respective allowed ROEs, approved capital expenditures.

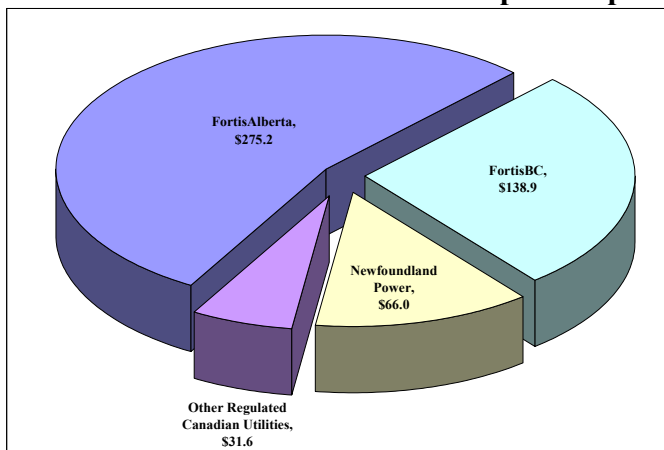
With bond yields on the decline, there is potential for Fortis' earnings growth to stall over the next year. This is because Fortis' regulated utilities are governed under cost recovery regulations, where they are permitted to earn a pre-determined ROE on a specified equity proportion. The majority of Fortis' regulated utilities, which include FortisAlberta, FortisBC, and Newfoundland Power, allowable ROEs are tied to the Canadian long-term bond yield, and the recent decline in bond yields has resulted in a reduction in the ROEs for these utilities. In fact, the allowable ROE for FortisAlberta, FortisBC, and Newfoundland Power have decreased by an average 50 basis points, as illustrated in the table below.

Table 8: Change in Allowed Return on Common Equity

	FortisAlberta	FortisBC	Newfoundland Power	Average	Change
Previous	8.93%	9.20%	9.24%	9.12%	
Current	8.51%	8.77%	8.60%	8.63%	49.7 bps

Source: Company reports

The average 50 basis point decline in allowed ROEs has considerable potential to adversely impact Fortis' trend in growing earnings, as these three utilities accounted for 78% of the Canadian Regulated Utilities 2006 revenues and 88% of net earnings. That being said, the decline in allowable ROEs will likely be offset by the planned capex for 2007 which will increase the rate base.

Chart 18: Fiscal 2007 Forecasted Capital Expenditures (Millions)

Source: Company reports

While Newfoundland Power does have a modest 2007 capex budget of \$66.0 million, it will be primarily allocated towards equipment replacement and electricity system betterment. In contrast, FortisAlberta and FortisBC have considerable capital expenditure budgets for customer growth, in addition to capital expenditures pertaining to asset replacement/upgrade. This is the result of exceptional growth in both population and GDP, which have outpaced the national rates. In fact, Alberta and British Columbia in aggregate, account for approximately 81% Canadian Regulated Utilities forecasted capital expenditures for 2007.

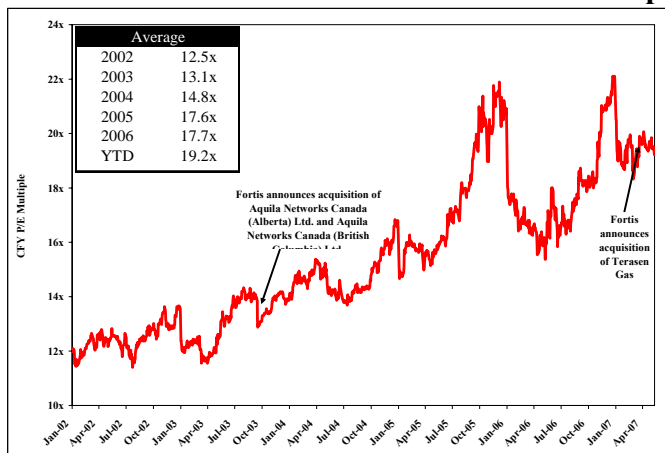
Fortis' exposure to these two high growth markets is compounded with the acquisition of Terasen Gas. As discussed in the sections above, natural gas distribution is likely to experience healthy penetration rates in British Columbia, as it is largely driven by British Columbia's GDP and population growth rates. However, the trend of contractors installing electricity as opposed to natural gas in multi-family units does present a hindrance. But more importantly, the Terasen acquisition opens two unique opportunities for Fortis. The first being a strong and established foothold in natural gas distribution, which is a new catalyst for growth. The second is the opportunity to capitalize on cost-sharing that result from operating two utilities that are governed by the same regulatory body.

Over the next five years, we believe that earnings growth can be driven by the Company's anticipated capex of approximately \$2.8 billion. We contend that capex of this magnitude is equal to purchasing a \$2.8 billion utility, and that even if Fortis does not pursue another acquisition over this period, its rate base will expand as if it had. Furthermore, given the nature of the industry, this capex provides the potential for growth for the Company even in the event of economic downturns.

Valuation and Recommendation

Fortis shares are currently trading at 19.2x on our fiscal 2007 EPS estimate of \$1.44, and 17.9x on fiscal 2008 estimate of \$1.55. Since the Terasen transaction closed on May 17, 2007, the fiscal 2008 EPS estimate is more relevant from an earnings multiple perspective, as it includes Terasen's contribution for a full year. As illustrated in the chart below, Fortis' shares have consistently commanded a higher multiple since 2002.

Chart 19: Fortis Inc. Historical CFY P/E Multiple



Source: Bloomberg, Thomson One Analytic, and Beacon Securities

Since Fortis announced the Terasen acquisition on February 26, 2007, its shares have traded at an average of 19.5x on fiscal 2007 EPS, and 18.2x on fiscal 2008 EPS. Before the announcement, Fortis stock traded at an average multiple of 19.0x on fiscal 2007 EPS, and 18.3x on fiscal 2008 EPS. Surprisingly, the Terasen acquisition has not managed to expand Fortis' current fiscal year earnings multiple. Although the stock has recovered nicely following the issue of 38.5 million subscription receipts (plus approximately 5.8 million in over-allotment) at \$26.00 (each receipt equalling one common share), its earning multiple has remained virtually flat.

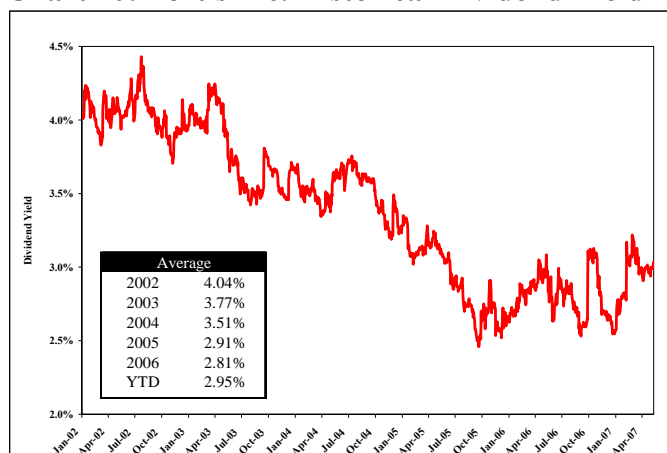
This is despite the fact that, through the acquisition of Terasen, Fortis has purchased a shiny new vehicle for future growth. What's more is that this acquisition is very appealing from a risk perspective. Terasen is a high quality, well run asset. It is regulated by the BCUC, the same regulatory agency that governs FortisBC, and natural gas distribution is probably the most similar utility to electricity distribution. Furthermore, with Terasen, 92% of Fortis' total assets will be regulated utilities versus 86% pre-Terasen. This reduces the Company's overall risk profile significantly.

We must also keep in mind that Fortis' operational history and strong relationships with regulators amplifies the Company's potential for expansion into the U.S. in natural gas distribution. We believe that these factors give Fortis a competitive advantage over potential competing bidders for these assets. With these factors in mind, we believe that Fortis' shares should trade at a premium multiple relative to their historic and current levels.

We are assigning a 21.0x target multiple, which, when applied to our fiscal 2008 EPS estimate of \$1.60, yields a 12-month target price of \$32.00. We are expecting Fortis to increase its dividend

by 10% to \$0.77 later this year. Our target indicated dividend yield is 2.9%, which is consistent with the average for the past three years.

Chart 20: Fortis Inc. Historical Dividend Yield



Source: Bloomberg and Beacon Securities

Although there is potential for the yield to decline from price appreciation due to the flow of capital into non-cyclical stocks in the event that the Canadian markets, eventually, experience a decline, we have not built any such assumptions into our valuation. Our target yield of 2.9% coupled with of fiscal 2007 dividend estimate of \$0.75 generates a target price of \$27.00.

We believe that the target price based on earnings multiple should carry greater weight, given the reduction in volatility that we expect Fortis' earnings to display resulting from a higher proportion of regulated utilities within its portfolio. Our 12-month target price is \$32.00. Including the Company's annualized dividend of \$0.77, we are looking for a total return of 14%. **We are initiating coverage on Fortis with a BUY rating.**

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North American Utility Comparable Valuations

BEACON SECURITIES LIMITED

					Price/Earnings				Enterprise Value / EBITDA					
Company	Last Price	Enterprise Value (Millions)	Market Capitalization (Millions)	Dividend Yield	P/E (CFY)	P/E (NFY)	P/E (LTM)	P/E (LFY)	EV / EBITDA (LTM)	EV / EBITDA (CFY)	EV / EBITDA (NFY)	EV / EBITDA (LFY)	P/B (Current)	
Canada														
Fortis Inc.	C\$28.66	C\$4,410	C\$7,437	2.6%	20.1x	18.1x	20.8x	21.2x	9.7x	8.1x	13.9x	14.2x	2.2x	
Enbridge Inc.	C\$37.18	C\$13,650	C\$23,591	3.1%	21.0x	19.8x	NA	21.5x	12.1x	11.1x	13.2x	13.6x	2.6x	
Emera Inc.	C\$21.21	C\$2,341	C\$4,127	4.2%	18.5x	17.2x	NA	18.9x	8.4x	8.0x	8.3x	7.9x	1.7x	
CDN Average:					19.9x	18.4x	20.8x	20.6x	10.1x	9.1x	11.8x	11.9x	2.2x	
U.S.														
Avista Corp.	\$23.18	\$1,223	\$2,405	2.5%	16.8x	14.6x	21.3x	15.8x	8.0x	8.1x	9.6x	8.4x	1.3x	
IDACORP, Inc.	\$31.87	\$1,402	\$2,545	3.8%	16.6x	14.6x	14.0x	13.4x	8.6x	8.0x	11.9x	8.7x	1.2x	
NorthWestern Corp.	\$32.69	\$1,174	\$1,919	3.8%	na	na	34.1x	30.6x	na	na	11.3x	10.0x	1.6x	
Portland General Electric Compan	\$28.83	\$1,802	\$2,874	2.3%	15.9x	15.4x	13.7x	25.3x	6.4x	6.0x	7.4x	7.6x	1.4x	
Puget Energy, Inc.	\$25.20	\$2,945	\$6,018	4.0%	15.7x	14.9x	16.9x	17.5x	7.7x	7.4x	9.8x	8.8x	1.4x	
Cascade Natural Gas Corp.	\$26.34	\$303	\$468	3.6%	22.0x	21.1x	27.2x	24.2x	9.2x	9.1x	11.2x	7.7x	2.4x	
Northwest Natural Gas	\$50.25	\$1,356	\$1,997	2.7%	19.4x	19.7x	19.6x	21.9x	9.9x	8.9x	12.8x	9.9x	2.2x	
U.S. Average:					17.7x	16.7x	20.9x	21.2x	8.3x	7.9x	10.6x	8.7x	1.6x	
* Pricing date: 29-May-07					Group Average:	18.8x	17.5x	20.9x	20.9x	9.2x	8.5x	11.2x	10.3x	1.9x

North American Utility Performance Metrics & Debt Coverage

	Last Price			ROIC			Net Debt / Equity			Net Debt / EBITDA			
Company	Last Price	ROE (LFY-1)	ROE (LFY-2)	ROIC (LFY)	ROIC (LFY-1)	ROIC (LFY-2)	N-Debt / Equity (LFY)	N-Debt / Equity (LFY-1)	N-Debt / Equity (LFY-2)	N-Debt / EBITDA (12-M Trail.)	N-Debt / EBITDA (LFY)	N-Debt / EBITDA (LFY-1)	N-Debt / EBITDA (LFY-2)
Canada													
Fortis Inc.	11.3%	12.5%	10.7%	7.3%	6.7%	6.3%	1.7x	1.7x	1.9x	5.7x	5.0x	4.3x	5.3x
Enbridge Inc.	13.2%	11.9%	15.2%	6.0%	5.5%	5.1%	1.6x	1.6x	1.5x	5.6x	4.9x	4.8x	4.1x
Emera Inc.	8.4%	8.4%	8.9%	7.5%	7.6%	8.4%	0.9x	1.0x	1.0x	3.6x	2.9x	3.6x	3.1x
CDN Average	11.0%	10.9%	11.6%	6.9%	6.6%	6.6%	1.4x	1.4x	1.5x	4.9x	4.3x	4.2x	4.2x
U.S.													
Avista Corp.	8.7%	5.9%	4.6%	6.0%	4.1%	4.2%	1.3x	1.6x	1.5x	4.7x	4.1x	5.1x	5.1x
IDACORP, Inc.	9.3%	8.4%	7.6%	6.6%	6.1%	8.5%	1.0x	1.0x	1.1x	5.4x	3.9x	3.8x	4.9x
NorthWestern Corp.	5.1%	8.5%	879.1%	3.9%	6.0%	15.7%	1.0x	1.0x	1.2x	4.4x	3.9x	3.2x	3.7x
Portland General Electric Comp	5.9%	5.2%	7.5%	4.0%	4.8%	6.2%	0.9x	0.6x	0.6x	2.8x	2.8x	1.9x	1.6x
Puget Energy, Inc.	8.1%	8.0%	7.6%	5.1%	5.5%	5.5%	1.5x	1.2x	1.5x	5.0x	4.5x	4.0x	3.9x
Cascade Natural Gas Corp.	10.4%	NA	11.5%	6.2%	5.4%	7.2%	1.3x	1.6x	1.5x	4.0x	2.7x	4.2x	3.5x
Northwest Natural Gas	10.7%	10.1%	9.4%	7.0%	6.6%	6.2%	1.1x	1.1x	1.0x	4.1x	3.2x	3.4x	3.6x
US Average	8.3%	7.7%	1.3x	5.5%	5.5%	0.1x	1.2x	1.2x	1.2x	4.3x	3.6x	3.7x	3.8x
Group Average	9.6%	9.3%	0.7x	6.2%	6.0%	0.1x	1.3x	1.3x	1.3x	4.6x	3.9x	3.9x	4.0x

* Pricing date: 29-May-07

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B E A C O N
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FORTIS INC.

Re-Initiating Coverage: A Charged Up Dividend Growth Story

Summary

- We are re-initiating coverage of Fortis with a **BUY** rating and **12-month target price of \$31.00**. Our target equates to 19.7x 2009E earnings and 10.5x 2009E EV/ EBITDA.
- Fortis is Canada's largest investor-owned distribution utility, with almost two million gas and electricity customers. The Company's Regulated Utilities segment contributes to achieving a low risk organization, with Regulated Utilities' assets representing 92% of total assets.
- **The Fortis assets are well positioned for future growth opportunities, both organically and through acquisitions.** The Company's previous acquisitions in Western Canada and the Caribbean have provided the opportunity for strong growth rates in those regions. We expect organic growth to occur largely through the Company's electrical infrastructure, particularly from FortisBC and FortisAlberta. The Terasen Gas acquisition provides Fortis with the experience and expertise necessary to further grow in the regulated natural gas utility business. We expect future regulated gas utility acquisitions from Fortis.
- Fortis is the only public company in Canada that has increased its annual dividend for 35 consecutive years. **With sustainable dividend growth, continuous investment in rate base, and stable earnings, we view this blue-chip company as a lower risk investment for investors looking for a defensive stock during this time of economic uncertainty.**

FTS-TSX

March 24, 2008

Stock Rating: BUY

Target Price: \$31.00

Closing Price (03/20/08): \$26.66

52 Week Range: \$24.50-\$29.89

(C\$ Millions except per share data, December Year End)

	2007A	2008E	2009E
EPS (basic)	\$1.40	\$1.57	\$1.61
EPS (fd)	\$1.32	\$1.53	\$1.57
CFPS (basic)	\$3.56	\$3.66	\$3.80
P/E (fd)	20.2 x	17.4 x	17.0 x
P/CF	7.5 x	7.3 x	7.0 x

Shares O/S (basic)	156.6
Shares O/S (fd)	170.6
Mkt. Cap.	\$4,548.20
Net Debt/Total Cap.	66.8%
BVPS	\$16.58
Price/Book Value	1.6 x
Dividend	\$1.00
Dividend Yield	3.8%
ROE	10.0%

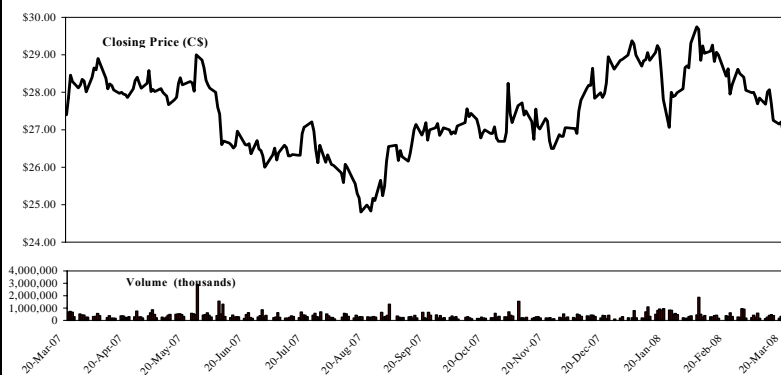
Change in EPS Forecasts

New Estimates

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with almost two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.

Fortis Inc.



*Please view the disclaimer at the end of this report

Investment Thesis

We are re-initiating coverage of Fortis with a BUY rating and 12-month target price of \$31.00. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.7x 2009E earnings and 10.5x 2009E EV/ EBITDA.

After the acquisition of Terasen, Fortis is Canada's largest investor-owned distribution utility, with almost two million gas and electricity customers. The Company is highly diversified in terms of its franchise area and nature of its assets. The Company's Regulated Utilities segment contributes to lowering the overall risk of Fortis, with 92% of total assets in Regulated Utilities. The Non-Regulated segment is structured so that it covers the holding company costs of Fortis, which cannot be flowed through to the customer.

The Fortis assets are well positioned for future growth opportunities, both organically and through acquisitions. The Company's previous acquisitions in Western Canada and the Caribbean have provided the opportunity for strong growth rates in those regions. We expect organic growth to occur largely through the Company's electrical infrastructure, particularly FortisBC and FortisAlberta. Significant growth plans are expected over the next five years, with a capital budget of \$3 billion allocated towards Regulated Electric Utilities and \$1 billion allocated towards Regulated Gas Utilities. Growth in the Non-Regulated operations will likely be proportionate to the increase in corporate financing costs involved in the expansion of the Regulated operations.

The Terasen Gas acquisition is expected to be accretive to earnings per common share of Fortis in the first full year of ownership. The acquisition has nearly doubled Fortis' assets. Terasen experiences seasonality with its earnings, with Q1 and Q4 contributing the most to annual earnings. **The Terasen acquisition further lowers the Company's risk profile and is a good fit geographically with Fortis' electric utilities in Western Canada. The acquisition provides Fortis with the experience and expertise necessary to grow in the regulated natural gas utility business, and we expect future regulated gas utility acquisitions from the Company.**

Fortis is not without its risks, and can be impacted by lower long-term bond yields which could result in lower allowed ROEs. **Lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.**

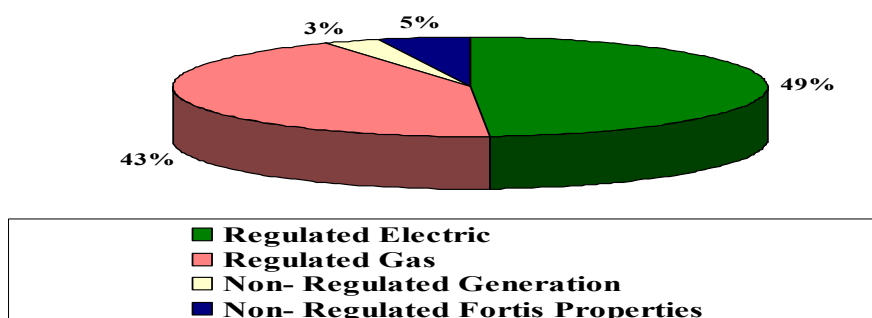
However, Fortis benefits from an experienced management team, with expertise in growing Fortis both organically and through acquisitions. Management has a profound knowledge of all facets of the organization. This has been achieved by rotating management through several Fortis subsidiaries. Each subsidiary operates as a stand-alone unit, thereby facilitating the relationship with each subsidiary and its respective regulator.

Fortis is the only public company in Canada with 35 consecutive years of dividend increases. With sustainable dividend growth, continuous investment in rate base, and stable earnings, we view this blue-chip company as a lower risk investment for investors looking for a defensive stock during this time of economic and market uncertainty. Including dividends, there is a potential return of approximately 20% over the next year, which justifies our BUY rating.

Company Profile

Fortis Inc. is a diversified holding company based out of St. John's, NL. Fortis is the largest investor-owned distribution utility in Canada, with almost two million gas and electricity customers. Its main business is the ownership and operation of regulated utilities, with these assets representing 92% of total assets. The Regulated Utilities assets are segmented according to the nature of the asset, depending on the regulatory requirements, and also according to the assets' franchise area. The Company's regulated holdings include a natural gas utility in British Columbia, where Fortis met a peak day demand of 1,360 TJ in 2007. The electric utilities are located in Alberta, British Columbia, Newfoundland, Prince Edward Island, Ontario, Belize, Turks and Caicos, and Grand Cayman, and met a peak electricity demand of approximately 5,700 MW in 2007. In addition, Fortis has Non-Regulated Generation operations in Canada, Upper New York State and Belize. Finally, Fortis also owns hotels and commercial real estate across Canada.

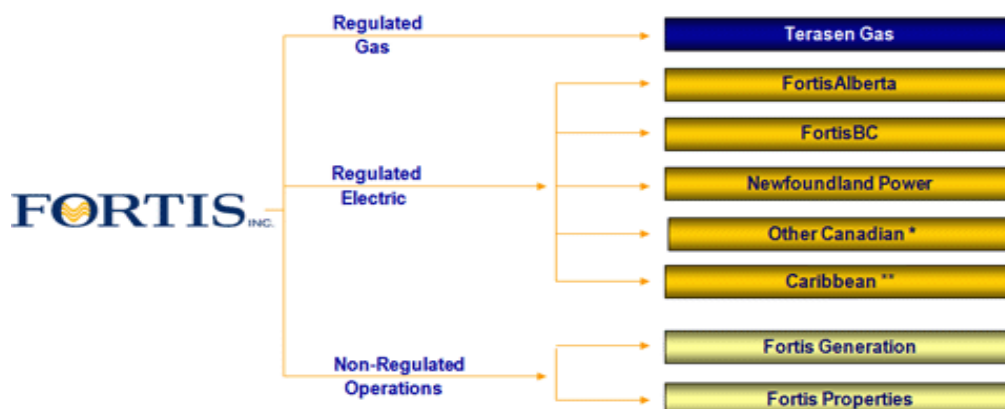
Chart 1. Breakdown of Fortis' Assets (Total Value Exceeds \$10 Billion)



Source: Company Reports

Fortis is comprised of the following operating segments: Regulated Gas Utilities-Canadian, Regulated Electric Utilities-Canadian, Regulated Electric Utilities-Caribbean, Non-Regulated-Fortis Generation, Non-Regulated-Fortis Properties, and Corporate.

Chart 2. Fortis Organization Chart



*Includes **Maritime Electric** on Prince Edward Island and **FortisOntario**

Includes **Belize Electricity, **Caribbean Utilities** on Grand Cayman, Cayman Islands and **Fortis Turks and Caicos**

Source: Company Reports

Regulated Gas Utilities

Fortis entered into the regulated natural gas business with the acquisition of Terasen Inc. in Q2 2007. Terasen is one of the largest regulated gas utilities in Canada. As this recent acquisition has almost doubled the assets of Fortis, we have included a detailed description of Terasen in this report.

Terasen Gas

The Regulated Gas Utilities segment of Fortis is comprised of the natural gas distribution companies of British Columbia-based Terasen Inc: Terasen Gas Inc. (TGI), Terasen Gas (Vancouver Island) Inc. (TGVI), and Terasen Gas (Whistler) Inc. (TGWI). These businesses are collectively known as the Terasen Gas Companies. TGI provides gas distribution services in the region spanning from Vancouver to the Fraser Valley, and also interior British Columbia. TGVI has a gas distribution and transmission system, which services customers along the Sunshine Coast, Victoria, and various other communities on Vancouver Island. TGWI provides propane distribution services to the Whistler region. **Terasen is the principle natural gas distributor in British Columbia, with over 918,000 customers, or 96% gas users in the province.**

On May 17, 2007, Fortis acquired Terasen for \$3.7 billion, including the assumption of \$2.4 billion in debt. Terasen was formerly a subsidiary of Kinder Morgan Inc. (KMP-NYSE; not rated). After the acquisition, 100% of the Terasen management team has been retained. The net cash purchase price was largely financed with net proceeds of the public offering of subscription receipts, which was completed on March 15, 2007. The Company issued 44,275,000 subscription receipts for gross proceeds of approximately \$1.15 billion. The remaining portion of the purchase price was financed on an interim basis with \$125 million from Fortis' existing credit facility.

An allowed ROE of 8.62% has been approved for TGI for 2008, and a 9.32% rate for TGVI for the same period. On March 18, 2008, BC Utilities Commission (BCUC) approved Terasen's requested rate increases for natural gas, but not for propane. With the approval, customers' natural gas rates will increase within a range of 3.5% to 17% effective April 1, 2008, depending on the service area. Customers' propane rates will remain the same. The price of natural gas has increased over the winter months on supply pressure, resulting from a colder than normal winter in the East, and lower than expected volumes of LNG imports to North America.

Terasen purchases natural gas and propane, and then passes on the cost of the commodity to its customers without a mark-up. Terasen then generates earnings by charging for the delivery of gas. The utility implements several strategies in order to offer the best possible price to its customers. Such strategies include purchasing the commodities through several sources, firming a price through futures contracts, purchasing gas for storage when the price is low, and purchasing a portion of the gas from the spot market.

Both TGI and TGVI operate according to a cost of service regulation. This allows Terasen to charge rates formulated to allow for the collection of revenues equivalent to the cost of service. The cost of service includes the total amount of money required to perform a service, such as operating and maintenance costs, in addition to a return on invested capital. Terasen also operates according to a performance based rate setting (PBR) mechanism, where Terasen's performance is compared against an allowed ROE. When the earned ROE is greater than 200 basis points above the allowed ROE for two consecutive years, the PBR mechanism may be reviewed. TGI and its

customers share equally in earnings above or below the allowed ROE. TGV I may retain 100% of earnings from lower-than-forecasted controllable operating and maintenance expenses, but will not be granted any relief from increased operating and maintenance expenses. The BCUC permitted TGI and TGV I to extend their PBR mechanisms to 2009.

Earnings from the Terasen Gas Companies are not significantly impacted by changes in consumption levels or commodity prices, due to approved regulatory deferral mechanisms from the BCUC. These mechanisms accumulate the differences between actual-versus-forecast consumption levels and commodity prices, which are then recovered in base rates. Therefore, the majority of the changes are flowed through to the customer, providing little or no shareholder risk. The presence of fixed price contracts also helps to alleviate the impact of decreases in consumption levels. Terasen also has an interest-rate deferral account to protect from interest rate fluctuations, which essentially produces the effect of a fixed rate.

On November 15, 2007, TGV I received conditional approval from the BCUC to construct and operate a liquefied natural gas storage facility on Vancouver Island. The proposed facility would store 1.5 Bcf of LNG. The project is estimated to cost between \$175 million and \$200 million. Construction is expected to begin in April 2008, with the facility expected to come into service in late 2011. This facility will be financed at the TGV I level, and will likely require a debt issue. Fortis Inc. will put in equity of up to \$80 million to finance the project.

Terasen experiences seasonality with its earnings, with Q1 and Q4 contributing to the majority of annual earnings, as a substantial portion of the gas distributed is required for space heating. Management expects the acquisition to be accretive to earnings per common share in its first full year of ownership. We believe the Terasen acquisition is an excellent geographic complement with Fortis' electric utilities in Western Canada. The acquisition provides Fortis with the experience and expertise necessary to further grow in the regulated natural gas utility business.

Regulated Electric Utilities-Canadian

The Canadian Regulated Electric Utilities are comprised of the wholly own subsidiaries: FortisAlberta, FortisBC, FortisOntario, Maritime Electric in Prince Edward Island, and Newfoundland Power. This division serves approximately one million customers. Earnings are generally determined under traditional cost of service and rate of return methodologies, resulting in earnings from certain subsidiaries being exposed to interest rates changes. Allowed ROE is determined for FortisAlberta, FortisBC, and Newfoundland Power using an automatic adjustment formula. **Lower long-term bond yields could result in lower allowed ROE, due to the impact of the lower yields on the Company's automatic adjustment formula.**

FortisAlberta is an electric distribution utility which owns and/or operates 106,000km of distribution lines and serves over 448,000 customers. FortisAlberta distributes electricity generated by other market participants to customers in the southern and central regions of Alberta. On February 13, 2008, FortisAlberta received approval to increase its rates by 6.8% in 2008 and 7.3% in 2009. An allowed ROE of 8.75% has been approved for FortisAlberta for 2008, an increase from 8.51% in 2007. Capital expenditures of \$264 million are forecast for 2008, and spending of \$296 million is expected in 2009, in order to meet the growth in this market and improve the reliability of the system. Capital expenditures are expected to average \$275 million over the next five years.

FortisBC generates and distributes electricity to approximately 154,000 customers in south central British Columbia. The Company owns four hydroelectric generating plants with a combined capacity of 223 MW and maintains 6,900 km of transmission and distribution lines. FortisBC received approval for a 2.9% increase in its 2008 rates and an allowed ROE of 9.02%, an increase from 8.77% in 2007. Capital expenditures of \$136 million are expected for 2008, with on average \$130 million expected to be invested annually over the next five years.

Significant rate base growth is planned for Western Canada over the coming years, with a rate base of more than \$3 billion expected for FortisAlberta and FortisBC combined in 2012. This is a 58% increase from the 2008 mid-year rate base of \$1.9 billion. We expect favourable customer growth rates for 2008 and 2009, however, FortisBC's customer growth rate will also depend somewhat on the state of the British Columbia forestry industry. We also expect Alberta's earnings for the next two years to be hindered slightly, as FortisAlberta's tax benefits begin to decrease. However, we expect this will be more than offset by the growth levels expected from the region, driven mainly by the oil and gas industry.

Newfoundland Power operates an integrated generation, transmission and distribution system throughout Newfoundland, serving 85% of electricity customers in the province. Newfoundland Power purchases approximately 90% of its electricity is approximately from the Crown corporation, Newfoundland and Labrador Hydro, and generates much of the remaining electricity necessary from its 23 smaller hydroelectric generating stations. Newfoundland Power also owns three diesel plants and three gas turbine facilities. Total generation capacity is 139 MW, of which 96 MW is hydroelectric generation. The Company also maintains approximately 11,000 km of transmission and distribution lines and serves approximately 232,000 customers.

Newfoundland Power has been approved for an average 2.8% increase in rates for 2008 and an allowed ROE of 8.95% +/- 50 basis points, up from 8.60% +/- 50 basis points in 2007. The utility does not expect to file its next general rate application until 2010 to set rates for 2011. A capital budget of \$53 million has been approved for 2008, which will be used toward replacing older and deteriorated equipment in the system. Newfoundland is not a growing market for Fortis, with rate base growth expected at 1% to 2% per year. This business has a purchased power rate structure which results in Newfoundland Power paying more on average for each KWh of power in the winter months, and less during the summer. Variances from the forecast unit cost of power are accumulated in a regulator-approved deferral account.

The **Other Canadian** segment is composed of FortisOntario and Maritime Electric. FortisOntario is focused on electricity distribution, transmission and generation, serving approximately 52,000 customers in Ontario. Allowed ROE at FortisOntario has been 9.0% for the past three years. Maritime Electric is the principal electric utility in Prince Edward Island, serving approximately 72,000 customers. The Company purchased more than 87% of its required amount of electricity from New Brunswick Power in 2007. Maritime Electric has an allowed ROE of 10% for 2008, down from 10.25% in 2007. Capital expenditures for FortisOntario and Maritime Electric for 2008 are \$38 million combined, demonstrating the low growth potential from these regions.

Regulated Electric Utilities-Caribbean

The **Caribbean Regulated Electric Utilities** are comprised of Fortis Turks and Caicos; Belize Electricity, in which Fortis holds a 70.1% interest; and Caribbean Utilities, in which Fortis holds approximately 54% controlling interest and is the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands, and serves over 8,700 customers. Fortis Turks and Caicos has a diesel-fired generating capacity of 48 MW. Belize Electricity, the principal distributor in Belize, serves approximately 73,000 customers and has an installed generating capacity of 36 MW. Caribbean Utilities serves over 23,000 customers and has an installed generating capacity of approximately 137 MW. Capital expenditures of \$101 million have been allocated to the Caribbean Regulated Electric Utilities for 2008. The ROA approved for the utilities for 2008 ranges from 9% to 17.5%, depending on the country. Significant growth is expected from this region with annual sales growth from Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos expected at 6%, 8%, and 16%, respectively.

Non-Regulated

Currently, the Non-Regulated assets account for 8% of the total assets of Fortis; this is a lower percentage than has occurred in the past due to the Terasen acquisition. We expect Fortis will grow its Non-Regulated operations in order to increase this percentage. The Non-Regulated businesses generate a source of stable income to cover Fortis holding company expenses, which cannot be passed to the customer. **This division is expected to continue growing proportionally to the increase in corporate financing costs going forward.**

Non-Regulated Fortis Generation assets operate in three countries, with a combined capacity of 195 MW, and are primarily hydroelectric. Generating assets total \$235 million.

Table 1. Fortis Generation Capacity

	Plants	Fuel	Capacity (MW)
Belize	2	hydro	32
Ontario	8	hydro, thermal	88
Central Newfoundland	2	hydro	36
British Columbia	1	hydro	16
Upper New York State	4	hydro	23
Total	17		195

Source: Company Reports

Fortis plans to continue to pursue opportunities in the area of non-regulated hydroelectric generation. The Company has commenced construction of an 18 MW hydroelectric generating facility at Vaca on the Macal River in Belize. This facility is expected to begin operations in late 2009. This new facility will help to alleviate the impact of the expiration of the 75 MW Rankine rights in Ontario, which are expected to expire in April 2009.

According to the National Energy Board of Canada, small hydro has been the largest contributor to green power for quite a while. Small hydro facilities can generate electricity efficiently, do not depend on fuel prices, and have low operating and maintenance costs.

Non-Regulated Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces. Some hotel banners of Fortis Properties include: Delta, Holiday Inn, and Greenwood Inn. The business division has approximately 2.8 million square feet of commercial real estate property, primarily in Atlantic Canada.

Financials

2007 Results Summary

Fortis reported year-end results on February 7, 2008, with earnings for 2007 of \$193 million, a 31% increase over 2006, primarily due to the acquisition of Terasen in May. Earnings per common share were \$1.40 in 2007, down from \$1.42 in 2006, in part due to seasonality of earnings and common share dilution of approximately \$0.07 from the Terasen acquisition.

Canadian Regulated Utilities earned \$125 million in 2007, an 11% increase over 2006, due to customer growth in Alberta and British Columbia, higher corporate income tax recoveries at FortisAlberta, increased rates at FortisBC, and an after tax gain at FortisOntario.

Caribbean Regulated Utilities increased earnings 35% year-over-year to \$31 million in 2007, benefiting from the first full year of contributions from Fortis Turks and Caicos, and electricity sales growth and lower finance charges at Belize Electricity. Gains were somewhat hampered by the impact of unfavorable foreign exchange rates due to the strengthening Canadian dollar. Performance from Caribbean Utilities was hindered by a charge associated with the disposal of steam turbine assets.

Earnings from Non-Regulated Fortis Generation slipped 11% to \$24 million in 2007, hampered by lower hydroelectric production due to lower rainfall amounts. Fortis Properties' earnings were lifted 26% to \$24 million, benefiting from expanded hospitality operations in Western Canada, and a \$4 million corporate tax adjustment in regards to lower future corporate income tax rates.

Gross utility capital expenditures were \$790 million in 2007, which included \$120 million related to Terasen Gas from the date of acquisition. A large portion of the capital spending was related to FortisAlberta, as capital spending from the subsidiary was driven by load growth and inflation. Of that budget, 46% was spent associated with growth, primarily in the areas of Western Canada and the Caribbean.

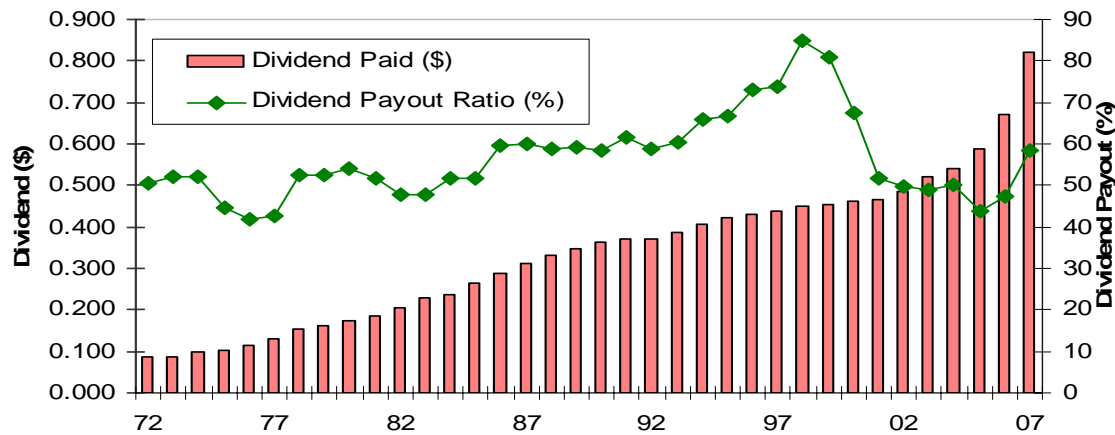
The Terasen acquisition resulted in Standard & Poor's raising Fortis' unsecured debt credit rating to A- from BBB. This upgrade reflects the diversity achieved by the move into natural gas distribution. Fortis' credit rating also benefits from the Company running each subsidiary as a stand alone operation, maintaining low levels of debt at the company level, and continued growth from the regulated utility operations.

Record Breaking Dividend Growth

Dividends increased to \$0.82 per share in 2007, up from \$0.67 per share in 2006. Dividends will increase further in 2008, with a quarterly dividend of \$0.25 per share beginning in Q1 2008. **The 19% increase in quarterly dividends represents Fortis's 35th consecutive year of dividend growth, a record in Canada.** We expect Fortis to continue its dividend growth as the Company

continues to grow through acquisitions and organically. With a dividend payout of 58.6% for 2007, dividend growth is quite sustainable, in our opinion.

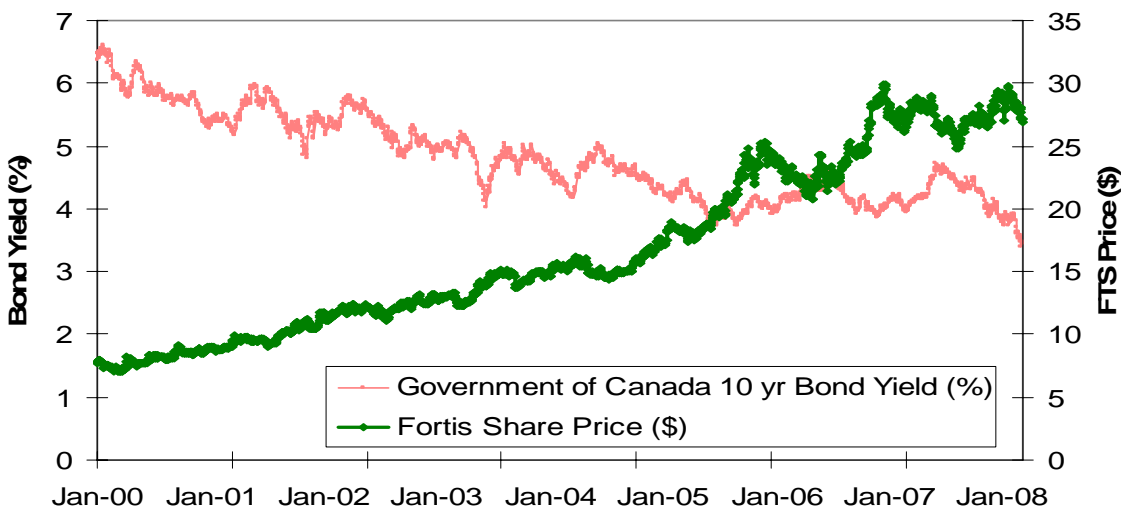
Chart 3. Dividend Increases for 35 Consecutive Years.



Source: Beacon Securities, Company Reports

As demonstrated in Chart 4, Fortis' share price has been inversely related to the Government of Canada's 10-year bond yield. Bond rates have shown an overall decline since Q2 2007, on concerns of a global economic slowdown. Fortis' share price has shown an overall inverse reaction during this period. Bloomberg consensus estimates forecast a further decline in the 10-year bond yield over 2008, before rebounding to expected levels of approximately 4.23% in Q1 2009.

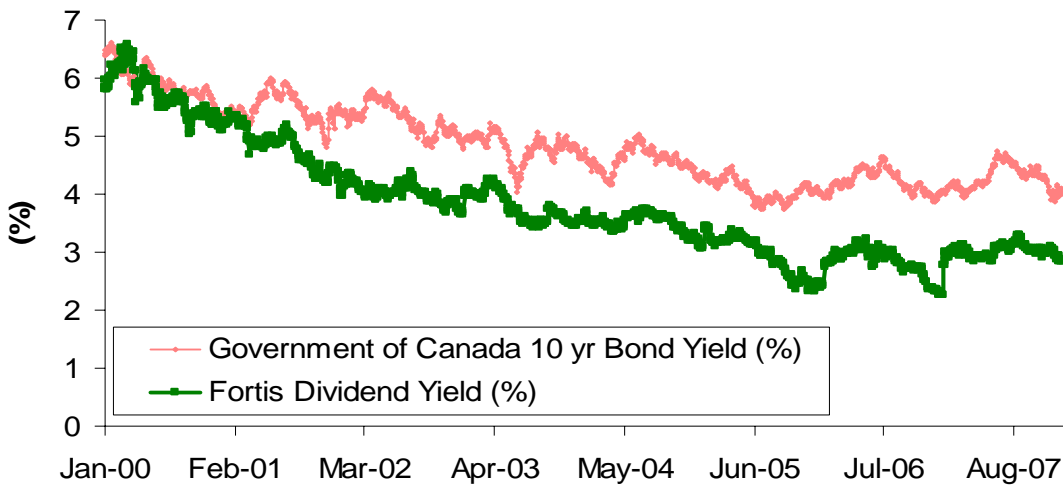
Chart 4. Inverse Relationship between the Share Price for Fortis and 10-Year Government of Canada Bond Yields for 2000-March 19, 2008.



Source: Beacon Securities, Bank of Canada, Bloomberg

As demonstrated in Chart 5 below, Fortis' dividend yield is at a discount to the Government of Canada 10-year bond yield. Assuming bond yields do show further declines in 2008, before rebounding in the beginning of 2009, we would expect Fortis' dividend yields to exhibit similar movements going forward.

Chart 5. Relationship between the Dividend Yield for Fortis and 10-Year Government of Canada Bond Yields for 2000-2007.



Source: Beacon Securities, Bank of Canada, Bloomberg, Company Reports

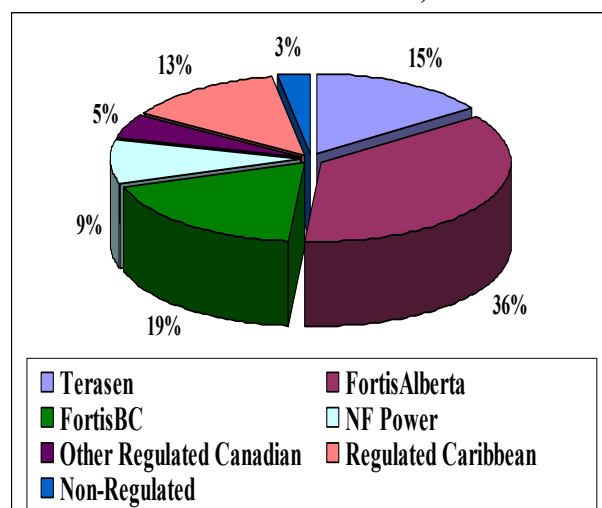
As Fortis uses rate of return methodologies for several subsidiaries, lower long-term bond yields could impact the automatic adjustment formula used to calculate the allowed ROE for a subsidiary. **Lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, due to a lower allowed ROE, thereby hampering earnings.**

Utility Capital Expenditures

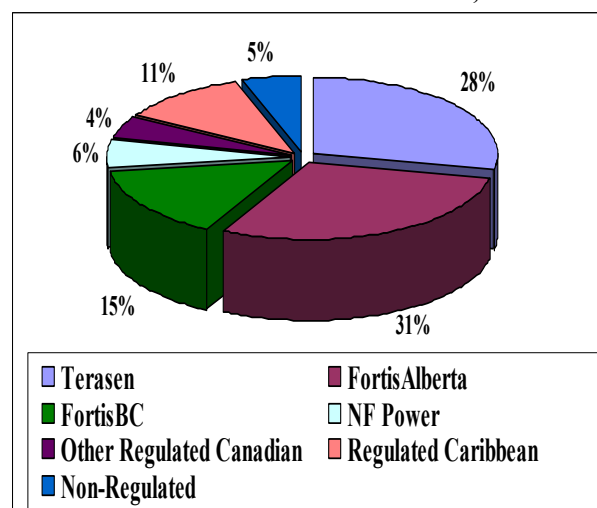
Gross utility capital expenditures for 2008 are forecast at approximately \$890 million, with a large focus on Western Canada due to the three utilities' significant growth potential. Increased customer demand has resulted in the need for an expansion of infrastructure in those Western Canadian segments. Of this budget, approximately 50% is allocated towards growth driven by the three Western Canadian subsidiaries, Terasen, FortisAlberta, and FortisBC, and also in the Caribbean. The portion of the budget allocated to Newfoundland Power, FortisOntario, and Maritime Electric will primarily focus on the maintenance of these companies. We have forecast low growth rates for these Eastern Canadian subsidiaries for 2008 and 2009.

Chart 6. Comparison of Actual 2007 Gross Utility Capital Expenditures for 2007 to Forecast Gross Utility Capital Expenditures for 2008.

Gross Utility Capital Expenditures of \$790 Million for the Year Ended December 31, 2007



Forecast Gross Utility Capital Expenditures of \$890 Million for Year Ended December 31, 2008



Source: Beacon Securities, Company Reports

This budget will be financed through equity injections from the corporate level, cash from operations, drawdown on credit facilities, and some debt financing. We expect Fortis will require additional financing for its future growth projects over the next five years. Significant capital investment will be required over this time, with \$3 billion expected to be invested towards its electric business and approximately \$1 billion allocated towards gas distribution. These expected capital expenditures will be largely allocated towards the growth of the Western Canadian subsidiaries and the Caribbean.

Financial Outlook

Earnings Forecast

Continuing with the growth theme discussed above, we expect the majority of earnings to be generated from the Western Canadian subsidiaries and the Caribbean. We have forecast diluted EPS of \$1.53 for 2008 and \$1.57 for 2009, as demonstrated in Table 2 below.

Table 2. Beacon Estimates for 2008 and 2009

(\$C Millions except per share data)	2008E	2009E
EBITDA	\$999	\$1,039
Net Income	\$245	\$252
EPS (basic)	\$1.57	\$1.61
EPS (diluted)	\$1.53	\$1.57
Cash Flow	\$574	\$596
CFPS (basic)	\$3.66	\$3.80

Source: Beacon Securities

We expect earnings to be somewhat hampered going forward, due to the increased amount of debt acquired by Fortis, largely due to the Terasen acquisition. However, we expect growth in Western Canada and the Caribbean will help to alleviate the impact of the higher finance charges.

Table 3. Actual 2007 and Expected 2008 Segmented Earnings

(\$C Millions)	Segmented Earnings	
	2007A	2008E
Terasen Gas Companies	\$50	\$104
Western Canada	\$79	\$80
Newfoundland Power	\$30	\$31
Other Canadian	\$16	\$15
Caribbean	\$31	\$39
Fortis Generation	\$24	\$26
Fortis Properties	\$24	\$21
Corporate	-\$61	-\$70
Net Earnings Applicable to Common Shareholders	\$193	\$245

Source: Beacon Securities, Company Reports

Valuation and Recommendation

We are re-initiating coverage of Fortis with a BUY rating and 12-month target price of \$31.00. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.7x 2009E earnings and 10.5x 2009E EV/ EBITDA. As demonstrated in the Appendix of this report, Fortis trades at higher P/E and EV/EBITDA ratios than that of its peer group. We believe this is justified considering the stability and lower risk profile of this Company.

The Fortis assets are well positioned for future growth opportunities through organic growth and acquisitions. We largely expect organic growth to occur through the Company's electrical infrastructure. We expect that Western Canada and the Caribbean will represent the main growth areas, and we have forecast regions such as Newfoundland, Prince Edward Island, and Ontario to show little to no growth. The Company's commitment to growth is demonstrated through the capital budget of \$4 billion over the next five years. This is a significant investment, which will allow the Company to meet the growing demand, which largely exists in the Alberta and British Columbia markets.

With earnings from Terasen of \$52 million in Q4 2007, we expect the Terasen acquisition to be accretive to earnings per share of Fortis in its first full year of ownership. Strong Q4 earnings from Terasen convey the integration of the acquisition is proceeding well thus far. We expect Fortis to acquire additional regulated gas utilities in Canada, in addition to electric utilities. We also expect the Company to use acquisitions as means to expand its footprint in the Caribbean, as well as the United States.

Fortis' risk is minimized through its focus on regulated utilities and diversification. **With sustainable dividend growth, continuous investment in rate base, and stable earnings, we**

view this blue-chip company as a lower risk investment for investors looking for a defensive stock during this time of economic uncertainty.

Management Team

Fortis is led by Stanley Marshall, President and CEO of Fortis since 1995. Mr. Marshall joined Newfoundland Power in 1979. Mr. Marshall serves on the Boards of the Fortis Utilities in Western Canada, and the Caribbean and on the Board of Fortis Properties. He is also a Director of Toromont Industries. Barry Perry is Vice President, Finance and CFO, and has served in this position since 2004. Mr. Perry serves on the Boards of Terasen, Maritime Electric, Newfoundland Power and FortisOntario.

Table 4. Fortis Board of Directors

Director	Principal Occupation	Board Committees	Shares Owned
H. Stanley Marshall	President & CEO, Fortis Inc.		395,405
Peter E. Case	Corporate Director	Audit	10,500
Bruce Chafe	Chair, Fortis Inc.	Audit, Human Resources, Governance and Nominating	104,321
Frank Crothers	Chairman & CEO, Island Corporate Holdings Limited		10,000
Geoffrey F. Hyland	Corporate Director	Human Resources	32,000
Linda L. Inkpen	Medical Practitioner	Governance and Nominating	25,115
John S. McCallum	Professor of Finance, University of Manitoba	Audit, Governance and Nominating	4,000
Harry McWatters	President, Sumac Ridge Estate Wine Group	Governance and Nominating	100
David G. Norris	Corporate Director	Audit, Human Resources	5,679
Michael A. Pavey	Corporate Director	Human Resources	2,000
Roy P. Rideout	Corporate Director	Human Resources, Governance and Nominating	31,516

Source: SEDI, Company Reports

Key Risks

- **Integration Risk** – The acquisition of Terasen has resulted in Fortis nearly doubling its asset size. Difficultly with the integration of Terasen could hinder future earnings.
- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

Appendix – Peer Comparables

Company	Last Price	Shares O/S	Market Cap.	EV	DPS	Div Yield	BVPS	P/BV
		(Million)	(\$ Million)	(\$ Million)				
Canadian Utilities Ltd.	\$39.81	125.29	\$4,987.98	\$8,016.42	\$1.33	3.3%	\$20.13	2.0 x
Emera Inc.	\$19.80	111.56	\$2,208.89	\$4,267.04	\$0.95	4.8%	\$11.46	1.7 x
Enbridge Inc.	\$40.17	368.69	\$14,810.32	\$25,862.97	\$1.32	3.3%	\$13.98	2.9 x
TransAlta Corp.	\$30.36	201.20	\$6,108.43	\$9,062.94	\$1.08	3.6%	\$11.36	2.7 x
TransCanada Corp.	\$38.06	541.45	\$20,607.49	\$35,353.26	\$1.44	3.8%	\$18.13	2.1 x
Fortis Inc. (Beacon est.)	\$26.66	156.55	\$4,173.64	\$10,212.94	\$1.00	3.8%	\$16.58	1.6 x
Average (excl. Fortis)						3.8%		2.3 x

Source: Beacon Securities and Company Reports for Fortis Estimates, Company Reports and Bloomberg Consensus for CU, EMA, ENB, TA, and TRP

Company	2007			2008			2009		
	EPS	P/E	EV/EBITDA	EPS	P/E	EV/EBITDA	EPS	P/E	EV/EBITDA
Canadian Utilities Ltd.	\$3.07	13.0 x	8.0 x	\$2.75	14.5 x	7.3 x	\$2.88	13.8 x	6.9 x
Emera inc.	\$1.32	15.0 x	7.8 x	\$1.27	15.6 x	7.9 x	\$1.33	14.9 x	7.6 x
Enbridge Inc.	\$1.95	20.6 x	14.8 x	\$2.15	18.7 x	11.2 x	\$2.15	18.7 x	9.7 x
TransAlta Corp.	\$1.53	19.8 x	9.6 x	\$1.60	18.9 x	8.5 x	\$1.88	16.2 x	8.1 x
TransCanada Corp.	\$2.30	16.5 x	9.2 x	\$2.25	16.9 x	9.1 x	\$2.38	16.0 x	8.7 x
Fortis Inc. (Beacon est.)	\$1.32	20.2 x	12.5 x	\$1.53	17.4 x	10.2 x	\$1.57	17.0 x	9.8 x
Average (excl. Fortis)		17.0 x	9.9 x		16.9 x	8.8 x		15.9 x	8.2 x

Source: Beacon Securities and Company Reports for Fortis Estimates, Company Reports and Bloomberg Consensus for CU, EMA, ENB, TA, and TRP

Disclaimer

Analyst Certification

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Rating System

Beacon Securities' system for rating investment opportunities and how each recommendation fits within the system is available on our website: (www.beaconsecurities.ca). The percentage of its recommendations that fall into each category of their recommended terminology is compiled quarterly, and is also available upon request.

Dissemination

Beacon Securities' policies and procedures regarding the dissemination of research are available upon request.

Valuation Techniques

A combination of valuation methods are used by Beacon Securities' analysts to determine the 12-month target price for issuers; including but not limited to discounted cash flow techniques, historical trading multiples and capitalization rates, and peer average trading multiples and capitalization rates.



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FORTIS INC.

Positive Q1 Results Fuelled By Terasen Acquisition

Summary

- Fortis Inc. reported Q1 2008 earnings of \$91 million, an increase over earnings of \$42 million in Q1 2007. Diluted EPS was \$0.55, up 57% from \$0.35 reported during Q1 2007. Fortis largely benefited from contributions from the Terasen acquisition. Earnings growth was partially offset by higher corporate costs associated with the Terasen acquisition and decreased quarterly earnings from Newfoundland Power, due to a shift in the quarterly distribution of annual purchased power expense.
- We have lowered our EPS estimates slightly to account for increased financing and amortization expense going forward. This decrease is partially offset by increased expected earnings from Fortis Properties. We have forecast diluted EPS of \$1.51 for 2008 and \$1.56 for 2009.
- We view the Q1 2008 results as positive and continue to rate Fortis a BUY with a 12-month target price of \$31.00.** Our target equates to 19.9x 2009E earnings and 10.3x 2009E EV/ EBITDA. Results from Q1 2008 continued to demonstrate the benefit of the Terasen acquisition, as the acquisition became accretive to EPS.
- Significant organic growth is expected from the Western Canadian utilities, and the Caribbean. The Company's commitment to growth is demonstrated through the capital budget of \$4 billion planned for the next five years. **We expect such significant rate base growth will fuel future earnings growth from Fortis.**

FTS-TSX

May 2, 2008

Stock Rating: BUY

Target Price: \$31.00

Closing Price (05/01/08): \$27.96

52 Week Range: \$24.50-\$29.94

(C\$ Millions except per share data, December Year End)

	2007A	2008E	2009E
EPS (basic)	\$1.40	\$1.55	\$1.61
EPS (fd)	\$1.32	\$1.51	\$1.56
CFPS (basic)	\$3.56	\$3.77	\$3.86
P/E (fd)	21.2 x	18.6 x	17.9 x
P/CF	7.8 x	7.4 x	7.2 x

Shares O/S (basic)	156.6
Shares O/S (fd)	172.3
Mkt. Cap.	\$4,817.51
Net Debt/Total Cap.	66.1%
BVPS	\$17.03
Price/Book Value	1.6 x
Dividend	\$1.00
Dividend Yield	3.6%
ROE	11.9%

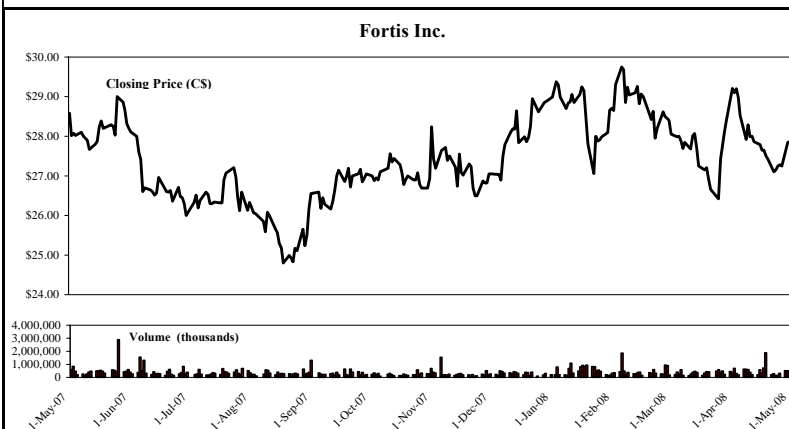
Change in Diluted EPS Forecasts

2008E was: \$1.53

2009E was: \$1.57

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with almost two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



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Q1 2008 results

Fortis Inc. reported Q1 2008 earnings of \$91 million, in line with our estimate, and an increase over earnings of \$42 million in Q1 2007. Diluted EPS was \$0.55, in-line with our estimate of \$0.57, and up 57% from an EPS of \$0.35 reported during the same period last year. Fortis largely benefited from contributions from the Terasen acquisition. Earnings growth was partially offset by higher corporate costs associated with the Terasen acquisition and decreased quarterly earnings from Newfoundland Power, due to a shift in the quarterly distribution of annual purchased power expense.

Table 1. Results Summary

	Q1 2008	Q1 2007
Net earnings applicable to common shares	\$91 million	\$42 million
Basic EPS	\$0.58	\$0.38
Diluted EPS	\$0.55	\$0.35
Cash Flow from Operating Activities	\$188 million	\$94 million

Source: Company Reports

Segmented Results

Regulated Gas Utilities, composed of the **Terasen Gas** companies, reported earnings of \$58 million during the quarter, in line with our estimate of \$59 million. Terasen experiences seasonality with its earnings, with Q1 and Q4 contributing to the majority of annual earnings, as a substantial portion of the gas distributed is required for space heating.

Regulated Electric Utilities-Canadian reported quarterly earnings of \$33 million, a 15% decrease from earnings of \$39 million in Q1 2007, primarily due to the shift in the quarterly distribution of annual purchased power expense incurred by Newfoundland Power (this shift is discussed in more detail below).

FortisAlberta reported earnings of \$11 million, an 8% drop from \$12 million in earnings reported in Q1 2007. While FortisAlberta experienced a 4.9% increase in sales and a 6.8% increase in distribution rates compared to Q1 2007, this was offset by lower corporate tax recoveries, increased labour and employee-benefit costs, and higher amortization expenses. We expect these factors to continue to impact earnings going forward; however this will be offset by the growth levels expected from the region, which are driven mainly by the oil and gas industry.

FortisBC reported Q1 2008 annual earnings of \$12 million, comparable to Q1 2007. FortisBC benefited from increased electricity revenue, due to two rate increase which resulted in a combined 5% increase in rates compared to Q1 2007. This was partially offset by augmented power purchases, operating, amortization and interest expenses, and also reduced electricity sales. Electricity sales were down slightly by 4GWh to 875GWh, compared to the same quarter last year, reflecting a general slowdown in the forestry industry.

Newfoundland Power reported Q1 2008 earnings of \$6 million, a 45% drop from \$11 million reported in Q1 2007. Earnings were lower due to the shift in the quarterly distribution of annual

purchased power expense, which reduced quarterly earnings by \$6 million. Effective January 1, 2007, Newfoundland Power had a purchased power rate structure which resulted in Newfoundland Power paying more on average for each kWh of power in the winter months, and less during the summer. However in 2007, monthly revenue remained based on customer rates that reflected the average annual cost per kWh, and Newfoundland Power recognized monthly power purchase expense based on the forecast annual cost per kWh. Variances from the forecast unit cost of power were adjusted to the Purchased Power Unit Cost Variance Reserve (PPUCVR). In regards to the 2008 general rate application, the PUB ordered that, effective January 1, 2008, the PPUCVR be discontinued. The monthly purchased power expense now reflects the actual cost per kWh, which resulted in the seasonal shift in earnings experienced in Q1 2008. The Company will now incur lower earnings in the winter and higher earnings in the summer. However, annual earnings will not be impacted by this shift. Excluding the impact of the shift, quarterly earnings would have increased by \$1 million in Q1 2008.

Quarterly earnings from **Other Canadian Electric Utilities** were flat at \$4 million year-over-year. Subsequent to the quarter in April 2008, FERC issued an order stating it did not have jurisdiction to award FortisOntario a refund of \$3 million, in December 2007, from Niagara Mohawk Power Corp (NIMO), regarding a cross-border transmission interconnection agreement. FERC expects NIMO will be able to recover the funds. FortisOntario has until May 17, 2008 to request a rehearing. We expect Fortis will be required to repay this refund, which will negatively impact 2008 earnings from the Other Canadian Electric Utilities segment.

Regulated Electric Utilities-Caribbean earnings increased 75% from \$4 million in Q1 2007, to \$7 million in Q1 2008. Excluding the one-time loss of approximately \$2 million, associated with disposal of steam-turbine assets at Caribbean Utilities in Q1 2007, Regulated Electric Utilities-Caribbean earnings increased by \$1 million. The Caribbean earnings benefited from increased sales, but were hindered by the stronger Canadian dollar.

Earnings from **Fortis Generation** decreased 14%, from \$7 million in Q1 2007, to \$6 million in Q1 2008, hampered by lower hydroelectric production due to lower rainfall in Belize, and were also impacted by a stronger Canadian dollar.

Fortis Properties earnings increased year-over-year from \$2 million in Q1 2007 to \$3 million in Q1 2008. Earnings benefited from contributions from the acquisition of the Delta Regina.

Quarterly **Corporate** expenses were \$16 million, a 60% increase over expenses of \$10 million in Q1 2007. This was largely the result of finance changes associated with the Terasen acquisition.

Table 2. Segmented Results Summary

	Q1 2008 Earnings (C\$ Millions)	Q1 2007 Earnings (C\$ Millions)
Terasen Gas Companies	58	-
FortisAlberta	11	12
FortisBC	12	12
Newfoundland Power	6	11
Other Canadian	4	4
Caribbean	7	4
Fortis Generation	6	7
Fortis Properties	3	2
Corporate	-16	-10

Source: Company Reports

Capital expenditures were approximately \$162 million in Q1 2008, with capital expenditures expected to total approximately \$900 million in 2008. This capital budget is primarily focused on growth in the Western Canadian operations (Terasen, FortisAlberta, and FortisBC) and the Caribbean operations.

Forecast

We have lowered our EPS estimates slightly to account for increased financing and amortization expenses. This decrease is partially offset by our increased earnings estimates for Fortis Properties, due to higher than expected earnings growth. This is largely a result of contributions from the Delta Regina acquisition. We have forecast diluted EPS of \$1.51 for 2008 and \$1.56 for 2009, as demonstrated in Table 3 below.

Table 3. Beacon Securities' Forecast

(C\$ Millions except per share data)	<u>2008E</u>		<u>2009E</u>	
	<u>New</u>	<u>Previous</u>	<u>New</u>	<u>Previous</u>
EBITDA	\$1,024	\$999	\$1,063	\$1,039
Net Earnings	\$244	\$245	\$253	\$252
EPS (basic)	\$1.55	\$1.57	\$1.61	\$1.61
EPS (diluted)	\$1.51	\$1.53	\$1.56	\$1.57
Cash Flow	\$591	\$574	\$605	\$596
CFPS (basic)	\$3.77	\$3.66	\$3.86	\$3.80

Source: Beacon Securities

We expect earnings to continue to be impacted by increased finance charges, the result of an increased amount of debt acquired by Fortis, largely due to the Terasen acquisition. Furthermore, we expect additional financing and drawdown on existing credit facilities will be required to finance the 2008 capital budget of approximately \$900 million. This budget is also expected to be financed through equity injections from the corporate level and cash from operations.

We expect Fortis will require additional financing for its future growth projects over the next five years. Significant capital investment will be required over this time, with \$3 billion expected to be invested towards its electric business and approximately \$1 billion allocated towards gas distribution. These expected capital expenditures will be largely allocated towards the growth of the Western Canadian subsidiaries and the Caribbean.

Valuation and Recommendation

We view the Q1 2008 results as positive and continue to rate Fortis a BUY with a 12-month target price of \$31.00. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.9x 2009E earnings and 10.3x 2009E EV/EBITDA.

Results from Q1 2008 continued to demonstrate the benefit of the Terasen acquisition, as the acquisition became accretive to EPS. We believe the Terasen acquisition is an excellent geographic complement with Fortis' electric utilities in Western Canada. The acquisition provides Fortis with the experience and expertise necessary to further grow in the regulated natural gas utility business, and we expect future regulated gas utility acquisitions from the Company.

Significant rate base growth is planned for Western Canada over the coming years, with a rate base of more than \$3 billion expected for FortisAlberta and FortisBC combined in 2012. **We expect organic growth to occur largely through the Company's electrical infrastructure in Western Canada and the Caribbean.** We have forecast regions such as Newfoundland, Prince Edward Island, and Ontario to show little to no growth. The Company's commitment to growth is demonstrated through the capital budget of \$4 billion over the next five years. **We expect such significant rate base growth will fuel future earnings growth from Fortis.**

Key Risks

- **Integration Risk** – The acquisition of Terasen has resulted in Fortis nearly doubling its asset size. Difficulty with the integration of Terasen could hinder future earnings.
- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

Disclaimer

Analyst Certification

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FORTIS INC.

Reports Neutral Q2 After One-Time Charges

Summary

- Fortis reported Q2'08 earnings of \$29 million, down from \$41 million in Q2'07. Diluted EPS was \$0.18, lower than our estimate of \$0.28 and EPS of \$0.27 reported in Q2'07. Q2 results were impacted by a \$13 million charge at BEL and a one-time charge of \$2 million at FortisOntario. **Without these one-time charges, EPS would have been \$0.28.**
- We have lowered our estimates to account for the decision in Belize and the one-time charges. Our estimates have also been lowered due to an increase in forecasted amortization and financing costs and a stronger Canadian dollar. **We have forecast diluted EPS of \$1.43 for 2008 and \$1.51 for 2009.**
- We are lowering our 12-month target price from \$31.00 to \$30.00. We maintain our BUY recommendation.** Our target equates to 19.9x 2009E earnings and 9.6x 2009E EV/EBITDA. We view the recent decline in Fortis' share price as an overreaction to the PUC's decision on BEL's 2008/2009 rate application.
- We remain encouraged by Fortis' growth potential, with a capital budget of over \$4.5 billion planned for the next five years.** We expect organic growth to occur largely through the electric operations in Western Canada and the Caribbean. With Fortis' expertise in both electrical and gas regulated utilities, **we expect Fortis to look to the U.S. for future acquisitions, where many utilities are both gas and electric.**

FTS-TSX

August 11, 2008

Stock Rating: BUY (unchanged)

Target Price: \$30.00 (was \$31.00)

Closing Price (08/08/08): \$26.76

52 Week Range: \$24.11-\$29.94

(C\$ Millions except per share data, December Year End)

	2007A	2008E	2009E
EPS (basic)	\$1.40	\$1.55	\$1.61
EPS (fd)	\$1.32	\$1.51	\$1.57
CFPS (basic)	\$3.56	\$3.67	\$3.80
P/E (fd)	20.3 x	18.0 x	17.3 x
P/CF	7.5 x	7.4 x	7.1 x

Shares O/S (basic) 157.0

Shares O/S (fd) 158.1

Mkt. Cap. \$4,201.32

Net Debt/Total Cap. 63.7%

BVPS \$16.96

Price/Book Value 1.6 x

Dividend \$1.00

Dividend Yield 3.7%

ROE 8.9%

Change in Diluted EPS Forecasts

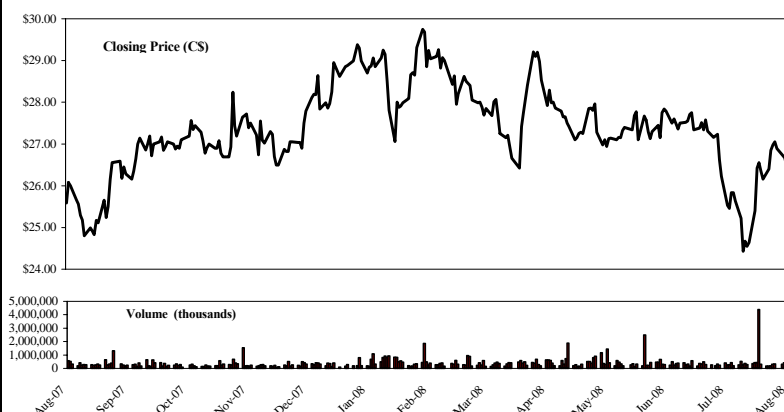
2008E was: \$1.51

2009E was: \$1.56

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with almost two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.

Fortis Inc.



*Please view the disclaimer at the end of this report

Q2 2008 results

Fortis Inc. reported Q2 2008 earnings of \$29 million, a 29% decrease over earnings of \$41 million in Q2 2007. Diluted EPS was \$0.18, lower than our estimate of \$0.28, and down 33% from a diluted EPS of \$0.27 reported during the same period last year. Q2 results were impacted by a \$13 million (\$0.08 per share) charge that represented disallowed previously incurred fuel and purchased power costs at Belize Electricity. This charge was the result of a decision by the Public Utilities Commission of Belize (PUC) on BEL's rate 2008/2009 application.

FortisOntario incurred a one-time charge of \$2 million associated with the repayment of interconnection agreement amounts received in Q4 2007. **Without these one-time charges, EPS would have been \$0.28.** Earnings were also hampered by higher corporate costs associated with the Terasen acquisition and higher corporate income taxes at FortisAlberta. Fortis' earnings were given support by contributions from the Terasen acquisition and increased quarterly earnings from Newfoundland Power, due to a shift in the quarterly distribution of annual purchased power expense.

Table 1. Results Summary (in Canadian dollars)

	<i>Q2 2008</i>	<i>Q2 2007</i>
Net Earnings Applicable to Common Shares	\$29 million	\$41 million
Basic EPS	\$0.19	\$0.31
Diluted EPS	\$0.18	\$0.27
Cash Flow from Operating Activities	\$244 million	\$68 million

Source: Company Reports

Segmented Results

Regulated Gas Utilities, composed of the **Terasen Gas** companies, reported earnings of \$12 million during the quarter, up from \$1 million in Q2 2007. However, last year's contributions from Terasen commenced from May 17, 2007. On a full quarter basis, earnings are comparable. Gains attributed to an increase in allowed ROEs, effective January 1, 2008, were offset by increased amortization costs and higher finance costs. Terasen experiences seasonality with its earnings, with Q1 and Q4 contributing to the majority of annual earnings, as a substantial portion of the gas distributed is required for space heating. In Q3, Terasen is expected to incur an earnings benefit of \$7.5 million, after settling historical tax matters.

Construction began on the \$200 million liquefied natural gas storage facility on Vancouver Island in Q2. Construction is expected to take three years, with the facility expected to come into service in late 2011.

Regulated Electric Utilities-Canadian reported quarterly earnings of \$28 million, a 15% decrease from earnings of \$33 million in Q2 2007, excluding the one-time charge from FortisOntario. The decrease was largely the result of higher future income tax expense at FortisAlberta. This expense was partially offset by increased quarterly earnings from Newfoundland Power.

FortisAlberta reported earnings of \$7 million, a 53% drop from \$15 million in earnings reported in Q2 2007. While FortisAlberta experienced a 3.2% increase in energy deliveries year-over-year in Q2 and incurred higher rates than the same period last year, this was more than offset by higher future income tax expense. FortisAlberta incurred a \$4 million future income tax expense associated with the AESO charges deferral account and the timing of the accounts' collection. This account captures the difference between the amounts charged to FortisAlberta by AESO for transmission tariffs and the amount collected from FortisAlberta's customers for the transmission tariff component of rates. If the amounts charged by AESO are greater than that collected from customers, then the difference is deferred as a regulatory asset for future recovery from customers, subject to regulatory approval. **When the deferral accounts are collected, FortisAlberta is expected to incur a future income tax recovery. The expected period until recovery is approximately two years.**

Increased contracted manpower costs, labour and employee-benefit costs, in addition to higher amortization costs and financing charges, also hindered earnings. We expect these factors to continue to impact earnings going forward; however this will be more than offset by the growth levels expected from the region, which are driven mainly by the oil and gas industry. We are modeling a customer growth rate of 2.5% for the remainder of 2008 and 2009.

FortisBC reported Q2 2008 earnings of \$7 million, a 17% rise over \$6 million in Q2 2007. The benefits of higher rates were partially offset by higher finance charges. FortisBC expects to file a 2009 Revenue Requirements application with the BCUC in Q4 2008.

Newfoundland Power reported Q2 2008 earnings of \$10 million, a 25% increase from \$8.0 million reported in Q2 2007. This increase in earnings was largely due to the shift in the quarterly distribution of annual purchased power expense, which increased quarterly earnings by \$2.5 million. Higher rates also supported earnings during the quarter. This increase was partially offset by a decrease of \$0.5 million related to the timing differences of operating expenses. As of 2008, the Company will now incur lower earnings in the winter and higher earnings in the summer. However, annual earnings will not be impacted by this shift. A more detailed explanation of the shift in quarterly earnings can be viewed in *Fortis Inc: Positive Q1 Fuelled by Terasen Acquisition – May 2, 2008*.

Quarterly earnings from **Other Canadian Electric Utilities** tumbled 50% year-over-year to \$2 million, due to a one-time repayment of a \$3 million (\$2 million after-tax) refund to Niagara Mohawk Power Corp (NIMO). In April 2008, FERC issued an order stating it did not have jurisdiction to award FortisOntario a refund of \$3 million, in December 2007, from NIMO regarding a cross-border transmission interconnection agreement. Without the one-time charge, quarterly earnings would have been comparable year-over year.

Regulated Electric Utilities-Caribbean earnings plunged from \$8 million in Q2 2007, to a loss of \$5 million in Q2 2008. This loss was the result of a \$13 million charge (Fortis' 70% share of \$18 million) associated with the PUC's decision on BEL's 2008/2009 rate application. The PUC ordered a BZ\$36 million (C\$13 million) retroactive adjustment associated with BEL prior year's results. This adjustment disallowed previously incurred fuel and power purchase costs. Furthermore, the PUC reduced BEL's target allowed ROA to 10% from 12%. Without this charge, earnings would have been comparable year-over-year. Earnings from the Caribbean were

also impacted by a stronger Canadian dollar, higher operating and amortization expenses, and a 3.25% reduction in Caribbean Utilities' rates, effective January 1, 2008. This rate reduction is expected to reduce annual revenue by US\$2.1 million. The Caribbean earnings did benefit from increased sales and a change in the method of calculating fuel costs under Caribbean Utilities' new transmission and distribution license, which resulted in a movement of deferred fuel costs. As of June 1, 2009, Caribbean Utilities will be permitted to adjust basic electricity rates with a formula based on published consumer price indices, thereby adjusting for inflation.

On July 25, 2008, BEL filed an application for judicial review and appeal of the PUC's decision with the Supreme Court of Belize. Fortis knows it has a strong case in Belize, as the PUC's decision is not good regulatory practice. The decision violates both the established regulatory practice and contractual obligations made by the government of Belize, when Fortis made its initial investment into the country. Fortis is optimistic it will see some changes, but it will take at least a year for a decision to be reached. This decision has the potential to hinder Fortis' share of BEL's earnings by approximately \$5 million over the next year. A recent salary increase at BEL is not expected to further hinder BEL's earnings to a great extent. BEL currently represents approximately 2% of the total assets of Fortis.

Earnings from **Fortis Generation** rose 40%, from \$5 million in Q2 2007, to \$7 million in Q2 2008, benefiting from augmented hydroelectric production in Newfoundland due to higher rainfall and increased average wholesale prices. A stronger Canadian dollar hampered gains slightly.

Fortis Properties earnings increased 17% year-over-year from \$6 million in Q2 2007 to \$7 million in Q2 2008. Earnings benefited from contributions from the acquisition of the Delta Regina and improved performance from Atlantic Canada's hospitality operations.

Quarterly **Corporate** expenses were \$18 million, a 50% increase over expenses of \$12 million in Q2 2007. This was largely the result of finance charges associated with the Terasen acquisition.

Table 2. Segmented Results Summary

	<i>Q2 2008 Earnings</i> (C\$ Millions)	<i>Q2 2007 Earnings</i> (C\$ Millions)
Terasen Gas Companies	12	1
FortisAlberta	7	15
FortisBC	7	6
Newfoundland Power	10	8
Other Canadian	2	4
Caribbean	-5	8
Fortis Generation	7	5
Fortis Properties	7	6
Corporate	-18	-12

Source: Company Reports

Capital expenditures were approximately \$381 million in H1 2008, and \$219 million in Q2 2008, with capital expenditures expected to total approximately \$900 million in 2008. Much of the H1 capital expenditures were allocated towards Terasen Gas companies. Capital expenditures over

the next five years are expected to exceed \$4.5 billion, with over \$1 billion allocated towards gas distribution and the remaining \$3.5 billion mostly towards electric distribution at FortisAlberta, FortisBC, and the Caribbean. There is not a significant amount expected to be invested in the Non-Regulated operations during this time period, with \$175 million estimated to be spent from 2009 to 2013. The rate base is expected to grow over this time from a current \$6.8 billion to \$9.4 billion in mid-2013.

Forecast & Outlook

We have lowered our 2008 estimates to account for the one-time charges and FortisAlberta's income tax expense that occurred during the quarter. We have also forecast increased amortization and financing expenses going forward for the Western operations and the Caribbean, due to the significant amount of capital investment planned for the areas. We have lowered our earnings estimates from the Caribbean operations for 2008 and 2009, to account for the PUC's decision on BEL's rate application and changes in forecasted exchange rate from Bloomberg consensus estimates. We have forecast higher earnings from Terasen for 2008, due to the \$7.5 million earnings benefit expected in Q3. We increased our earnings forecast for Fortis Properties, reflecting an increase in forecasted hospitality revenue. **We have forecast diluted EPS of \$1.43 for 2008 and \$1.51 for 2009**, as demonstrated in Table 3 below.

Table 3. Beacon Securities' Forecast

(\$C Millions except per share data)	<u>2008E</u>		<u>2009E</u>	
	<u>New</u>	<u>Previous</u>	<u>New</u>	<u>Previous</u>
EBITDA	\$1,047	\$1,024	\$1,117	\$1,063
Net Earnings	\$232	\$244	\$247	\$253
EPS (basic)	\$1.48	\$1.55	\$1.57	\$1.61
EPS (diluted)	\$1.43	\$1.51	\$1.51	\$1.56
Cash Flow	\$625	\$591	\$638	\$605
CFPS (basic)	\$3.98	\$3.77	\$4.06	\$3.86

Source: Beacon Securities

We expect earnings to begin to reflect the Company's growth efforts in 2009. However, we also expect 2009 earnings to be hampered by lower contributions from Fortis Generation, due to the expiration of the 75 MW Rankine rights in Ontario, which are expected to expire in April 2009. This will be partially offset by the 18 MW hydroelectric generating facility at Vaca on the Macal River in Belize when it begins its operations in late 2009.

We expect earnings to continue to be impacted by increased finance charges, the result of an increased amount of debt acquired by Fortis, largely due to the Terasen acquisition. Furthermore, we expect additional financing and drawdown on existing credit facilities will be required to finance the 2008 capital budget of approximately \$900 million. This budget is also expected to be financed through equity injections from the corporate level and cash from operations. We anticipate Fortis will require additional financing for its future growth projects over the next five years.

Valuation and Recommendation

We view the Q2 2008 results as neutral; when the one-time charges are removed, earnings are relatively flat year-over-year. **Due to the decrease in our 2009 estimates, we are lowering our 12-month target price from \$31.00 to \$30.00. We maintain our BUY recommendation.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.9x 2009E earnings and 9.6x 2009E EV/ EBITDA. We view the recent decline in Fortis' share price as an overreaction to the PUC's decision of BEL's 2008/2009 rate application, particularly where Belize accounts for approximately 2% of Fortis' total assets. Including dividends, there is a potential return of approximately 16% over the next year, which justifies our BUY rating.

We remain encouraged by Fortis' growth potential, with significant rate base growth planned for Western Canada over the next five years. **We expect organic growth to occur largely through the Company's electrical infrastructure in Western Canada and the Caribbean.** We have forecast regions such as Newfoundland, Prince Edward Island, and Ontario to show little to no growth. The Company's commitment to growth is demonstrated through the capital budget of over \$4.5 billion planned for the next five years. **We expect such significant rate base growth will fuel future earnings growth from Fortis.** We also expect further growth through acquisitions. With its expertise both in electrical and gas regulated utilities, **we expect Fortis to look to the U.S. for future acquisitions, where many utilities are both gas and electric.**

Key Risks

- **Integration Risk** – The acquisition of Terasen has resulted in Fortis nearly doubling its asset size. Difficulty with the integration of Terasen could hinder future earnings.
- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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A combination of valuation methods are used by Beacon Securities' analysts to determine the 12-month target price for issuers; including but not limited to discounted cash flow techniques, historical trading multiples and capitalization rates, and peer average trading multiples and capitalization rates.



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FORTIS INC.

Reports Neutral Q1 Results - Continues to Demonstrate Stability

Highlights

- Fortis Inc. reported neutral Q1 results, with earnings of \$92 million, or \$0.54 per share, compared to \$91 million, or \$0.58 per share, reported in Q1 2008. Q1 2009 EPS was slightly lower than our estimate of \$0.55, and lower than consensus of \$0.57. Increases in earnings from FortisBC and FortisAlberta were offset by lower earnings at the Caribbean Regulated Utilities and Fortis Properties.
- FortisAlberta and FortisBC benefited from investment in electrical infrastructure and higher rates. Caribbean earnings were hampered by reduced demand (due to cooler weather and the economic downturn) and decreases in CUC's and BEL's allowed rate of return. Fortis Properties was hindered by one-time operating costs associated with the Sheraton Hotel Newfoundland and lower hotel occupancies.
- We have decreased our estimates from the Caribbean operations and Fortis Properties. We believe growth from the Regulated Caribbean operations will continue to be hampered by decreased demand and lower levels of tourism due to the global economic slowdown. We expect hotel occupancies at Fortis Properties will be lower for 2009 and 2010. **We are decreasing our 2009 EPS estimate from \$1.50 to \$1.47, and our 2010 EPS from \$1.57 to 1.53.**
- With the reduction of our 2009 and 2010 estimates, **we are lowering our 12-month target price from \$28.25 to \$27.00. We maintain our BUY recommendation.** Our target equates to 17.7x 2010E EPS and 9.6x 2010E EV/EBITDA. In addition to providing sustainable dividend growth and stable earnings through its Regulated Utilities, Fortis offers strong rate base growth.

FTS-TSX

April 30, 2009

Stock Rating: BUY (unchanged)
Target Price: \$27.00 (was \$28.25)
Closing Price (4/30/09) \$22.15
52 Week Range: \$20.70-\$28.34

(C\$ Millions except per share data, December Year End)

	2008A	2009E	2010E
EPS (basic)	\$1.56	\$1.47	\$1.53
EPS (fd)	\$1.52	\$1.45	\$1.51
CFPS (basic)	\$3.95	\$3.80	\$3.90
P/E	14.2 x	15.0 x	14.5 x
P/CF	5.6 x	5.8 x	5.7 x
Shares O/S (basic)	169.8		
Shares O/S (fd)	185.4		
Mkt. Cap.	\$3,761.1		
Net Debt/Total Cap.	61.0%		
BVPS	\$17.90		
Price/Book Value	1.2 x		
Dividend	\$1.04		
Dividend Yield	4.7%		
ROE	8.7%		

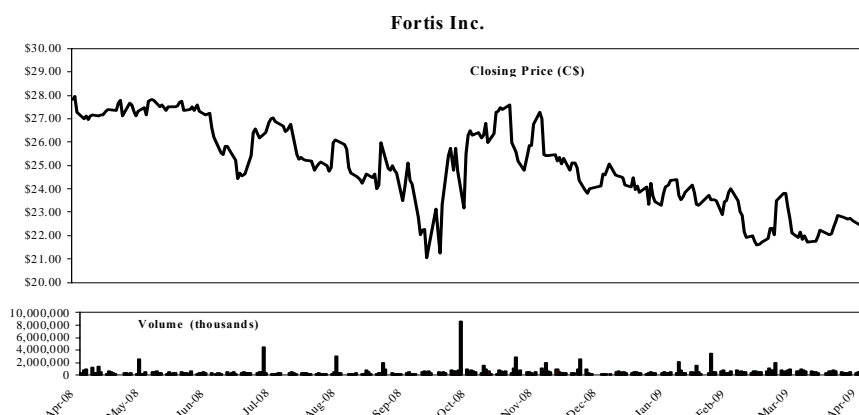
Change in Basic EPS Forecasts

2009E: was \$1.50
2010E: was \$1.57

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.

*Please view the disclaimer at the end of this report



Q1 2009 Results

Fortis Inc. reported neutral Q1 results. Q1 2009 earnings were \$92 million, or \$0.54 per share, compared to \$91 million, or \$0.58 per share, reported in Q1 2008. Q1 2009 EPS was slightly lower than our estimate of \$0.55 per share, and lower than consensus of \$0.57. Increases in earnings from FortisBC and FortisAlberta were offset by lower earnings at the Caribbean Regulated Utilities and Fortis Properties.

Exhibit 1. Results Summary (in Canadian dollars)

	Q1 2009	Q1 2008
Net Earnings Applicable to Common Shares	\$92 million	\$91 million
Reported Basic EPS	\$0.54	\$0.58
Reported Diluted EPS	\$0.52	\$0.55
Cash Flow from Operations	\$229 million	\$193 million

Source: Company Reports, Beacon Securities

Segmented Results

The **Terasen Gas** companies reported Q1 earnings of \$58 million, in line with earnings of \$58 million reported in Q1 2008. Benefits from increased customer delivery rates and a lower effective corporate income tax rate, were offset by higher labour and employee-benefit costs.

Rate applications for 2010 are expected to be filed with the BCUC by both Terasen Gas Inc. (TGI) and Terasen Gas (Vancouver Island) Inc. (TGVI) in the summer of 2009. Approval of rates from the BCUC is required, as the current performance-based settlement agreements expire at the end of 2009. As part of this rate filing, TGI and TGVI plan to seek a review of the current generic ROE adjustment mechanism and of the deemed equity component of the capital structure.

FortisAlberta reported earnings of \$12 million, a 9% lift from \$11 million in earnings reported in Q1 2008, benefiting from growth in electrical infrastructure investment and an increase in customer distribution rates. These contributions to earnings were partially offset by increased labour and employee-benefit costs, in addition to higher amortization costs and finance charges. We expect amortization and finance expenses to continue to increase, as much investment is expected in the area over the next five years.

FortisAlberta is currently involved in a Generic Cost of Capital Proceeding with the AUC, which will include reviewing 2009 ROE calculations and capital structures for regulated gas, electric, and pipeline utilities in Alberta. The results of this proceeding are expected in the fall of 2009. FortisAlberta expects to file its 2010/2011 Revenue Requirements Application in Q2 2009.

FortisBC reported Q1 2009 earnings of \$14 million, a 17% increase over \$12 million reported in Q1 2008. FortisBC earnings benefited from growth in electrical infrastructure investment and increased electricity rates. This was partially offset by increases in energy supply costs, higher operating costs, and higher amortization expense associated with a significant investment in capital expenditures.

Newfoundland Power reported Q1 2009 earnings of \$6 million, in line with Q1 2008. Electricity sales growth was offset by the impact of higher demand charges from Newfoundland and Labrador Hydro and increased amortization costs.

Quarterly earnings from **Other Canadian Electric Utilities** were \$5 million, up from \$4 million in Q1 2008. High rates more than offset higher finance charges. Approval by the Ontario Ministry of Finance, for the acquisition of a 10% ownership interest in Grimsby Power, is expected in Q2 2009.

Regulated Electric Utilities-Caribbean earnings fell from \$7 million in Q1 2008, to \$6 million in Q1 2009. **Excluding one-time gains of approximately \$2 million at Fortis Turks and Caicos, Q1 2009 earnings would be \$4 million (a \$3 million decrease).** Earnings were hampered by cooler weather, and the global economic downturn, both of which reduced energy demand. Earnings from the Caribbean were also impacted by the decrease in Caribbean Utilities' and Belize Electricity's allowed rate of return. Increased amortization costs also weighed down earnings. These factors were partially offset by a weaker Canadian dollar. The favourable impact from the stronger U.S. dollar contributed approximately \$1 million to earnings.

We expect sales growth to be hampered by the impact of the slowdown in the U.S. economy on the Caribbean tourism industry. However, a weaker Canadian dollar should help to alleviate the impact of the weaker economy. We believe additional growth opportunities from BEL will be minimal, as approximately \$9 million of Belize Electricity's indebtedness (at the end of Q1) did not meet certain debt covenant ratios. The lenders have been informed as to the situation and the necessary waivers have been requested. This default was the result of the PUC's decision on BEL's 2008/2009 rate application. This is the third quarter in a row that BEL has been unable to meet these debt covenant ratios.

Earnings from **Fortis Generation** were \$6 million in Q1 2009, comparable to the same period last year. Gains attributed to a stronger U.S. dollar, and increased hydroelectric production in Belize, were offset by lower production and decreased wholesale market energy prices in both Upper New York State and Ontario.

Fortis Properties earnings dropped 33% year-over-year from \$3 million in Q1 2008 to \$2 million in Q1 2009. Earnings were hindered by one-time operating costs associated with Sheraton Hotel Newfoundland and lower hotel occupancies. In April 2009, Fortis Properties purchased a Holiday Inn Select (214 room) in Windsor, Ontario for \$7 million.

Exhibit 2. Segmented Results Summary

	Q1 2009 Earnings (C\$ Millions)	Q1 2008 Earnings (C\$ Millions)
Terasen Gas Companies	58	58
FortisAlberta	12	11
FortisBC	14	12
Newfoundland Power	6	6
Other Canadian	5	4
Caribbean	6	7
Fortis Generation	6	6
Fortis Properties	2	3
Corporate	-17	-16

Source: Company Reports

Capital expenditures amounted to \$219 million in Q1 2009 alone. Gross capital expenditures for 2009 are forecast at \$1 billion. Future organic growth will come from major projects such as the

\$200 million LNG storage facility at Terasen Gas, the \$161 million Automated Meter Infrastructure Project at FortisAlberta, FortisBC's \$139 million Okanagan Transmission Reinforcement Project, and the US\$53 million 19 MW hydroelectric generating facility in Belize.

Forecast & Outlook

We have decreased our estimates from the Regulated Caribbean operations and Fortis Properties. We believe growth from the Regulated Caribbean operations will continue to be hampered by decreased demand and lower levels of tourism due to the global economic slowdown. We expect hotel occupancies at Fortis Properties will be lower for 2009 and 2010. As demonstrated in Exhibit 3, **we are decreasing our 2009 EPS estimate from \$1.50 to \$1.47, and our 2010 EPS from \$1.57 to 1.53.** Earnings from Fortis Generation will be lower in Q2, due to the expiration of the 75 MW Rankine rights in Ontario, which expired in April 2009. This had previously been factored into our estimates.

Exhibit 3. Beacon Securities' Forecast

(\$C Millions except per share data)	<u>2009E</u>		<u>2010E</u>	
	<u>New</u>	<u>Previous</u>	<u>New</u>	<u>Previous</u>
EBITDA	\$1,094	\$1,137	\$1,133	\$1,174
Net Income	\$250	\$254	\$260	\$266
EPS (<i>basic</i>)	\$1.47	\$1.50	\$1.53	\$1.57
EPS (<i>diluted</i>)	\$1.45	\$1.48	\$1.51	\$1.55
Cash Flow	\$645	\$647	\$662	\$676
CFPS (<i>basic</i>)	\$3.81	\$3.83	\$3.91	\$3.99

Source: Beacon Securities, Bloomberg

Fortis is confident in its ability to renew debt upon maturity over the coming years. Terasen and FortisAlberta each raised \$100 million of 30-year unsecured debentures at 6.55% and 7.06%, respectively. Long-term debt totalled \$5.1 billion, as of the end of Q1 2009. Long-term debt maturities and repayments total approximately \$234 million for the next year. Management expect long-term debt maturities and repayments to average approximately \$170 million over the next five years. The Company had consolidated credit facilities of \$2.2 billion, with \$1.6 billion unused as of March 31, 2009, which will provide necessary flexibility. Approximately \$2 billion of the total credit facilities are committed facilities, with many having maturities between 2011 and 2013.

Valuation and Recommendation

With the reduction of our 2009 and 2010 estimates, **we are lowering our 12-month target price from \$28.25 to \$27.00. We maintain our BUY recommendation.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 17.7x 2010E EPS and 9.6x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 26% over the next year, which justifies our BUY rating. The dividend currently yields 4.7%.

In addition to providing sustainable dividend growth and stable earnings through its Regulated Utilities, Fortis offers strong rate base growth, with rate base growth expected to average 7% over the next 5 years. Capital expenditures over the next five years are expected to exceed \$4.5 billion, with approximately \$1.2 billion allocated towards gas distribution, \$3.1 billion towards the regulated electric utilities (primarily FortisAlberta, FortisBC, and the Caribbean), and \$200 million towards the Non-Regulated operations. **We expect Fortis' five-year capital program should drive growth in earnings, with the majority of organic growth coming from the Regulated Electric Utilities in Western Canada and the Caribbean.**

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q1 2009	# Stocks	Distribution		
BUY	8	42.1%	BUY	Total 12-month return expected to be >15%
HOLD	8	42.1%	HOLD	Total 12-month return expected to be between 0% and 15%
SELL	3	15.8%	SELL	Total 12-month return expected to be negative
Total	19	100.0%		

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FORTIS INC.

Positive Q1 - Increasing Target Price

Highlights

- Fortis Inc. reported Q1 earnings that were slightly lower than we expected. However, Q1 was still a positive quarter, in our opinion. Q1 2010 earnings were \$100 million, or \$0.58 per share, compared to \$92 million, or \$0.54 per share, reported in Q1 2009. Q1 2010 EPS was 3% weaker than our estimate of \$0.60 per share, but in line with consensus. Q1 2010 results benefited from strong earnings from Terasen and FortisAlberta, partially offset by weaker results from the Caribbean operations and Fortis Generation. Earnings gained on the increase in allowed ROE and equity component at FortisAlberta and Terasen Gas.
- We have lowered our estimates due to weakness from Fortis Generation. We have also factored in higher financing charges from FortisAlberta and the Corporate segment. This has been partially offset by an increase in our Terasen estimates to reflect stronger than expected Q1 results. **We are decreasing our 2010 basic EPS estimate from \$1.71 to \$1.65, and our 2011 EPS is dropping from \$1.82 to \$1.76.**
- Despite the decrease to our estimates, **we are increasing our 12-month target price to \$31.25 from \$30.50, but maintaining our HOLD recommendation.** We are adjusting our price target to now reflect F2011 estimates. Our target equates to 17.8x 2011E EPS and 9.8x 2011E EV/EBITDA. The dividend currently yields 4.0%. Fortis' focus on organic growth and capital investment will continue to drive earnings growth, in our opinion. We are encouraged by Fortis' ability to continually grow its rate base, while maintaining its stability.

FTS-TSX

May 3, 2010

Stock Rating: **HOLD** (unchanged)

Target Price: **\$31.25** (was \$30.50)

Closing Price (04/30/10): **\$28.05**

52 Week Range: **\$22.15-29.32**

(C\$ Millions except per share data, December Year End)

	2009A	2010E	2011E
EPS (basic)	\$1.54	\$1.65	\$1.76
EPS (fd)	\$1.51	\$1.62	\$1.72
CFPS (basic)	\$3.96	\$4.25	\$4.48
P/E	18.2 x	17.0 x	15.9 x
P/CF	7.1 x	6.6 x	6.3 x
Shares O/S (basic)	172.2		
Shares O/S (fd)	185.9		
Mkt. Cap.	\$4,830.2		
Net Debt/Total Cap.	59.5%		
BVPS	\$18.62		
Price/Book Value	1.5 x		
Dividend	\$1.12		
Dividend Yield	4.0%		
ROE	8.5%		

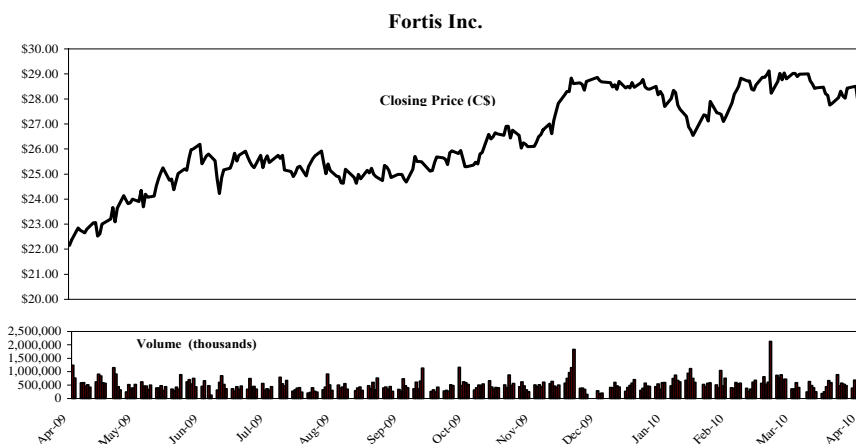
Change in Basic EPS Forecasts

2010E: was \$1.71

2011E: was \$1.82

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



*Please view the disclaimer at the end of this report

Q1 2010 Results

Fortis Inc. reported Q1 earnings that were slightly lower than we expected. Q1 2010 earnings were \$100 million, or \$0.58 per share, compared to \$92 million, or \$0.54 per share, reported in Q1 2009. Q1 2010 EPS was 3% weaker than our estimate of \$0.60 per share, and in line with the consensus estimate of \$0.58. Q1 2010 results benefited from strong earnings from Terasen and FortisAlberta, partially offset by weaker results from the Caribbean operations and Fortis Generation.

Exhibit 1. Results Summary (in Canadian dollars)

	Q1 2010	Q1 2009
Net Earnings Applicable to Common Shares	\$100 million	\$92 million
Reported Basic EPS	\$0.58	\$0.54
Reported Diluted EPS	\$0.56	\$0.52

Source: Company Reports, Beacon Securities

Segmented Results

The **Terasen Gas** companies reported strong earnings of \$73 million, up from earnings of \$58 million reported in Q1 2009. Earnings benefited from the increase in allowed ROEs, effective July 1, 2009. TGI's ROE was set at 9.5%, up from 8.47%. The BCUC decided the premium should be 50bp for both TGI and TGV (ROE of 10%). Earnings were also boosted by an increase in the equity component for TGI from 35% to 40%, effective January 1, 2010. Lower finance charges also lifted earnings. Terasen earnings were higher than we expected as we underestimated the impact of the ROE decision on Q1 earnings, and overestimated finance charges. This was partially offset by higher operating expenses and increased amortization costs.

FortisAlberta reported earnings of \$14 million, an increase of 17% from the \$12 million in Q1 2009. FortisAlberta gained on higher rates, a positive ROE decision, and customer growth. Earnings were boosted by an increase in allowed ROE to 9.0% from the interim rate of 8.51%, and an increase in equity thickness from 37% to 41%. FortisAlberta also benefited from customer growth. These contributions to earnings were partially offset by higher operating expenses, amortization costs, and finance charges. While FortisAlberta showed positive earnings growth, results were lower than we had forecast partially due to financing charges coming in higher than we expected.

FortisBC reported Q1 earnings of \$14 million, in line with the same period last year. The impact of increased electricity rates was offset by higher financing expenses associated with a significant investment in capital expenditures and lower energy sales. Effective January 1, 2010, the allowed ROE increased to 9.90% from 8.87%.

Newfoundland Power reported Q1 2010 earnings of \$7 million, up 17% from \$6 million in Q1 2009. Higher rates and increased sales were offset by higher costs associated with pensions, wages, and severance, in addition to increased financing costs.

Q1 earnings from **Other Canadian Electric Utilities** were flat at \$5 million, compared to Q1 2009.

Regulated Electric Utilities-Caribbean earnings decreased 33% year-over-year to \$4 million. This was in line with our expectations. An unfavourable foreign currency translation hampered earnings in Q1 2010, plus Fortis Turks and Caicos incurred a one-time gain of \$1 million in Q1 2009. Excluding these impacts, earnings were flat year-over-year. Earnings were supported by higher sales and a rate increase at CUC, which was offset by increased financing charges.

Q1 earnings from **Fortis Generation** were \$2 million, down from \$6 million in the same period last year, weaker than we had expected. Earnings from Fortis Generation were lower, due to the expiration of the 75 MW Rankine rights in Ontario, which expired in April 2009 (we had factored into our estimates). Earnings were also hampered by lower production in Belize, due to lower rainfall, which we had not forecast. The 19-MW Vaca hydroelectric generating facility was commissioned in March 2010.

Fortis Properties earnings were flat year-over-year at \$2 million. Contributions from the Real Estate division, the Holiday Inn Select Windsor, and hotel operations in Atlantic Canada were offset by lower hotel occupancies at the western Canadian hotels. We continue to expect hotel occupancies at Fortis Properties will be lower for the remainder of 2010.

Corporate expenses were higher year-over-year at \$21 million in Q1 2010, up from \$17 million in Q1 2009, largely due to higher preference share dividends from the issuance of First Preference Shares, Series H in January 2010. Higher than expected finance charges also increased Corporate expenses.

Exhibit 2. Segmented Results Summary

	Q1 2010 Earnings (C\$ Millions)	Q1 2009 Earnings (C\$ Millions)
Terasen Gas Companies	\$73	\$58
FortisAlberta	14	12
FortisBC	14	14
Newfoundland Power	7	6
Other Canadian	5	5
Caribbean	4	6
Fortis Generation	2	6
Fortis Properties	2	2
Corporate	-21	-17
Total	\$100	\$92

Source: Company Reports

Forecast & Outlook

We have lowered our estimates due to weakness in the Fortis Generation earnings. We are forecasting the low production levels from Belize will persist into Q2. The Vaca facility is now operational, which should help support Fortis Generation in H2 2010. We have also factored in higher financing charges from FortisAlberta and the Corporate segment. This has been partially offset by an increase in our Terasen estimates to reflect stronger than expected Q1 results. As demonstrated in Exhibit 3, **we are decreasing our 2010 basic EPS estimate from \$1.71 to \$1.65 per share. Our 2011 EPS is dropping from \$1.82 to \$1.76 per share.**

Exhibit 3. Beacon Securities' Forecast

(\$C Millions except per share data)	<u>2010E</u>		<u>2011E</u>	
	New	Previous	New	Previous
EBITDA	\$1,165	\$1,154	\$1,217	\$1,198
Net Income	\$283	\$292	\$303	\$311
EPS (basic)	\$1.65	\$1.71	\$1.76	\$1.82
EPS (diluted)	\$1.62	\$1.68	\$1.72	\$1.78
Cash Flow	\$729	\$708	\$769	\$740
CFPS (basic)	\$4.25	\$4.14	\$4.48	\$4.33

Source: Beacon Securities, Bloomberg

Total debt was \$5.7 billion at the end of Q1 2010. Management expect long-term debt maturities and repayments to average approximately \$280 million annually over the next five years. The Company had consolidated credit facilities of \$2.2 billion, with \$1.6 billion unused as of March 31, 2010. The FortisBC and Maritime Electric credit facilities that were due to mature in May 2010 and March 2010, respectively, were extended for another year (combined equal \$150 million).

Exhibit 4. Beacon Securities' Segmented 2010 Forecast

(\$C Millions)	<u>Segmented Earnings</u>	
	<u>2009A</u>	<u>2010E</u>
Regulated Gas Utilities - Canadian	\$117	\$129
Regulated Electric Utilities - Canadian	\$149	\$166
Regulated Electric Utilities - Caribbean	\$27	\$27
Non-Regulated - Fortis Generation	\$16	\$17
Non-Regulated - Fortis Properties	\$24	\$24
Corporate and Other	-\$71	-\$81
Net Earnings Applicable to Common Shareholders	\$262	\$283

Source: Beacon Securities, Bloomberg, Company Reports

Valuation and Recommendation

Despite the decrease to our estimates, **we are increasing our 12-month target price to \$31.25 from \$30.50 per share, but maintaining our HOLD recommendation.** We are adjusting our price target to now reflect F2011 estimates. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 17.8x 2011E EPS and 9.8x 2011E EV/EBITDA. The dividend currently yields 4.0%.

Fortis' focus on organic growth and capital investment will continue to drive earnings growth, in our opinion. Capital expenditures of \$5 billion are planned over the next five years. Approximately 27% of that spending is allocated toward growing the Regulated Gas operations, 70% toward the Regulated Electric utilities (primarily FortisAlberta and FortisBC), and 3% toward the Non-Regulated operations. Gross capital expenditures for 2010 are forecast at \$1.1 billion (with \$188 million incurred in Q1). In the long-term, we also expect further growth to also come from acquisitions. Acquisition opportunities exist, in both gas and electric utilities, particularly in the U.S. We are encouraged by Fortis' ability to continually grow its rate base, while maintaining its stability.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q1 2010	# Stocks	Distribution		
BUY	9	40.9%	BUY	Total 12-month return expected to be >15%
Spec. Buy	3	13.6%		Potential total 12-month return is high (>15%), but given
HOLD	8	36.4%	SPECULATIVE BUY	elevated risk, investment could result in a material loss
SELL	1	4.5%		Total 12-month return expected to be between 0% and 15%
Restricted	1	4.5%	HOLD	
Total	22	100.0%	SELL	Total 12-month return expected to be negative
*as of quarter end				

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FORTIS INC.

Neutral Q4 - 2010 to Benefit from ROE Decisions

Highlights

- Fortis reported Q4 results that were slightly weaker than expected. Q4 2009 earnings were \$81 million, or \$0.48 per share, compared to \$76 million, or \$0.48 per share, reported in Q4 2008. Q4 2009 EPS was 4% lower than our estimate of \$0.50. Results benefited from an approximate \$10 million cumulative retroactive impact from the increase in allowed ROEs for 2009 at FortisAlberta and Terasen Gas, in addition to the increased equity component at FortisAlberta. This was partially offset by costs of approximately \$5 million (after-tax) associated with the conversion of Whistler customer appliances from propane to natural gas.
- We have lowered our Caribbean forecasts to reflect a weaker U.S. dollar for 2010. We have also lowered our estimates for FortisBC and Fortis Generation, as we believe we overestimated the impact of the ROE decision and Vaca generating facility, respectively, on 2010 earnings. **Our 2010 EPS estimate is decreasing slightly (2%) from \$1.75 to \$1.71.** We are introducing our 2011 estimates.
- We are maintaining our 12-month target price of \$30.50 and our HOLD recommendation.** Our target equates to 17.8x 2010E EPS and 10.2x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 14% over the next year, which justifies our HOLD rating. As a whole, we view the outcomes of the recent ROE decisions as positive. Contributions from the combined ROE decisions fortified Fortis' ability to increase its annual dividend 7.7%, and will contribute to further earnings growth. We are encouraged by Fortis' focus on organic growth, the increased returns from the ROE decisions, and its ability to select and integrate accretive acquisition opportunities.

FTS-TSX
February 5, 2010
Stock Rating: HOLD (unchanged)
Target Price: \$30.50 (unchanged)
Closing Price (02/04/10) \$27.76
52 Week Range: \$21.52-\$29.24

(C\$ Millions except per share data, December Year End)

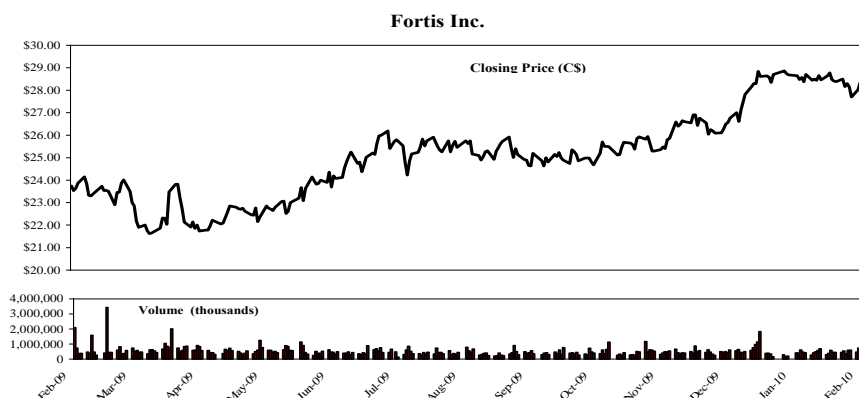
	2009A	2010E	2011E
EPS (basic)	\$1.54	\$1.71	\$1.82
EPS (fd)	\$1.51	\$1.68	\$1.78
CFPS (basic)	\$3.96	\$4.14	\$4.33
P/E	18.0 x	16.2 x	15.2 x
P/CF	7.0 x	6.7 x	6.4 x
Shares O/S (basic)	170.9		
Shares O/S (fd)	184.8		
Mkt. Cap.	\$4,744.2		
Net Debt/Total Cap.	62.2%		
BVPS	\$18.65		
Price/Book Value	1.5 x		
Dividend	\$1.12		
Dividend Yield	4.0%		
ROE	8.4%		

Change in Basic EPS Forecasts

2010E: was \$1.75
2011E: new

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



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Q4 2009 Results

Fortis Inc. reported Q4 earnings that were slightly weaker than we expected. Q4 2009 earnings were \$81 million, or \$0.48 per share, compared to \$76 million, or \$0.48 per share, reported in Q4 2008. Q4 2009 EPS was 4% lower than our estimate of \$0.50 per share, and 8% lower than the consensus estimate of \$0.52. Q4 2009 results benefited from an approximate \$10 million cumulative retroactive impact from the increase in allowed ROEs for 2009 at FortisAlberta and Terasen Gas, in addition to the increased equity component at FortisAlberta. This was partially offset by costs of approximately \$5 million (after-tax) associated with the conversion of Whistler customer appliances from propane to natural gas. The Company is seeking regulatory approval to have the additional conversion costs included in rate base. Excluding the costs of the Whistler Conversion Project, Q4 2009 earnings were \$86 million, or \$0.50 per share, inline with our estimates.

Earnings for 2009 were \$262 million, up from \$245 million in 2008. EPS for 2009 was \$1.54, compared to \$1.56 in 2008. Excluding the costs of the Whistler Conversion Project, 2009 earnings were \$267 million, or \$1.56.

Exhibit 1. Results Summary (in Canadian dollars)

	Q4 2009	Q4 2008	2009
Net Earnings Applicable to Common Shares	\$81 million	\$76 million	\$262 million
Reported Basic EPS	\$0.48	\$0.48	\$1.54
Reported Diluted EPS	\$0.46	\$0.46	\$1.51

Source: Company Reports, Beacon Securities

Segmented Results

The **Terasen Gas** companies reported earnings of \$48 million, slightly lower than our estimates, but up from earnings of \$47 million reported in Q4 2008. The lower than expected earnings are the result of costs related to the Whistler Pipeline Conversion Project, partially offset by lower than expected energy supply costs. Earnings benefited from the increase in allowed ROEs, effective July 1, 2009. TGI's ROE was set at 9.5%, up from the current 8.47%. The BCUC decided the premium should be 50bp for both TGV1 and TGV2 (ROE of 10%). Earnings would have been \$53 million in Q4 2009, excluding the costs of the conversion of Whistler appliances from propane to natural gas.

FortisAlberta reported earnings of \$15 million, an increase of 36% from the \$11 million reported in Q4 2008. Earnings were supported by increased rates, in addition to customer and load growth. Earnings were also boosted by an increase in allowed ROE for 2009 to 9.0% from the interim rate of 8.51%, and an increase in equity thickness from 37% to 41%. These contributions to earnings were partially offset by higher amortization costs and finance charges.

FortisBC reported Q4 2009 earnings of \$8 million, up 14% from \$7 million in Q4 2008. The impact of customer growth and increased electricity rates was offset by higher operating costs, in addition to increased financing expenses associated with a significant investment in capital expenditures.

Newfoundland Power reported Q4 2009 earnings of \$8 million, in line with Q4 2008. Increased electricity sales were offset by higher demand charges from Newfoundland and Labrador Hydro, increased operating expenses, and higher financing costs.

Quarterly earnings from **Other Canadian Electric Utilities** were \$6 million, in an increase from \$3 million in Q4 2008. FortisOntario benefited from a one-time \$3 million corporate tax adjustment.

Regulated Electric Utilities-Caribbean earnings decreased 13% year-over-year to \$7 million. The drop is the result of two additional months of contributions from Caribbean Utilities in 2008 (when CUC changed its year-end). An unfavourable foreign currency translation also decreased earnings. Excluding these impacts, earnings were \$2 million higher year-over-year. Earnings were supported by lower depreciation expense at Fortis Turks and Caicos, in addition to higher sales and a rate increase at CUC. We are expecting relatively flat sales growth from the Caribbean in 2010, due to the impact of economic weakness on tourism.

Earnings from **Fortis Generation** were \$3 million in Q4 2009, down from \$8 million the same period last year. Earnings from Fortis Generation were lower in Q4, due to the expiration of the 75 MW Rankine rights in Ontario, which expired in April 2009. This had previously been factored into our estimates. Earnings were once again hampered by lower wholesale market energy prices in Upper New York State. Lower production in Belize and Upper New York State also hindered earnings.

The 19-MW Vaca hydroelectric generating facility is expected to be completed by the end of February 2010. Fortis is not planning any further investment in Belize at this time, due the changes in electricity legislation by the Public Utilities Commission in Belize. An update on the court appeal is expected in H1 2010.

Fortis Properties earnings rose 25% year-over-year to \$5 million. Contributions from the Real Estate division and newly acquired hotels were offset by lower hotel occupancies at the remaining hotels. We continue to expect hotel occupancies at Fortis Properties will be lower for the remainder of 2010.

Exhibit 2. Segmented Results Summary

	Q4 2009 Earnings (C\$ Millions)	Q4 2008 Earnings (C\$ Millions)
Terasen Gas Companies	48	47
FortisAlberta	15	11
FortisBC	8	7
Newfoundland Power	8	8
Other Canadian	6	3
Caribbean	7	8
Fortis Generation	3	8
Fortis Properties	5	4
Corporate	-19	-20
Total	81	76

Source: Company Reports

Gross capital expenditures were approximately \$1 billion for 2009, of which 75% was directed towards the Western Canadian utilities. Gross capital expenditures for 2010 are forecast at \$1.1 billion. Future organic growth will come from major projects such as the \$200 million LNG storage facility at Terasen Gas, the \$155 million Automated Meter Infrastructure Project at FortisAlberta, and FortisBC's \$110 million Okanagan Transmission Reinforcement Project.

Forecast & Outlook

We have further lowered our Caribbean forecasts to reflect a weaker U.S. dollar for 2010 (based on Bloomberg consensus). We have also lowered our 2010 estimates for FortisBC and Fortis Generation, as we believe we overestimated the impact of the ROE decision and Vaca generating facility, respectively, on 2010 earnings. As demonstrated in Exhibit 3, **we are decreasing our 2010 EPS estimate slightly (2%) from \$1.75 to \$1.71.**

We are now introducing our 2011 estimates. The outcomes of the ROE decisions should continue to benefit earnings in 2011; however, there is some uncertainty as we await further regulatory decisions. Earnings from FortisAlberta are uncertain, as the AUC plans to re-examine the ROE in 2011 and determine whether an ROE-adjustment formula should be adopted. FortisAlberta's ROE of 9.0% will be in place on an interim basis for 2011. In regards to Terasen, the BCUC decided that the automatic adjustment mechanism that was used to determine ROE would be eliminated. It directed TGI to complete its study of alternative formulae and report to the Commission by December 31, 2010. TGI's 9.5% ROE will apply until further review. Furthermore, where Newfoundland Power received such a small boost in ROE (from 8.95% to 9.0%), we expect the utility to look for a further increase.

Exhibit 3. Beacon Securities' Forecast

(\$C Millions except per share data)	<u>2010E</u>		<u>2011E</u>
	New	Previous	New
EBITDA	\$1,154	\$1,192	\$1,198
Net Income	\$292	\$298	\$311
EPS (basic)	\$1.71	\$1.75	\$1.82
EPS (diluted)	\$1.68	\$1.71	\$1.78
Cash Flow	\$708	\$717	\$740
CFPS (basic)	\$4.14	\$4.20	\$4.33

Source: Beacon Securities, Bloomberg

Total debt equalled \$5.9 billion at the end of Q4 2009. Management expect long-term debt maturities and repayments to average approximately \$230 million annually over the next five years. The Company had consolidated credit facilities of \$2.2 billion, with \$1.4 billion unused as of December 31, 2009. A FortisBC and a Maritime Electric credit facility are due to mature in May 2010 and March 2010, respectively. Combined, these facilities total \$150 million. Fortis expects these facilities will be extended for another year. Fortis continues to have strong access to capital markets, having raised approximately \$1.3 billion since December 2008.

Exhibit 4. Beacon Securities' Segmented 2010 Forecast

(\$C Millions)	Segmented Earnings	
	2009A	2010E
Regulated Gas Utilities - Canadian	\$117	\$127
Regulated Electric Utilities - Canadian	\$149	\$173
Regulated Electric Utilities - Caribbean	\$27	\$27
Non - Regulated - Fortis Generation	\$16	\$18
Non - Regulated - Fortis Properties	\$24	\$24
Corporate and Other	-\$71	-\$76
Net Earnings Applicable to Common Shareholders	\$262	\$292

Source: Beacon Securities, Bloomberg, Company Reports

Valuation and Recommendation

We are maintaining our 12-month target price of \$30.50 and our HOLD recommendation. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 17.8x 2010E EPS and 10.2x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 14% over the next year, which justifies our HOLD rating. The dividend currently yields 4.0%.

As a whole, we view the outcomes of the recent ROE decisions as positive. Contributions from the combined ROE decisions fortified Fortis' ability to increase its quarterly dividend 7.7% to \$0.28 per share, or \$1.12 annually. This is the 37th consecutive annual dividend increase.

Fortis continues to demonstrate strong organic growth. Capital expenditures of \$5 billion are planned over the next five years, which is expected to drive rate base growth at an average annual rate of 6-7%. Approximately \$3.5 billion is expected to be invested in the Regulated Electric Utilities (mostly in Western Canada), approximately \$1.35 billion is planned for Terasen Gas, and the remaining \$0.15 billion has been allocated to Non-Regulated activities.

We are encouraged by Fortis' focus on organic growth, the increased returns from the ROE decisions, and its ability to select and integrate accretive acquisition opportunities. Acquisition opportunities exist, in both gas and electric utilities, particularly in the U.S.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q4 2009	# Stocks	Distribution		
BUY	9	43.5%	BUY	Total 12-month return expected to be >15%
Spec. Buy	2	8.7%		Potential total 12-month return is high (>15%), but given
HOLD	10	39.1%	SPECULATIVE BUY	elevated risk, investment could result in a material loss
SELL	2	8.7%		Total 12-month return expected to be between 0% and 15%
Total	23	100.0%	HOLD	Total 12-month return expected to be negative
*as of quarter end			SELL	

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FORTIS INC.

Updating Estimates for BCUC Decision - Boosting Target

- Fortis subsidiary, Terasen Gas Inc., announced yesterday that it had received the BCUC's decision on its ROE and Capital Structure Application. TGI's ROE was set at 9.5%, effective July 1, 2009, up from the current 8.47%. While an increase in ROE is positive, it is not the 11% TGI had requested. The common equity component in capital structure increased to 40% (the equity thickness Terasen Gas had requested), from 35%, effective from January 1, 2010.
- The BCUC decided that the automatic adjustment mechanism that was used to determine ROE would be eliminated. It directed TGI to complete its study of alternative formulae and report to the Commission by December 31, 2010. The 9.5% ROE will apply until further review.
- TGI had requested the new ROE be used in establishing the ROE for TGVI and TGW, at a premium of 70bp and 50bp, respectively, over TGI's ROE. The BCUC decided the premium should be 50bp for both TGVI and TGW (ROE of 10%), due to a reduction in TGVI's risk since 2005.
- FortisBC is also impacted by the decision, as TGI will continue to serve as the benchmark ROE for FortisBC. The ROE for FortisBC increased to 9.90% from 8.87%.
- We have adjusted our estimates to reflect the BCUC's decision. **We are increasing our 2009 EPS estimate from \$1.54 to \$1.56, and our 2010 EPS from \$1.61 to \$1.75.**
- With the increase to our estimates, we are boosting our 12-month target to \$30.50 from \$28.50. We are maintaining our HOLD rating.** Including dividends, there is a potential return of approximately 9% over the next year, which justifies our HOLD rating. Our target equates to 17.4x 2010E EPS and 9.7x 2010E EV/EBITDA.

FTS-TSX
December 18, 2009
Stock Rating: HOLD (unchanged)
Target Price: \$30.50 (was \$28.50)
Closing Price (12/17/09) \$28.84
52 Week Range: \$21.52-\$28.88

(C\$ Millions except per share data, December Year End)

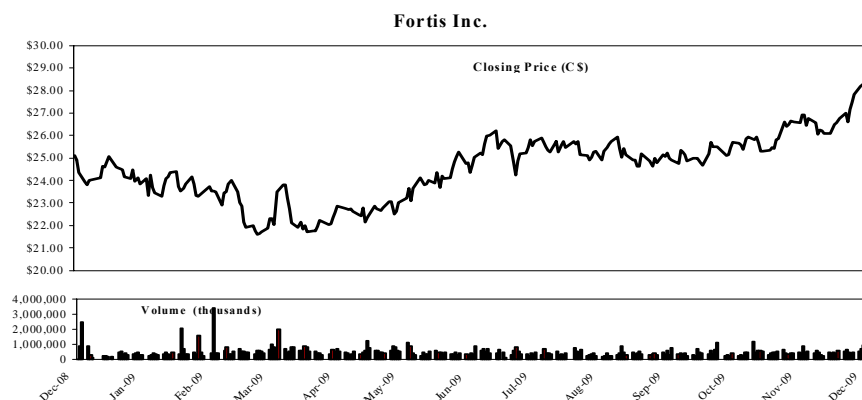
	2008A	2009E	2010E
EPS (basic)	\$1.56	\$1.56	\$1.75
EPS (fd)	\$1.52	\$1.53	\$1.71
CFPS (basic)	\$3.95	\$4.03	\$4.20
P/E	18.5 x	18.4 x	16.5 x
P/CF	7.3 x	7.2 x	6.9 x
Shares O/S (basic)	170.4		
Shares O/S (fd)	171.1		
Mkt. Cap.	\$4,914.3		
Net Debt/Total Cap.	61.8%		
BVPS	\$18.16		
Price/Book Value	1.6 x		
Dividend	\$1.04		
Dividend Yield	3.6%		
ROE	8.9%		

Change in Basic EPS Forecasts

2009E: was \$1.54
2010E: was \$1.61

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



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Ending Q3 2009	# Stocks	Distribution		
BUY	10	43.5%	BUY	Total 12-month return expected to be >15%
Spec. Buy	2	8.7%	SPECULATIVE BUY	Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss
HOLD	9	39.1%		Total 12-month return expected to be between 0% and 15%
SELL	2	8.7%	HOLD	Total 12-month return expected to be negative
Total	23	100.0%	SELL	

*as of quarter end

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BEACON
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FORTIS INC.

Stable Structure Produces Solid Q3

Highlights

- **Fortis reported stronger than expected Q3 results.** Q3 2009 earnings were \$36 million, or \$0.21 per share, compared to \$49 million, or \$0.31 per share, in Q3 2008. However, Q3 2008 benefited from one-time tax reductions of \$12 million. Excluding this impact, Q3 earnings were \$1 million lower year-over-year. The lower earnings were largely the result of the expiration of the 75 MW Rankine rights in Ontario, which expired in April 2009 and was factored into our estimates. Q3 2009 EPS was higher than our estimate of \$0.19, and inline with the consensus estimate of \$0.21. Results from FortisAlberta were better than our forecasts.
- A decision on FortisAlberta's Generic Cost of Capital Proceeding is expected next week (mid-November). Decisions on both the Terasen and Newfoundland Power ROE applications are anticipated by the end of 2009.
- We have adjusted our estimates to reflect stronger than forecast results from FortisAlberta. We have lowered our Caribbean forecasts to reflect a weaker U.S. dollar for the remainder of 2009 and 2010. **We are increasing our 2009 EPS estimate from \$1.50 to \$1.51, and dropping our 2010 EPS from \$1.60 to \$1.59.**
- **We are maintaining our 12-month target price of \$28.50 and our BUY rating.** Our target equates to 17.9x 2010E EPS and 9.7x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 15% over the next year, which justifies our BUY rating. Fortis' planned capital expenditures of \$5 billion over the next five years is expected to drive rate base growth at a forecasted average annual rate of 6-7%.

FTS-TSX
November 5, 2009
Stock Rating: BUY (unchanged)
Target Price: \$28.50 (unchanged)
Closing Price (11/5/09) \$25.81
52 Week Range: \$21.52-\$28.00

(C\$ Millions except per share data, December Year End)

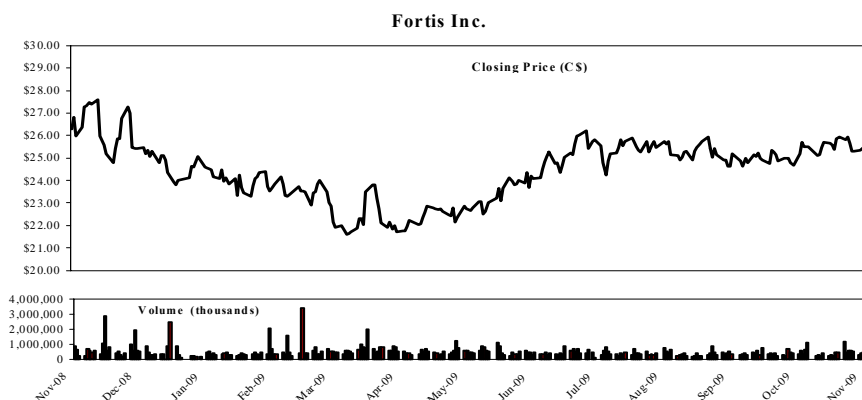
	2008A	2009E	2010E
EPS (basic)	\$1.56	\$1.51	\$1.59
EPS (fd)	\$1.52	\$1.49	\$1.54
CFPS (basic)	\$3.95	\$3.98	\$4.04
P/E	16.6 x	17.1 x	16.3 x
P/CF	6.5 x	6.5 x	6.4 x
Shares O/S (basic)	170.4		
Shares O/S (fd)	171.1		
Mkt. Cap.	\$4,398.0		
Net Debt/Total Cap.	61.8%		
BVPS	\$18.16		
Price/Book Value	1.4 x		
Dividend	\$1.04		
Dividend Yield	4.0%		
ROE	8.4%		

Change in Basic EPS Forecasts

2009E: was \$1.50
2010E: was \$1.60

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



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Phone: 902.423.1260 or 1.800.565.1981 www.beaconsecurities.ca

Q3 2009 Results

Fortis Inc. reported stronger than expected Q3 results. Q3 2009 earnings were \$36 million, or \$0.21 per share, compared to \$49 million, or \$0.31 per share, reported in Q3 2008. Q3 2009 EPS was higher than our estimate of \$0.19 per share, and inline with the consensus estimate of \$0.21. Q3 2008 benefited from one-time tax reductions of \$12 million at Terasen and FortisAlberta. Excluding the impact of the tax reductions, Q3 2009 earnings were only \$1 million lower year-over-year. The lower earnings were largely the result of the expiration of Fortis Generation's 75 MW Rankine rights in Ontario, which expired in April 2009 and was factored into our estimates. Performance from FortisAlberta was better than expected, due to higher load and customer growth and increased net transmission revenue.

Exhibit 1. Results Summary (in Canadian dollars)

	Q3 2009	Q3 2008
Net Earnings Applicable to Common Shares	\$36 million	\$49 million
Reported Basic EPS	\$0.21	\$0.31
Reported Diluted EPS	\$0.21	\$0.31

Source: Company Reports, Beacon Securities

Segmented Results

The **Terasen Gas** companies reported a loss of \$3 million, inline with our estimates, and down from earnings of \$1 million reported in Q3 2008 due to a \$5.5 million tax reduction last year. Excluding the impact of the tax reduction, earnings were \$1.5 million higher year-over-year, supported by lower income taxes and higher delivery rates.

A hearing regarding the rate applications for 2010 and 2011 (for both Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.) was held in September 2009. As part of this rate filing, TGI and TGVl were seeking a review of the current generic ROE adjustment mechanism and of the deemed equity component of the capital structure. A decision is expected by the end of Q4 2009. Terasen is requesting allowed ROE be set at 11% effective July 1, 2009 (from 8.47%). TGI requests that the deemed common equity component in its capital structure allowed for rate making purposes be increased to 40%, as compared to the current 35%, effective from January 1, 2010.

FortisAlberta reported earnings of \$16 million, which was higher than we had expected, but down 6% from the \$17 million reported in Q3 2008. Earnings from the same period last year benefited from a future income tax recovery of \$4.5 million. Excluding this tax recovery, earnings were \$3.5 million higher, compared to Q3 last year. Earnings were supported by increased rates, customer and load growth, and higher net transmission revenue. These contributions to earnings were partially offset by higher operating costs, amortization costs, and finance charges.

FortisAlberta is currently involved in a Generic Cost of Capital Proceeding with the AUC, which includes reviewing 2009 ROE calculations and capital structures for regulated gas, electric, and pipeline utilities in Alberta. A decision on this proceeding is expected next week (mid-November).

FortisBC reported Q3 2009 earnings of \$8 million, in line with Q3 2008. The impact of customer growth and increased electricity rates was offset by higher energy supply costs and operating costs, in addition to increased amortization and financing expenses associated with a significant

investment in capital expenditures.

Newfoundland Power reported Q3 2009 earnings of \$7 million, dropping 13% from \$8 million in Q3 2008, on higher operating and amortization charges. A hearing regarding Newfoundland Power's application with the PUB to set 2010 rates, and review cost of capital, occurred in October. A decision is expected by the end of this year. Newfoundland Power is looking to increase its allowed ROE from 8.95% to 11%.

Quarterly earnings from **Other Canadian Electric Utilities** were \$5 million, in line with Q3 2008. On October 8, 2009, Fortis Ontario announced it had closed the acquisition of Great Lakes Power Distribution from Brookfield Renewable Power for approximately \$75 million, subject to adjustment. Great Lakes Power Distribution has been renamed Algoma Power. Algoma Power serves approximately 12,000 customers in the district of Algoma in northern Ontario, and has over 1,800km of distribution lines.

We do not expect the purchase of NB Power's assets by Hydro-Québec will have a significant impact on Maritime Electric. Most of Maritime Electric's power is purchased from NB Power, and Fortis expects these contracts will remain honoured. We do not foresee the sale of Maritime Electric to Hydro-Quebec at this time, and Fortis has not had any recent discussions with the Québec utility.

Regulated Electric Utilities-Caribbean earnings were flat year-over-year at \$7 million. The favourable foreign currency translation, higher sales, and the rate increase at CUC, were offset by higher operating expenses and amortization costs.

Belize Electricity's energy supply from CFE of Mexico continued to be reduced in Q3, due to repairs on some of CFE's generating plants. As a result, Belize has increased its purchases from emergency sources, which comes at a higher cost. BEL also increased its use of in-house generation, with little reserve capacity remaining available. Any energy supply cost increases incurred as a result should be flowed through rates. The 19-MW Vaca hydroelectric generating facility is expected to be completed the beginning of 2010, which will assist in meeting demand.

Earnings from **Fortis Generation** were \$4 million in Q3 2009, down from \$9 million the same period last year. Earnings from Fortis Generation were lower in Q3, due to the expiration of the 75 MW Rankine rights in Ontario, which expired in April 2009. This had previously been factored into our estimates. For the third quarter in a row, earnings were hampered by lower wholesale market energy prices in Upper New York State.

Fortis Properties earnings were flat year-over-year at \$9 million. Contributions from the Real Estate division and newly acquired hotels were offset by lower hotel occupancies at the remaining hotels. We expect hotel occupancies at Fortis Properties will be lower for the remainder of 2009 and 2010.

Exhibit 2. Segmented Results Summary

	Q3 2009 Earnings (C\$ Millions)	Q3 2008 Earnings (C\$ Millions)
Terasen Gas Companies	-3	1
FortisAlberta	16	17
FortisBC	8	8
Newfoundland Power	7	8
Other Canadian	5	5
Caribbean	7	7
Fortis Generation	4	9
Fortis Properties	9	9
Corporate	-17	-15
Total	36	49

Source: Company Reports

Gross capital expenditures were \$763 million for the first nine months of 2009. Gross capital expenditures for 2009 are forecast at over \$1 billion. Future organic growth will come from major projects such as the \$200 million LNG storage facility at Terasen Gas, the \$168 million Automated Meter Infrastructure Project at FortisAlberta, and FortisBC's \$110 million Okanagan Transmission Reinforcement Project.

Forecast & Outlook

We have adjusted our estimates to reflect stronger than forecast results from FortisAlberta. We have lowered our Caribbean forecasts to reflect a weaker U.S. dollar for the remainder of 2009 and 2010 (based on Bloomberg consensus). As demonstrated in Exhibit 3, **we are increasing our 2009 EPS estimate from \$1.50 to \$1.51, and dropping our 2010 EPS from \$1.60 to \$1.59.**

Exhibit 3. Beacon Securities' Forecast

(C\$ Millions except per share data)	<u>2009E</u>		<u>2010E</u>	
	<u>New</u>	<u>Previous</u>	<u>New</u>	<u>Previous</u>
EBITDA	\$1,087	\$1,086	\$1,159	\$1,161
Net Income	\$258	\$255	\$271	\$272
EPS (basic)	\$1.51	\$1.50	\$1.59	\$1.60
EPS (diluted)	\$1.49	\$1.47	\$1.54	\$1.55
Cash Flow	\$678	\$670	\$690	\$701
CFPS (basic)	\$3.98	\$3.94	\$4.04	\$4.12

Source: Beacon Securities, Bloomberg

Long-term debt totalled \$5.4 billion, as of the end of Q3 2009. Management expect long-term debt maturities and repayments to average approximately \$157 million annually over the next five years. The Company had consolidated credit facilities of \$2.2 billion, with \$1.6 billion unused as of September 30, 2009, which will provide necessary flexibility. Fortis continues to have strong access to capital markets, having raised more than \$700 million of long-term debt year-to-date.

Valuation and Recommendation

We are maintaining our 12-month target price of \$28.50 and our BUY recommendation.

Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 17.9x 2010E EPS and 9.7x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 15% over the next year, which justifies our BUY rating. The dividend currently yields 4.0%. Fortis has 36 years of consecutive dividend increases, and we expect another dividend increase to be announced next month.

Fortis remains a quality company with sustainable dividend growth, continuous investment in rate base, and stable earnings through its Regulated Utilities. We view this blue-chip company as a lower risk investment for investors looking for a defensive stock during periods of market volatility. In addition to stability, Fortis continues to grow organically, with planned capital expenditures of \$5 billion expected over the next five years, which is expected to drive rate base growth at an average annual rate of 6-7%. Furthermore, acquisition opportunities exist, in both gas and electric utilities, particularly in the U.S.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q3 2009	# Stocks	Distribution		
BUY	10	43.5%	BUY	Total 12-month return expected to be >15%
Spec. Buy	2	8.7%	SPECULATIVE BUY	Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss
HOLD	9	39.1%		Total 12-month return expected to be between 0% and 15%
SELL	2	8.7%	HOLD	
Total	23	100.0%	SELL	Total 12-month return expected to be negative

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FORTIS INC.

Updating Estimates for AUC Decision - Downgrading to HOLD

Highlights

- FortisAlberta, a subsidiary of Fortis Inc., has received the AUC's decision on the 2009 Generic Cost of Capital proceeding. The AUC has discontinued its annual adjustment formula for establishing generic ROE. The AUC set the 2009 and 2010 generic ROE at 9.0% for all Alberta utilities. This is higher than the 8.61% the former adjustment formula would have provided and FortisAlberta's 2009 interim rate of 8.51%. For FortisAlberta, the deemed common equity level of rate base was set at 41%, up from 37%. The AUC stated this was a "fair return", and was warranted to address the impact of the credit crunch. On its own, the increase in ROE would not have a significant impact. However, **we view the increases to ROE and equity thickness, combined, as positive.**
- The ROE of 9.0% will be in place on an interim basis for 2011. The AUC plans to re-examine the ROE in 2011 and determine whether an ROE-adjustment formula should be adopted. Therefore, there is uncertainty in the ROE level for post 2010.
- We have adjusted our estimates to reflect the AUC's decision. We are expecting a boost in earnings of \$4 million in 2009. **We are increasing our 2009 EPS estimate from \$1.51 to \$1.54, and our 2010 EPS from \$1.59 to \$1.61.**
- We are maintaining our 12-month target price of \$28.50. Given the recent rise in share price, we are lowering our recommendation to HOLD from BUY.** Including dividends, there is a potential return of approximately 11% over the next year, which justifies our HOLD rating. Our target equates to 17.7x 2010E EPS and 9.7x 2010E EV/EBITDA.

FTS-TSX

November 17, 2009

Stock Rating: HOLD (was BUY)

Target Price: \$28.50 (unchanged)

Closing Price (11/16/09) \$26.55

52 Week Range: \$21.52-\$28.00

(C\$ Millions except per share data, December Year End)

	2008A	2009E	2010E
EPS (basic)	\$1.56	\$1.54	\$1.61
EPS (fd)	\$1.52	\$1.51	\$1.57
CFPS (basic)	\$3.95	\$4.01	\$4.07
P/E	17.1 x	17.3 x	16.4 x
P/CF	6.7 x	6.6 x	6.5 x
Shares O/S (basic)	170.4		
Shares O/S (fd)	171.1		
Mkt. Cap.	\$4,524.1		
Net Debt/Total Cap.	61.8%		
BVPS	\$18.16		
Price/Book Value	1.5 x		
Dividend	\$1.04		
Dividend Yield	3.9%		
ROE	8.4%		

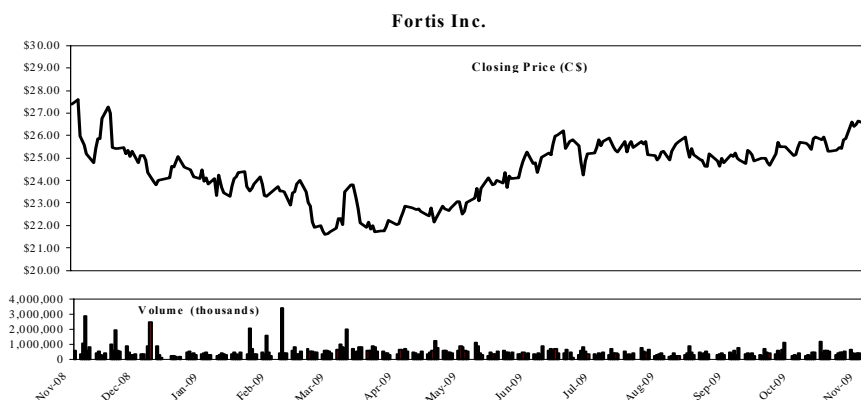
Change in Basic EPS Forecasts

2009E: was \$1.51

2010E: was \$1.59

Company Description

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Ending Q3 2009	# Stocks	Distribution		
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Spec. Buy	2	8.7%	SPECULATIVE BUY	Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss
HOLD	9	39.1%		Total 12-month return expected to be between 0% and 15%
SELL	2	8.7%	HOLD	
Total	23	100.0%	SELL	Total 12-month return expected to be negative

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B E A C O N
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FORTIS INC.

Strong Q2 - Demonstrates Stability During Economic Uncertainty

Highlights

- **Fortis reported stronger than expected Q2 results**, with earnings of \$53 million, or \$0.31 per share, compared to \$29 million, or \$0.19 per share, reported in Q2 2008. Q2 2009 EPS was higher than our estimate of \$0.26 per share, and consensus of \$0.27. (Note: The results from Q2 2008 were hindered by one-time charges from BEL and FortisOntario.) Excluding these one-time charges, earnings were up \$9 million year-over-year. Q2 2009 earnings benefited from strong results from FortisAlberta and Terasen. This was partially offset by lower earnings from Fortis Generation.
- **We are increasing our 2009 EPS estimate from \$1.47 to \$1.50, and our 2010 EPS from \$1.53 to \$1.60.** The favourable impact from the strong Q2 results has been partially offset by a reduction in our forecasts for the Caribbean operations. We have lowered this forecast to reflect a weaker U.S. dollar for the remainder of 2009 and 2010 (based on Bloomberg consensus estimates). We have updated our 2010 estimates for Terasen, FortisAlberta, and Newfoundland Power to reflect information from the rate applications.
- **With an increase in our estimates, we are raising our 12-month target price from \$27.00 to \$28.50, and maintaining our BUY rating.** Our target equates to 17.8x 2010E EPS and 9.6x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 15% over the next year, which justifies our BUY rating.
- The solid Q2 results demonstrate Fortis' stability, even in times of economic uncertainty. We believe Fortis is a low risk and stable investment. In addition to providing sustainable dividend growth and stable earnings through its Regulated Utilities, Fortis offers strong rate base growth.

FTS-TSX
August 6, 2009
Stock Rating: BUY (unchanged)
Target Price: \$28.50 (was \$27.00)
Closing Price (8/5/09) \$25.63
52 Week Range: \$20.70-\$28.00

(C\$ Millions except per share data, December Year End)

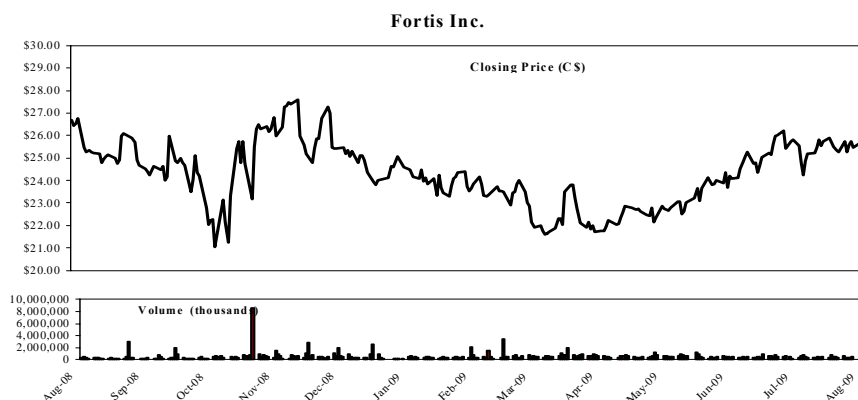
	2008A	2009E	2010E
EPS (basic)	\$1.56	\$1.50	\$1.60
EPS (fd)	\$1.52	\$1.47	\$1.55
CFPS (basic)	\$3.95	\$3.94	\$4.12
P/E	16.5 x	17.1 x	16.0 x
P/CF	6.5 x	6.5 x	6.2 x
Shares O/S (basic)	170.3		
Shares O/S (fd)	179.3		
Mkt. Cap.	\$4,364.8		
Net Debt/Total Cap.	60.6%		
BVPS	\$18.29		
Price/Book Value	1.4 x		
Dividend	\$1.04		
Dividend Yield	4.1%		
ROE	9.3%		

Change in Basic EPS Forecasts

2009E: was \$1.47
2010E: was \$1.53

Company Description

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Q2 2009 Results

Fortis Inc. reported stronger than expected Q2 results. Q2 2009 earnings were \$53 million, or \$0.31 per share, compared to \$29 million, or \$0.19 per share, reported in Q2 2008. Q2 2009 EPS was higher than our estimate of \$0.26 per share, and consensus of \$0.27. **The results for the same period last year were hindered by one-time charges of \$15 million from Belize Electricity and FortisOntario. Excluding these one-time charges, earnings were up \$9 million year-over-year.** Q2 2009 earnings benefited from increased contributions from FortisAlberta and the Terasen Gas companies. This was partially offset by lower earnings from Fortis Generation.

Exhibit 1. Results Summary (in Canadian dollars)

	Q2 2009	Q2 2008
Net Earnings Applicable to Common Shares	\$53 million	\$29 million
Reported Basic EPS	\$0.31	\$0.19
Reported Diluted EPS	\$0.31	\$0.18
Cash Flow from Operations	\$275 million	\$232 million

Source: Company Reports, Beacon Securities

Segmented Results

The **Terasen Gas** companies reported Q2 earnings of \$14 million, up 17% from earnings of \$12 million reported in Q2 2008. Earnings were boosted by lower income taxes and finance charges. This was partially offset by higher amortization charges.

Rate applications for 2010 and 2011 were filed with the BCUC by both Terasen Gas Inc. (TGI) and Terasen Gas (Vancouver Island) Inc. (TGVI) in Q2. As part of this rate filing, TGI and TGVI are seeking a review of the current generic ROE adjustment mechanism and of the deemed equity component of the capital structure. A hearing is set for the end of September, 2009, and a decision is expected by Q4 2009 or Q1 2010. Terasen is requesting an ROE be set at 11% effective July 1, 2009 (from 8.47%). TGI requests that the deemed common equity component in its capital structure allowed for rate making purposes be increased to 40%, as compared to the current 35%, effective from January 1, 2010. In regards to TGVI and TGW, it is asking for elimination of the ROE formula and continuation of the utility specific risk premium of TGVI (70bp) and TGW (50bp) be applied to the new benchmark ROE, effective July 1, 2009.

FortisAlberta reported earnings of \$17 million, a jump from \$7 million in earnings reported in Q2 2008, and significantly higher than we had expected. Earnings benefited from a corporate tax recovery and growth in electrical infrastructure investment. These contributions to earnings were partially offset by higher amortization costs and finance charges, which we had expected and continue to forecast going forward.

FortisAlberta is currently involved in a Generic Cost of Capital Proceeding with the AUC, which will include reviewing 2009 ROE calculations and capital structures for regulated gas, electric, and pipeline utilities in Alberta. The oral hearing occurred in May and June, and a decision on this proceeding is expected by the end of 2009. FortisAlberta filed its 2010/2011 Revenue Requirements Application in Q2 2009.

FortisBC reported Q2 2009 earnings of \$7 million, in line with Q2 2008. FortisBC earnings benefited from customer growth and increased electricity rates. This was offset by increases in

energy supply costs, and higher amortization and financing expenses associated with a significant investment in capital expenditures.

British Columbia has been experiencing an incredibly hot summer. In response to the increased demand due to this heat wave, FortisBC has been asking customers to conserve energy when possible, and has been reviewing the loading on the system and making adjustments where necessary. FortisBC has been accelerating the final phase of the Black Mountain substation project to bring it online as quickly as possible. Furthermore, a mobile substation was moved to assist in strengthening the Kelowna system.

Newfoundland Power reported Q2 2009 earnings of \$11 million, up 10% from \$10 million in Q2 2008, on lower amortization charges and income tax. Newfoundland Power filed an application with the PUB to set 2010 rates, and has also requested a cost of capital review. Newfoundland Power is looking to increase its allowed ROE from 8.95% to 11%. The hearing is expected to occur this fall.

Quarterly earnings from **Other Canadian Electric Utilities** were \$4 million, up from \$2 million in Q2 2008. Earnings were comparable year-over-year after deducting a \$2 million after-tax one-time charge at FortisOntario, due to a one-time repayment of a \$3 million (\$2 million after-tax) refund to Niagara Mohawk Power Corp (NIMO).

On June 23, 2009, FortisOntario entered into an agreement with Brookfield Renewable Power Inc. to purchase Great Lakes Power Distribution Inc. for \$68 million (subject to adjustment). Great Lakes Power Distribution serves approximately 12,000 customers in the district of Algoma in northern Ontario, and has over 1,800km of distribution lines. The transaction is expected to close by the end of the year.

Regulated Electric Utilities-Caribbean earnings rose from a loss of \$5 million in Q2 2008, to a gain of \$7 million in Q2 2009. However, earnings from Q2 2008 included a \$13 million one-time charge related to the June 2008 regulatory rate decision at BEL. Excluding this one-time charge and approximately \$1 million related to favourable foreign currency translation, earnings were \$2 million lower year-over-year, impacted by the decrease in Belize Electricity's allowed rate of return and increased amortization costs.

On July 22, 2009, Fortis increased its ownership in Caribbean Utilities by approximately 2.7%, bringing total ownership to approximately 59.5%. Fortis purchased 768,200 CUC Shares at a price of approximately C\$8.78 per share.

Belize Electricity's energy supply from CFE of Mexico has been reduced in the last few months, due to repairs on some of CFE's generating plants. As a result, Belize has increased its purchases from emergency sources, which comes at a higher cost. This should be resolved by the end of August, and any energy supply cost increases incurred in Q3 as a result should be flowed through rates.

Earnings from **Fortis Generation** were \$3 million in Q2 2009, down from \$7 million the same period last year. Earnings from Fortis Generation were lower in Q2, due to the expiration of the 75 MW Rankine rights in Ontario, which expired in April 2009. This had previously been factored into our estimates. For the second quarter in a row, earnings were hampered by lower wholesale market energy prices in both Upper New York State and Ontario.

Fortis Properties earnings increased 14% year-over-year from \$7 million in Q2 2008 to \$8 million in Q2 2009, due to increased contributions from the Real Estate operations (largely due to one-time lease termination fees) and lower operating expenses. This was partially offset by lower contributions from the Hospitality segment, due to lower hotel occupancies. We expect hotel occupancies at Fortis Properties will be lower for 2009 and 2010.

Exhibit 2. Segmented Results Summary

	Q2 2009 Earnings (C\$ Millions)	Q2 2008 Earnings (C\$ Millions)
Terasen Gas Companies	14	12
FortisAlberta	17	7
FortisBC	7	7
Newfoundland Power	11	10
Other Canadian	4	2
Caribbean	7	-5
Fortis Generation	3	7
Fortis Properties	8	7
Corporate	-18	-18

Source: Company Reports

Gross capital expenditures were \$496 million in H1 2009. Gross capital expenditures for 2009 are forecast at over \$1 billion. Future organic growth will come from major projects such as the \$200 million LNG storage facility at Terasen Gas, the \$168 million Automated Meter Infrastructure Project at FortisAlberta, and FortisBC's \$110 million Okanagan Transmission Reinforcement Project.

Forecast & Outlook

The favourable impact from the strong Q2 results has been partially offset by a reduction in our forecasts for the Caribbean operations. We have lowered our Caribbean forecasts to reflect a weaker U.S. dollar for the remainder of 2009 and 2010 (based on Bloomberg consensus). We updated our 2010 estimates for Terasen, FortisAlberta, and Newfoundland Power to incorporate information from the rate applications. As demonstrated in Exhibit 3, **we are increasing our 2009 EPS estimate from \$1.47 to \$1.50, and our 2010 EPS from \$1.53 to \$1.60.**

Exhibit 3. Beacon Securities' Forecast

(\$C Millions except per share data)	2009E		2010E	
	New	Previous	New	Previous
EBITDA	\$1,086	\$1,094	\$1,161	\$1,133
Net Income	\$255	\$250	\$272	\$260
EPS (basic)	\$1.50	\$1.47	\$1.60	\$1.53
EPS (diluted)	\$1.47	\$1.45	\$1.55	\$1.51
Cash Flow	\$670	\$645	\$701	\$662
CFPS (basic)	\$3.94	\$3.80	\$4.12	\$3.90

Source: Beacon Securities, Bloomberg

Long-term debt totalled \$5.4 billion, as of the end of Q2 2009. Management expect long-term debt maturities and repayments to average approximately \$170 million annually over the next

five years. The Company had consolidated credit facilities of \$2.2 billion, with \$1.6 billion unused as of June 30, 2009, which will provide necessary flexibility. Fortis and its utilities have raised over \$600 million in debt in H1 2009. On July 2, 2009, Fortis closed its offering of \$200 million of 6.51% senior unsecured debentures due 2039. The net proceeds are allocated to pay down the indebtedness on the credit facility and for general corporate purposes. The funds from this debenture offering would bring the total amount unused on the credit facility to \$1.8 billion, subsequent to Q2.

Valuation and Recommendation

With an increase in our estimates, we are raising our 12-month target price from \$27.00 to \$28.50, and maintaining our BUY recommendation. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 17.8x 2010E EPS and 9.6x 2010E EV/EBITDA. Including dividends, there is a potential return of approximately 15% over the next year, which justifies our BUY rating. The dividend currently yields 4.1%.

The solid Q2 results demonstrate Fortis' stability, even in times of economic uncertainty. We believe Fortis is a low risk and stable investment. In addition to providing sustainable dividend growth and stable earnings through its Regulated Utilities, Fortis offers strong rate base growth. Its capital expenditures over the next five years are expected to exceed \$4.5 billion. This capital program is mainly allocated towards the Western Canadian operations and the Caribbean, and should continue to drive earnings growth from these areas.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q2 2009	# Stocks	Distribution		
BUY	11	52.4%	BUY	Total 12-month return expected to be >15%
HOLD	8	38.1%	SPECULATIVE BUY	Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss
SELL	2	9.5%	HOLD	Total 12-month return expected to be between 0% and 15%
Total	21	100.0%	SELL	Total 12-month return expected to be negative

*as of quarter end

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FORTIS INC.

Western Canada Leads Strong Q3 Results

Highlights

- Fortis reported strong Q3/10 results with consolidated net earnings attributable to common equity of \$45 million, or \$0.26 per share, compared to \$36 million, or \$0.21 per share in Q3/09. Results for the quarter were boosted by the strong performance of the regulated electric utilities in Western Canada, and non-regulated hydroelectric generation.
- FortisAlberta and FortisBC benefited from higher allowed ROE and Newfoundland Power improved results by increasing electricity sales. All three utilities also grew their respective electrical infrastructure investments helping results further. At the same time, lower transmission revenues, weather-related decreases in electricity sales, and higher operating expenses due to hurricane damage repairs, held back some of those improvements.
- Fortis Generation was another area of strength in the quarter helped by the increased hydroelectric production in Belize.
- We remain optimistic that management should be able to identify and execute an accretive acquisition of an investor-owned electrical utility in the U.S., but remain uncertain this will occur in 2011.
- We have increased our 2010 EPS estimate to \$1.64 from \$1.62 and we remain comfortable with our 2011 EPS estimate of \$1.79. As a result of expanding our P/E multiple to 19.0x, we are raising our 12-month target price to \$34.00 from \$32.00. With the recent significant run up, we are reducing our rating to a HOLD on the shares. The current dividend yield stands at 3.3%.**

FTS-TSX

November 9, 2010

Stock Rating: HOLD (was BUY)
Target Price: \$34.00 (was \$32.00)
Closing Price (11/08/10): \$33.60
52 Week Range: \$21.60-33.60

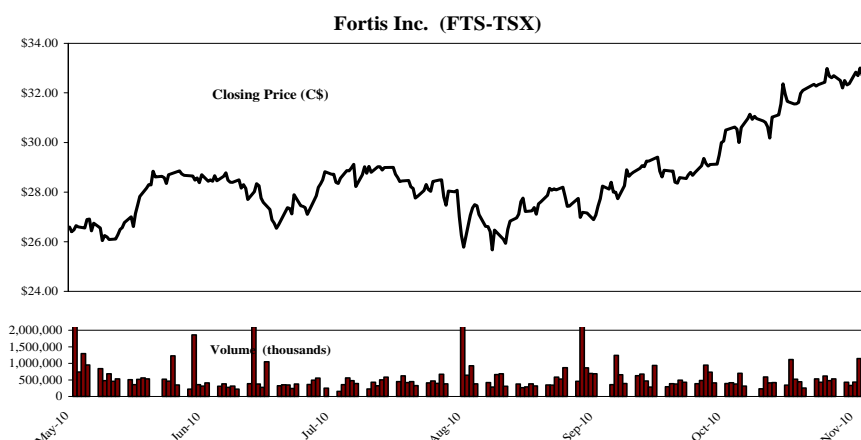
Fortis Inc.	2009A	2010E	2011E
EBITDA	\$1,065.0	\$1,166.6	\$1,232.9
EPS (basic)	\$1.54	\$1.68	\$1.80
EPS (fd)	\$1.51	\$1.64	\$1.79
CFPS (basic)	\$3.96	\$4.29	\$4.44
P/E (Basic)	21.8 x	20.0 x	18.7 x
EV/EBITDA	11.5 x	10.5 x	10.0 x
P/CF	8.5 x	7.8 x	7.6 x
Shares O/S (basic)	173.2		
Shares O/S (fd)	185.9		
Mkt. Cap. (fd)	\$5,820		
Enterprise Value	\$12,297		
Net Debt/Total Cap.	63%		
BVPS (basic)	\$17.19		
Price/Book Value	2.0 x		
Dividend	\$1.12		
Dividend Yield	3.3%		
ROE	9.3%		

Change in Basic EPS Forecasts

2010E: was \$1.62
2011E: unchanged

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



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Q3 Financial Results

Fortis Inc. reported strong Q3/10 results with consolidated net earnings attributable to common equity of \$45 million, or \$0.26 per share, compared to \$36 million, or \$0.21 per share in Q3/09.

- Fortis Inc. reported strong Q3/10 results with consolidated net earnings attributable to common equity of \$45 million, or \$0.26 per share, compared to \$36 million, or \$0.21 per share in Q3/09. Results for the quarter were boosted by the strong performance of the regulated electric utilities in Western Canada, and non-regulated hydroelectric generation. The exhibit below details the variances in year-over-year and quarter-over-quarter results for each of the Company's segments.

Exhibit 2: Fortis' Segmented Q3 Results Summary

Segmented net earnings summary (in C\$ millions, except per share data)	Q3/10	Q3/09	y/y % change	Q2/10	q/q % change
Regulated Gas Utilities - Canadian					
Terasen Gas Companies*	(9)	(3)	n. m.	17	n.m.
Regulated Electric Utilities - Canadian					
FortisAlberta	19	15	26.7%	17	11.8%
FortisBC	11	9	22.2%	8	37.5%
Newfoundland Power	8	7	14.3%	11	-27.3%
Other Canadian	5	5	0.0%	4	25.0%
	43	36	19.4%	40.0	7.5%
Regulated Electric - Caribbean	8	7	14.3%	7	14.3%
Non-Regulated - Fortis Generation	9	4	125.0%	3	200.0%
Non-Regulated - Fortis Properties	9	9	0.0%	8	12.5%
Corporate and Other	(19)	(17)	11.8%	(20)	-5.0%
Operating earnings	41	36	13.9%	55.0	-25.5%
Adjustment	4	1	n.m.	-	n.m.
Operating earnings per share	45	37	21.6%	55.0	-18.2%
Operating earnings per share - fully diluted	\$0.24	\$0.21	14.3%	\$0.32	-25.0%
Reported earnings per share - fully diluted	\$0.26	\$0.21	23.8%	\$0.32	-18.8%

*note: Terasen Gas' earnings exclude \$4 million in approved project overrun reversals by BCUC

Source: Company reports, Beacon Securities.

- The **Terasen Gas** companies reported a loss of \$9 million, excluding the benefit of \$4 million in project overrun reversals approved by BCUC. The Company saw lower demand in the seasonally weaker quarter, and was further impacted by warmer temperatures in Q3/10. Terasen also saw higher operating and maintenance expenses in the quarter.
- The Canadian regulated electric utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) drove most of Fortis' overall results delivering net earnings of \$43 million in the quarter, \$7 million higher than the same period a year ago.
- FortisAlberta** reported earnings of \$19 million, higher than our \$17 million expectation, and an improvement of \$4 million compared to the \$15 million in Q3/09. The improved results at the Western Canada utility were primarily driven by higher allowed ROE, higher equipment component of total capital structure, growth in electrical infrastructure investment and

growth in customer base. These were partially offset by lower net transmission revenue.

- **FortisBC** improved its earnings by \$2 million compared to Q3/09, primarily due to higher allowed ROE, and growth in electrical infrastructure investment, partially offset by weather-related decrease in electricity sales.
- **Newfoundland Power** also improved its earnings by \$1 million compared to Q3/09, primarily due to higher electricity sales and growth in electrical infrastructure investment, partially offset by higher operating expenses due to hurricane damage repairs.
- **Regulated Electric Utilities-Caribbean** improved earnings by \$1 million over the same period last year, largely due to the deferral of previously expensed business taxes at Belize Electricity. The Company expects to collect these in customer rates in the future.
- Earnings from **Fortis Generation** were \$9 million in Q3 2010, up \$5 million from the same period last year primarily due to increased hydroelectric production in Belize. The strength was helped by higher rainfall and the commissioning of the Vaca hydroelectric generating facility in March 2010, and lower finance charges.
- **Fortis Properties** earnings came at \$9 million, flat with the same period a year ago.
- **Corporate and other expenses** came in at \$19 million, compared to \$17 million for the same quarter last year. The increase in dividends associated with the First Preference Shares, Series H issued in January 2010 was partially offset by lower finance charges.
- Gross capital expenditures were \$703 million for the first nine months of 2010 compared to \$763 million in the same period a year ago.

Outlook and Financial Forecast

We are increasing our 2010 EPS estimate to \$1.64 from \$1.62. Our 2011 EPS remains at \$1.79

We have adjusted our estimates to reflect stronger than forecast results from FortisAlberta, FortisBC and Newfoundland Power. We have tempered our expectation for the Caribbean utilities slightly and increase our estimates for Fortis Generation and maintained our forecasts for Fortis Properties. Exhibit 2 shows our updated forecast for overall EBITDA, net income and EPS. **We are increasing our 2010 EPS estimate to \$1.64 from \$1.62, and maintaining our 2011 EPS at \$1.79.**

Exhibit 2: Beacon Securities' Forecast

(\$C Millions except per share data)	2010E		2011E	
	New	Previous	New	Previous
EBITDA	\$1,167	\$1,134	\$1,233	\$1,219
Net Income	\$290	\$286	\$311	\$309
EPS (<i>basic</i>)	\$1.68	\$1.67	\$1.80	\$1.80
EPS (<i>diluted</i>)	\$1.64	\$1.62	\$1.79	\$1.79
Cash Flow	\$740	\$721	\$768	\$763
CFPS (<i>basic</i>)	\$4.29	\$4.20	\$4.44	\$4.45

Source: Company reports, Beacon Securities.

Long-term debt totaled \$5.4 billion, as of the end of Q3 2010. Fortis continues to have strong access to capital markets, to finance its future capital programs. We expect gross capital expenditures for 2010 to be almost \$1.1 billion and management expects the Company's capex to reach almost \$5.5 billion over the next five years, including the work related to the Waneta Expansion Project.

Valuation and Recommendation

We are increasing our 12-month target price to \$34.00, from \$32.00, and reducing our rating to a HOLD

We are increasing our 12-month target price \$34.00 (was \$32.00) and reducing our rating to a HOLD recommendation. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.0x 2011E EPS and 10.0x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 4% over the next year, which justifies our HOLD rating. The dividend currently yields 3.3%. Fortis has a long history of dividend increases, and we expect another dividend increase to be announced in the coming months.

We believe management continues to pursue acquisition opportunities to assertively add a regulated electric utility in the United States to its portfolio. We have not included any acquisitions in our numbers for next year, primarily due to the uncertainty on the timing of such an acquisition.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q3 2010	# Stocks	Distribution
BUY	10	55.6%
Spec. Buy	3	16.7%
HOLD	5	27.8%
SELL	0	0.0%
Restricted	0	0.0%
Total	18	100.0%

*as of quarter end

BUY
SPECULATIVE BUY
HOLD
SELL

Total 12-month return expected to be >15%
Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss
Total 12-month return expected to be between 0% and 15%
Total 12-month return expected to be negative

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FORTIS INC.

Reports 11th Consecutive Record Annual Earnings

Highlights

- Fortis reported record annual earnings of \$285 million, or \$1.65 per common share, for the year ended December 31, 2010, compared to \$262 million, or \$1.54 per share, in 2009. The 8.8% y/y growth in earnings was boosted by the strong performance of the regulated electric utilities in Canada, and the Company's non-regulated hydroelectric generation segment.
- The Canadian Regulated Electric Utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) delivered \$164 million of the year's overall earnings, a year-over-year improvement of more than 10%. The strong results in that segment were helped by an increase in electrical infrastructure investment and the increase in allowable ROE at FortisBC effective January 1, 2010.
- We are confident the Company's management remains disciplined and patient in its pursuit of an accretive acquisition opportunity to add a regulated utility, in the United States or Canada, to its portfolio.
- We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.6x 2011E EPS and 10.2x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 4% over the next year, which justifies our HOLD rating. The shares currently yield 3.3%.

FTS-TSX

February 11, 2011

Stock Rating: **HOLD (unchanged)**
Target Price: **\$34.00 (unchanged)**
Closing Price (10/02/11): **\$33.81**
52 Week Range: **\$21.60-35.45**

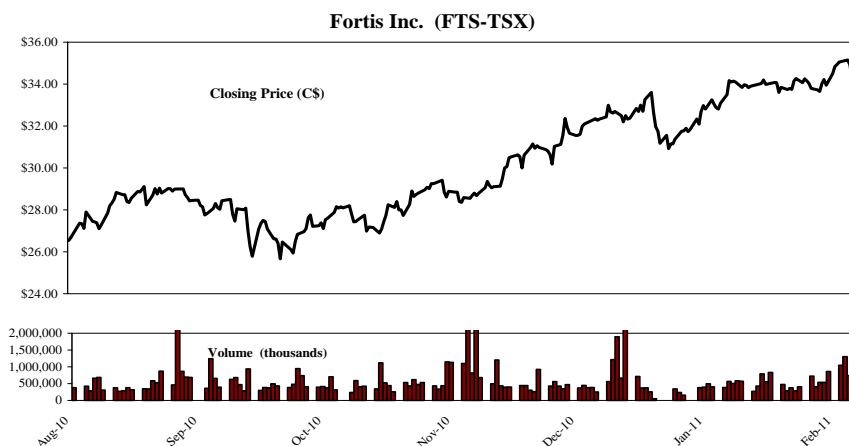
Fortis Inc.	2009A	2010A	2011E
EBITDA	\$1,071.0	\$1,150.0	\$1,190.9
EPS (basic)	\$1.54	\$1.65	\$1.74
EPS (fd)	\$1.51	\$1.62	\$1.68
P/E (Basic)	22.0 x	20.5 x	19.5 x
EV/EBITDA	11.3 x	10.5 x	10.2 x
Shares O/S	172.9		
Mkt. Cap.	\$5,846		
Enterprise Value	\$12,118		
Net Debt/Total Cap.	63%		
BVPS (basic)	\$19.09		
Price/Book Value	1.8 x		
Dividend	\$1.12		
Dividend Yield	3.3%		

Change in Basic EPS Forecasts

2011E: was \$1.79

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



*Please view the disclaimer at the end of this report

Financial Results

Fortis Inc. reported a 4.9% y/y growth in Q4/10 consolidated net earnings attributable to common equity of \$85 million, or \$0.49 per share, compared to \$81 million, or \$0.48 per share in Q4/09

- **Fortis Inc. reported record annual results for fiscal 2010 with consolidated net earnings attributable to common equity shareholders of \$285 million, or \$1.65 per share, compared to \$262 million, or \$1.54 per share, in 2009.** This represents the 11th consecutive year of record earnings for the Company. The 8.8% y/y growth in 2010 earnings was supported by strength in the Canadian Regulated Utilities and non-regulated hydroelectric generation segments, which more than offset pressures in the Caribbean Regulated Electric Utilities and higher corporate expenses. Fortis also delivered good Q4 results with a 4.9% y/y growth in earnings to reach \$85 million in the quarter. Below is a summary of the key drivers in each of the Company's businesses.

Exhibit 1: Results Summary (in Canadian dollars)

	Q4 2010	Q4 2009	2010	2009
Net Earnings Applicable to Common Shares (\$M)	\$85	\$81	\$285	\$262
Reported Basic EPS	\$0.49	\$0.48	\$1.65	\$1.54
Reported Diluted EPS	\$0.47	\$0.46	\$1.62	\$1.51

Source: Company reports, Beacon Securities.

The Canadian Regulated Electric Utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) delivered \$164 million of the year's overall earnings, a year-over-year improvement of more than 10%

- The **Terasen Gas** companies reported an 11% y/y growth in earnings to reach \$130 million for the year. However, almost \$9 million of the \$13 million in earnings growth was attributed to a reversal of a provision taken in Q4/09 for project cost overruns. The reversal was approved by the regulator. The Company also saw a boost to earnings due to an increase to the allowable ROE at Terasen Gas effective July 1, 2009 and an increase in the common equity thickness effective January 1, 2010.
- The Canadian Regulated Electric Utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) delivered \$164 million of the year's overall earnings, a year-over-year improvement of more than 10%. The strong results in that segment were helped by an increase in electrical infrastructure investment and the increase in allowable ROE at FortisBC effective January 1, 2010.
- **FortisAlberta** reported 2010 earnings of \$68 million, almost 13% higher than last year's \$60 million. The improved results at the Western Canada utility were primarily driven by higher allowed ROE, higher energy deliveries and an increase in customers. These were partially offset by slightly lower than average consumption in the residential customer base.
- **FortisBC** improved its earnings by 14% y/y to reach \$42 million for the year compared to \$37 million in 2009. The

increase was primarily due to a 6% increase in customer electricity rates, effective January 1, 2010, reflecting increased allowed ROE of 9.90% for 2010, compared to 8.87% in 2009. This was slightly offset by a 3.5% decrease in annual electricity sales.

- **Newfoundland Power** also improved its earnings by more than 9% to reach \$35 million for the year, compared to \$32 million in 2009. Customer growth drove the improved results, however lower average consumption due to milder temperatures and lower activity in the commercial sector offset some of that growth.
- **Regulated Electric Utilities-Caribbean** delivered weaker earnings of \$23 million for the year, compared to \$27 million in 2009. This segment was the key drag on overall results, primarily due to lower consumption driven by lower average temperatures experienced on Grand Cayman and Turks and Caicos Islands and Belize. This was offset slightly by some customer growth in Belize and Turks and Caicos Islands.
- Earnings from **Fortis Generation** were up 25% to reach \$20 million for the year, compared to \$16 million in 2009. The results were boosted by higher rainfall and the commissioning of Vaca hydroelectric generating facility in Belize in March 2010. Higher production in Upper New York State, Ontario and British Columbia was also experienced due to higher rainfall.
- **Fortis Properties** earnings came at \$26 million, compared to \$24 million in 2009. The results were primarily due to higher revenue from hotel properties in Atlantic Canada and offset by slightly lower occupancy rates in the Real Estate division.
- **Corporate and other expenses** came in at \$78 million for the year, compared to \$71 million in 2009. The increase in dividends associated with the First Preference Shares, Series H issued in January 2010 was partially offset by lower finance charges.

Exhibit 2: Segmented Results (in Canadian dollars)

	Q4 2010	Q4 2009	2010	2009
Terasen Gas Companies	\$45	\$48	\$130	\$117
FortisAlberta	\$17	\$15	\$68	\$60
FortisBC	\$10	\$8	\$42	\$37
Newfoundland Power	\$9	\$8	\$35	\$32
Other Canadian Electric Utils	\$5	\$7	\$19	\$20
Regulated Electric Utils - Caribbean	\$5	\$7	\$23	\$27
Non-Regulated - Fortis Generation	\$5	\$2	\$20	\$16
Non-Regulated - Fortis Properties	\$7	\$5	\$26	\$24
Corporate and Other	-\$18	-\$19	-\$78	-\$71
Total	\$85	\$81	\$285	\$262

Source: Company reports, Beacon Securities.

- Cash flow from operations grew almost 23% y/y to reach \$783 million in 2010, largely driven by the strong earnings, increased amortization costs and improved working capital management. Gross capital expenditures reached almost \$1.1 billion in 2010 as the Company continues to aggressively invest in its infrastructure assets.

Outlook and Financial Forecast

We have updated our model to better reflect results from FortisAlberta, FortisBC and Newfoundland Power. We have tempered our expectation for the Caribbean utilities slightly and increase our estimates for Fortis Generation and maintained our forecasts for Fortis Properties. Exhibit 3 shows our updated forecast for overall EBITDA, net income and EPS.

Exhibit 3: Beacon Securities' Updated Forecast (in Canadian dollars)

	2010A	2011E - New	2011E - Old
EBITDA (\$M)	\$1,150	\$1,191	\$1,233
Net Income (\$M)	\$285	\$302	\$311
EPS (<i>basic</i>)	\$1.65	\$1.74	\$1.80
EPS (<i>diluted</i>)	\$1.62	\$1.68	\$1.79

Source: Company reports, Beacon Securities.

Long-term debt increased slightly to end 2010 at \$5.6 billion, compared to \$5.3 billion at the end of 2009. Fortis continues to have strong access to capital markets, to finance its future capital programs. We expect the Company to continue to invest in infrastructure and estimated gross capital expenditures for 2011 to reach nearly \$1.2 billion. Management also plans to spend almost \$5.5 billion on further capex projects over the next five years, including the work related to the Waneta Expansion Project.

Valuation and Recommendation

We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name

We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.6x 2011E EPS and 10.2x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 4% over the next year, which justifies our HOLD rating. The dividend currently yields 3.3%.

We are confident the Company's management remains disciplined and patient in its pursuit of an accretive acquisition opportunity to add a regulated utility, in the United States or Canada, to its portfolio. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

Disclaimer

Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? ☐ Yes ☒ No

Does the analyst who prepared this research report hold any of the issuer's securities? ☐ Yes ☒ No

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Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? ☐ Yes ☒ No

Is Beacon Securities a market maker in the equity of the issuer? ☐ Yes ☒ No

Has the analyst visited the head office of the issuer and viewed its operations in a limited context? ☒ Yes ☐ No

Did the issuer pay for or reimburse the analyst for the travel expenses? ☐ Yes ☒ No

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Ending Q4 2010	# Stocks	Distribution		
BUY	10	55.6%	BUY	Total 12-month return expected to be >15%
Spec. Buy	3	16.7%		Potential total 12-month return is high (>15%), but given
HOLD	6	27.8%	SPECULATIVE BUY	elevated risk, investment could result in a material loss
SELL	0	0.0%		Total 12-month return expected to be between 0% and 15%
Restricted	0	0.0%	HOLD	
Total	19	100.0%	SELL	Total 12-month return expected to be negative

*as of quarter end

Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on www.beaconsecurities.ca via login and password.

Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.



FORTIS INC.

Healthy Economic Activity in Western Canada Driving Fortis' Performance

Highlights

- **Fortis reported strong Q1/2011 earnings of \$117 million, or \$0.65 per common share, compared to \$100 million, or \$0.58 per share, in Q1/2010.** The 17.0% y/y growth in earnings was driven by the Company's regulated utilities in Western Canada.
- **FortisAlberta grew its quarterly earnings by 50% y/y.** Results were primarily driven by customer electricity rate growth and growth in electricity sales. FortisBC also delivered strong quarterly earnings which grew 34% y/y largely due to increased electricity rates and continued investment in utility infrastructure. **The Company also maintained its expectation to invest \$5.5 billion on capex initiatives over the next five years.**
- We believe the Company's management remains disciplined and patient in its pursuit of an accretive regulated utility acquisition, in the United States or Canada. We believe current valuations dictate additional patience in order to prevent overpayment for desired targets. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.
- **We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.4x 2011E EPS and 10.3x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 8.7% over the next year, which justifies our HOLD rating. The shares currently yield 3.6%.

FTS-TSX

May 5, 2011

Stock Rating: **HOLD (unchanged)**

Target Price: **\$34.00 (unchanged)**

Closing Price (04/05/11): **\$32.35**

52 Week Range: **\$21.60-35.45**

Fortis Inc.	2010A	2011E	2012E
EBITDA	\$1,150.0	\$1,172.5	\$1,251.0
EPS (basic)	\$1.65	\$1.75	\$1.83
EPS (fd)	\$1.62	\$1.70	\$1.78
P/E (Basic)	19.6 x	18.5 x	17.7 x
EV/EBITDA	10.5 x	10.3 x	9.7 x
Shares O/S	175.0		
Mkt. Cap.	\$5,661		
Enterprise Value	\$12,104		
Net Debt/Total Cap.	59%		
BVPS (basic)	\$19.38		
Price/Book Value	1.7 x		
Dividend	\$1.16		
Dividend Yield	3.6%		

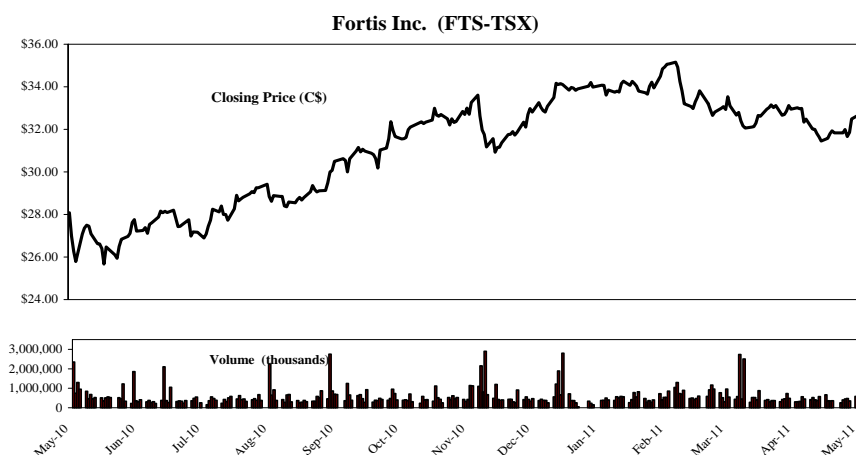
Change in Basic EPS Forecasts

2011E: was \$1.74

2012E: new

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



*Please view the disclaimer at the end of this report

Financial Results

Fortis Inc. reported a 17.0% y/y growth in Q1/2011 consolidated net earnings attributable to common equity of \$117 million, or \$0.67 per share, compared to \$100 million, or \$0.58 per share in Q1/2010

- Fortis Inc. reported strong Q1/2011 results with consolidated net earnings attributable to common equity shareholders of \$117 million, or \$0.67 per common share, compared to \$100 million, or \$0.58 per share, in Q1/2010. The 17.0% y/y growth in Q1 earnings was largely driven by strength in the Company's regulated utilities in western Canada. Below is a summary of the contribution from each of the Company's business segments in the quarter compared to the same period last year.

Exhibit 1: Consolidated net earnings summary

(in millions of Canadian dollars, except per share data)	Q1 2011	Q1 2010
Net Earnings Applicable to Common Shares (\$M)	\$117	\$100
Reported Basic EPS	\$0.67	\$0.58
Reported Diluted EPS	\$0.65	\$0.56

Source: Company reports, Beacon Securities.

Effective March 1, 2011, the Company's Canadian Regulated Gas Utilities, the Terasen Gas companies, were renamed FortisBC Energy Inc.

- Effective March 1, 2011, the Company's Canadian Regulated Gas Utilities, the **Terasen Gas** companies, were renamed **FortisBC Energy Inc.** These Gas Utilities grew earnings by 4.1% y/y to reach \$76 million in the first quarter. The strength was driven by growth in utility infrastructure investment, reduced amortization costs and higher capitalized finance charges. This was partially offset by an increase in operating expenses. Management also commented positively on the heightened focus on natural gas and its potential use for transportation in North America. Key contributors to FortisBC Energy's strong performance in the quarter were higher average consumption by residential and commercial customers driven by cooler weather, and higher transportation volumes driven by increased economic activity, especially in the forestry sector.

FortisBC Energy's strong performance in the quarter was supported by higher transportation volumes driven by increased economic activity, especially in the forestry sector

Exhibit 2: Segmented net earnings

(in millions of Canadian dollars)	Q1 2011	Q1 2010
FortisBC Energy Inc. (formerly Terasen Gas)	\$76	\$73
FortisAlberta	\$21	\$14
FortisBC Electric	\$19	\$14
Newfoundland Power	\$7	\$7
Other Canadian Electric Utils	\$6	\$5
Electric Caribbean	\$4	\$4
Non-Regulated - Fortis Generation	\$3	\$2
Non-Regulated - Fortis Properties	\$1	\$2
Corporate and Other	-\$20	-\$21
Total	\$117	\$100

Source: Company reports, Beacon Securities.

- The Canadian Regulated Electric Utilities delivered 32% y/y growth in earnings, to reach \$53 million (primarily driven by FortisAlberta, and FortisBC Electric.)

FortisAlberta's performance was largely supported by a 4.7% increase in base customer electricity distribution rates over final approved 2010 rates, growth in customer base and higher energy deliveries

- **FortisAlberta's** quarterly earnings grew by 50% y/y, to reach \$21 million. The improvements were largely supported by a 4.7% increase in base customer electricity distribution rates over final approved 2010 rates, growth in customer base and higher energy deliveries. The segment's results were also boosted by a \$1 million gain from the sale of property.
- **FortisBC Electric** quarterly earnings grew 36% y/y, to reach \$19 million. The improvements were largely supported by a 6.6% increase in customer electricity rates and a 10.4% increase in electricity sales as well as continued investment in utility infrastructure. This was slightly offset by lower pole attachment revenue and an increase in incentive adjustments owed to customers.
- **Newfoundland Power** delivered flat y/y growth with quarterly earnings of \$7 million. The growth in the number of customers and higher average consumption were offset by the decrease in allowed ROE and higher maintenance costs and higher labour costs in the quarter.
- **Regulated Electric Utilities-Caribbean** quarterly earnings of \$4 million were also flat on a year-over-year basis. Key contributors to the segment's performance were increased electricity sales in Grand Cayman and lower maintenance costs at Caribbean Utilities in the quarter. These were offset by higher provisions for bad debt at Belize Electricity and higher finance charges at that same utility, due to interest expense on regulatory liabilities.

Fortis Generation grew to \$3 million in the quarter, compared to \$2 million in Q1/2010, mainly due to higher production in Belize and higher average energy sales rates in Ontario.

- Earnings from **Fortis Generation** grew to \$3 million in the quarter, compared to \$2 million in Q1/2010, mainly due to higher production in Belize and higher average energy sales rates in Ontario. Higher finance charges dampened earnings slightly.
- **Fortis Properties** earned \$1 million in the quarter, compared to \$2 million in Q1/2010, primarily due to the negative impact of economy on hotel operations and higher amortization costs driven by capital investments in Hospitality and Real Estate divisions. The segment benefited, however, from a gain on the sale of the Viking Mall.
- **Corporate and other expenses** came in at \$20 million for the quarter, compared to \$21 million in Q1/2010. The increase in dividends associated with the First Preference Shares, Series H issued in January 2010 and lower corporate tax recovery in the quarter, was partially offset by reduced operating expenses, lower finance charges and lower amortization costs.
- Cash flow from operations, before changes in non-cash operating working capital, also grew nearly 19% y/y to reach

The Company is continuing work on the \$126 million Automated Meter Project at FortisAlberta and the \$106 million Okanagan Transmission Reinforcement Project at FortisBC Electric

Fortis' \$900 million Waneta Expansion Project is expected to be completed in the spring of 2015

\$242 million in Q1/2010 largely driven by strong net earnings. Gross capital expenditures reached almost \$233 million in Q1/2010 as the Company continues to aggressively invest in its infrastructure assets, including the construction of the \$214 million liquefied natural gas (LNG) storage facility on Vancouver Island, which is expected to be completed in the next several weeks. The Company is also continuing work on the \$126 million Automated Meter Project at FortisAlberta and the \$106 million Okanagan Transmission Reinforcement Project at FortisBC Electric. Work is also continuing on the \$900 million Waneta Expansion Project which is expected to be completed in the spring of 2015.

Outlook and Financial Forecast

We have updated our model to reflect the strong Q1/2010 performance. We expect the Company's operation in western Canada, namely its regulated utilities FortisAlberta, and FortisBC Electric to continue to benefit from the region's healthy economic activity. We have tempered our expectation for the Caribbean utilities slightly and increase our estimates for Fortis Generation but maintained our forecasts for Fortis Properties. Exhibit 3 shows our updated forecast for overall EBITDA, net income and EPS.

Exhibit 3: Beacon Securities' Updated Forecast (in Canadian dollars)

	2010A	2011E - New	2011E - Old	2012E - New
EBITDA (\$M)	\$1,150	\$1,172	\$1,191	\$1,251
Net Income (\$M)	\$285	\$307	\$302	\$320
EPS (basic)	\$1.65	\$1.75	\$1.74	\$1.83
EPS (diluted)	\$1.62	\$1.70	\$1.68	\$1.78

Source: Company reports, Beacon Securities.

Long-term debt remained flat q/q at \$5.6 billion, but increase from \$5.1 billion at the end of Q1/2010. We believe Fortis continues to have strong access to capital markets, to finance its future capital programs. The Company maintained its expectation to continue to invest in its infrastructure and reiterated its \$5.5 billion estimate of gross capital expenditures on various projects over the next five years, including the work related to the Waneta Expansion Project.

Valuation and Recommendation

We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name

We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.4x 2011E EPS and 10.3x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 8.7% over the next year, which justifies our HOLD rating. The shares currently yield 3.6%.

We believe the Company's management remains disciplined and patient in its pursuit of an accretive regulated utility acquisition, in the United States or Canada. We believe current valuations dictate additional patience in order to prevent overpayment for desired targets. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

Disclaimer

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Ending Q1 2011	# Stocks	Distribution
BUY	11	55.6%
Spec. Buy	3	16.7%
HOLD	4	27.8%
SELL	0	0.0%
Restricted	0	0.0%
Total	18	100.0%

*as of quarter end

BUY

SPECULATIVE BUY

HOLD

SELL

Total 12-month return expected to be >15%

Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss

Total 12-month return expected to be between 0% and 15%

Total 12-month return expected to be negative

Dissemination

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FORTIS INC.

Infrastructure Investments Keep Performance Strong in Q2/2011

Highlights

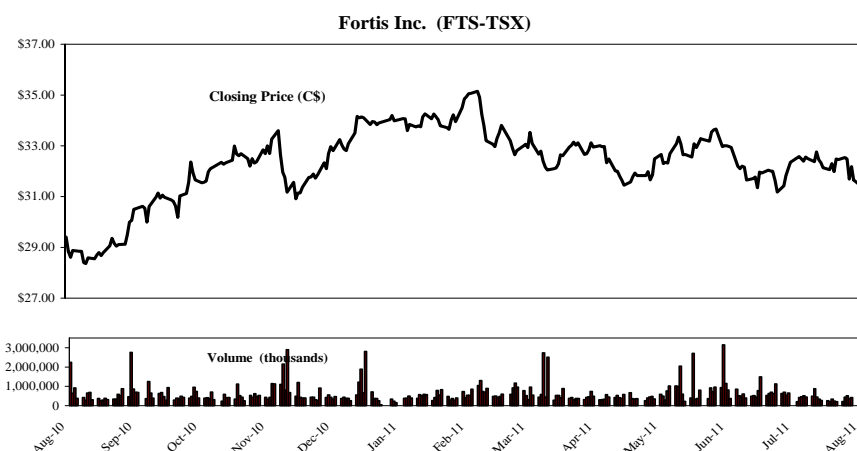
- **Fortis Inc. reported another strong quarter with the release of its Q2/2011 results today.** Consolidated net earnings attributable to common equity shareholders were \$58 million, or \$0.33 per common share, compared to \$55 million, or \$0.32 per share, in Q2/2010. Overall EBITDA margins also improved to 32.8%, up 90 bps from the same quarter, a year ago. **Fortis also generated impressive cash flow from operations in the first half of 2011, reaching \$527 million, up \$122 million or 30% from the first half of 2010.**
- We continue to expect the Company's operation in western Canada, namely its regulated utilities FortisBC Electric and FortisAlberta to continue to benefit from the region's sound fundamentals and healthy customer demand.
- Capital expenditures totaled \$519 million in first half of 2011 as the Company continues to aggressively invest in its infrastructure assets. **The Company is on track to invest over \$1.2 billion in 2011.** By the end of 2015, we expect the Company to have invested close to \$5.7 billion on its capex program.
- **We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.1x 2012E EPS and 9.8x 2012E EV/EBITDA. Including dividends, there is a potential return of approximately 14% over the next year, which justifies our HOLD rating. The shares currently yield 3.8%.

FTS-TSX

August 4, 2011

Stock Rating: HOLD (unchanged)
Target Price: \$34.00 (unchanged)
Closing Price (03/08/11): \$30.87
52 Week Range: \$28.25-35.45

Fortis Inc.	2010A	2011E	2012E
EBITDA	\$1,150.0	\$1,170.2	\$1,248.6
EPS (basic)	\$1.65	\$1.69	\$1.78
EPS (fd)	\$1.62	\$1.67	\$1.76
P/E (Basic)	18.5 x	18.1 x	17.2 x
EV/EBITDA	10.6 x	10.4 x	9.8 x
Shares O/S	177.1		
Mkt. Cap.	\$5,414		
Enterprise Value	\$12,175		
Net Debt/Total Cap.	59%		
BVPS (basic)	\$19.15		
Price/Book Value	1.6 x		
Dividend	\$1.16		
Dividend Yield	3.8%		



Change in Basic EPS Forecasts

2011E: was \$1.70
2012E: was \$1.78

Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.

*Please view the disclaimer at the end of this report

Financial Results

Fortis Inc. reported another strong quarter with the release of its Q2/2011 results today. Consolidated net earnings attributable to common equity shareholders were \$58 million, or \$0.33 per common share, compared to \$55 million, or \$0.32 per share, in Q2/2010

- **Fortis Inc. reported another strong quarter with the release of its Q2/2011 results today. Consolidated net earnings attributable to common equity shareholders were \$58 million, or \$0.33 per common share, compared to \$55 million, or \$0.32 per share, in Q2/2010, and slightly below our \$0.36 EPS estimate.** Net earnings growth in the quarter was primarily driven by 1) the strong results in the Company's regulated utilities in western Canada, primarily related to overall growth in the utility infrastructure investments, 2) lower market-priced purchased power costs at FortisBC, and 3) additional return earned on FortisAlberta's investment in automated meters. Overall EBITDA margins also improved to 32.8%, up 90 bps from the same quarter a year ago. Fortis also generated impressive cash flow from operations in the first half of 2011, reaching \$527 million, up \$122 million or 30% from the first half of 2010. In addition to higher earnings, the growth in cash flows was largely driven by the collection from customers of higher amortization costs and favourable changes in working capital and regulatory deferral accounts. Exhibit 1 shows a summary of Fortis' consolidated net earnings for the quarter.

Exhibit 1: Consolidated net earnings summary

<i>(in millions of Canadian dollars, except per share data)</i>	Q2 2011	Q2 2010
Net Earnings Applicable to Common Shares (\$M)	\$58	\$55
Reported Basic EPS	\$0.33	\$0.32
Reported Diluted EPS	\$0.33	\$0.32

Source: Company reports, Beacon Securities.

FortisBC Energy Inc. results were slightly negatively impacted by lower natural gas volumes under fixed contracts, mainly due to higher precipitation and lower natural gas pricing charged to customers

Below is a summary of the contribution from each of the Company's business segments in the quarter compared to the same period last year.

- **FortisBC Energy Inc.** results were slightly negatively impacted by lower natural gas volumes under fixed contracts, mainly due to higher precipitation and lower natural gas pricing charged to customers. Revenues and net earnings in the segment were \$320 million and \$15 million, respectively, in Q2/2011, compared to revenues of \$336 million and net earnings of \$17 million in Q2/2010.
- The Company's Canadian Regulated Electric Utilities delivered 12.5% y/y growth in earnings, to reach \$45 million, again driven by FortisAlberta, and FortisBC Electric, similar to Q1/2011.
- **FortisAlberta's** quarterly earnings grew to reach \$19 million in Q2/2011, compared to \$17 million in Q2/2011. The

FortisAlberta's quarterly earnings grew to reach \$19 million in Q2/2011, compared to \$17 million in Q2/2010. Meanwhile, FortisBC Electric quarterly earnings grew 12.5% y/y, to reach \$9 million

improvements in the quarter were largely due to growth in the number of total customers by approximately 9,400 over the same quarter last year.

- **FortisBC Electric** quarterly earnings grew 12.5% y/y, to reach \$9 million. The improvements were largely supported by the 6.6% increase in customer electricity rates and a 1.4% increase in electricity sales in the quarter. This was slightly offset by lower pole attachment revenue and an increase in incentive adjustments owed to customers.
- **Newfoundland Power** delivered flat y/y growth with quarterly earnings of \$11 million. The growth in the number of customers and higher average consumption were offset by the decrease in allowed ROE and wage increases.
- **Other Canadian Electric Utilities** grew quarterly earnings to reach \$6 million in Q2/2011, compared to \$4 million in Q2/2010. The growth was driven primarily by an average 3.8% increase in customer electricity rates, and higher allowed ROE at Algoma Power.

Exhibit 2: Segmented net earnings

(in millions of Canadian dollars)	Q2 2011	Q2 2010
FortisBC Energy Inc. (formerly Terasen Gas)	\$15	\$17
FortisAlberta	\$19	\$17
FortisBC Electric	\$9	\$8
Newfoundland Power	\$11	\$11
Other Canadian Electric Utils	\$6	\$4
Electric Caribbean	\$7	\$7
Non-Regulated - Fortis Generation	\$2	\$3
Non-Regulated - Fortis Properties	\$7	\$8
Corporate and Other	-\$18	-\$20
Total	\$58	\$55

Source: Company reports, Beacon Securities.

Fortis Properties earned \$7 million in the quarter, compared to \$8 million in Q2/2010, primarily due to a 2.2% decrease in hotel occupancy, mainly in Western Canada

- **Regulated Electric Utilities-Caribbean** quarterly earnings of \$7 million were flat on a year-over-year basis. This was primarily driven by lower electricity sales in Grand Cayman, and the discontinuance of consolidation method accounting for financial results of Belize Electricity, effective June 20, 2011. These were offset by lower corporate taxes at Belize Electricity and a commercial customer billing adjustment at Caribbean Utilities.
- Earnings from **Fortis Generation** declined to \$2 million in the quarter, compared to \$3 million in Q2/2010, mainly due to decreased production in Belize and higher finance charges in the quarter.
- **Fortis Properties** earned \$7 million in the quarter, compared to \$8 million in Q2/2010, primarily due to a 2.2% decrease in hotel occupancy, mainly in Western Canada. This was slightly

offset by an overall 2.0% increase in the average daily room rate. The Real Estate division's occupancy rate decreased to 93.4% as at June 30, 2011, from 94.8% at the end of the same period last year.

FortisBC Energy
substantially completed
the construction of its
\$214 million liquefied
natural gas (LNG)
storage facility on
Vancouver Island

FortisAlberta
substantially completed
its \$126 million
Automated Meter
Project, including the
replacement of 466,000
conventional meters

Fortis' \$900 million
Waneta Expansion
Project is expected to be
completed in the spring
of 2015

- **Corporate and other expenses** came in at \$18 million for the quarter, compared to \$20 million in Q2/2010. Last year, the Company incurred higher business development costs in Q2. In the quarter, the Company also incurred lower finance charges, largely due to the redemption of the \$125 million 8% Capital Securities in April 2010 and a favourable foreign exchange impact, which were slightly offset by lower corporate tax recoveries.
- Gross capital expenditures totaled \$519 million in first half of 2011 as the Company continues to aggressively invest in its infrastructure assets. In the quarter, FortisBC Energy substantially completed the construction of its \$214 million liquefied natural gas (LNG) storage facility on Vancouver Island. At the same time, FortisAlberta substantially completed its \$126 million Automated Meter Project, including the replacement of 466,000 conventional meters. In the meantime, work continues to progress on the \$900 million Waneta Expansion Project, which is expected to be completed in the spring of 2015.
- The Company's merger agreement with Central Vermont Public Service Corporation (CVPS) was terminated in July, subsequent to quarter end. According to the terms of the agreement, CVPS paid Fortis a US\$17.5 million termination fee plus US\$2 million for expenses.

Outlook and Financial Forecast

We believe Fortis Inc. is on track to complete \$1.2 billion in capital expenditures in 2011, primarily in infrastructure projects across its Western Canada businesses. By the end of 2015, we expect the Company to have invested close to \$5.7 billion on its capex program. We continue to expect the Company's operation in western Canada, namely its regulated FortisBC Electric and FortisAlberta utilities to continue to benefit from the region's sound fundamentals and healthy customer demand. Our updated model reflects the latest Q2/2011 results. Exhibit 3 shows our updated forecast for overall EBITDA, net income and EPS.

Exhibit 3: Beacon Securities' Updated Forecast (in Canadian dollars)

	2011E - New	2011E - Old	2012E - New	2012E - Old
EBITDA (\$M)	\$1,170	\$1,172	\$1,249	\$1,251
Net Income (\$M)	\$298	\$307	\$314	\$320
EPS (basic)	\$1.69	\$1.75	\$1.78	\$1.83
EPS (diluted)	\$1.67	\$1.70	\$1.76	\$1.78

Source: Company reports, Beacon Securities.

Valuation and Recommendation

We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name

We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name. Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.1x 2012E EPS and 9.8x 2012E EV/EBITDA. Including dividends, there is a potential return of approximately 14% over the next year, which justifies our HOLD rating. The shares currently yield 3.8%.

The Company continues to remain disciplined and patient in its pursuit of an accretive regulated utility acquisition, in the United States or Canada. Current valuations seem to be making it difficult to not overpay for desired targets. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.

Key Risks

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

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Ending Q2 2011	# Stocks	Distribution		
BUY	8	55.6%	BUY	Total 12-month return expected to be >15%
Spec. Buy	3	16.7%		Potential total 12-month return is high (>15%), but given
HOLD	6	27.8%	SPECULATIVE BUY	elevated risk, investment could result in a material loss
SELL	0	0.0%		Total 12-month return expected to be between 0% and 15%
Restricted	0	0.0%	HOLD	Total 12-month return expected to be negative
Total	17	100.0%	SELL	

*as of quarter end

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Market Perform

January 17, 2006
Research Comment
Gas & Electrical

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Newfoundland Regulator Approves 2006 Accounting Policy Application - Market Perform

Event

On December 23, the Newfoundland Board of Commissioners of Public Utilities approved Newfoundland Power Inc.'s (100% - Fortis Inc.) Accounting Policy Application, as highlighted in our December 16 research comment. On January 9, the utility submitted a compliance filing with the Board, requesting final approval of the following pursuant to the December 23 decision: (1) forecast rate base for 2006 of \$743.976 million and actual capital outstanding of \$745.402 million for the purpose of determining the 2006 return on capital; and (2) approval of a range of return on rate base for 2006 of 8.50% to 8.86%, which is unchanged from 2004 and accordingly, no change in customer rates is required for 2006 by the virtue of the operation of the cost of capital formula.

Impact

Neutral.

Forecasts

Our 2006 and 2007 diluted EPS estimates increase by \$0.01 respectively to \$1.13 and \$1.25.

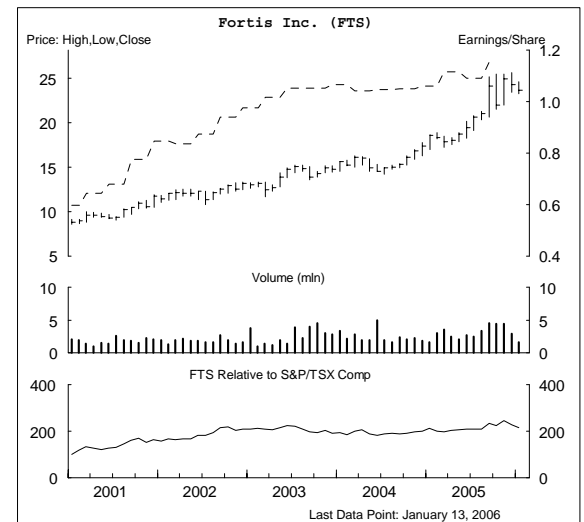
Valuation

Our target price of \$23.25 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.25 (12.5%), 1.75x 2007E book value per share of \$13.15 (12.5%), and a target yield of 3% (75%), assuming 2007 dividends per share of \$0.70 per share.

Recommendation

We believe that the shares are reasonably valued at current levels. Our rating is Market Perform.

Price (16-Jan) \$24.01
Target Price \$23.25
52-Week High \$25.64
52-Week Low \$17.11



(FY-Dec.)	2004A	2005E	2006E	2007E
EPS	\$0.99	\$1.10	\$1.13↑	\$1.25↑
P/E		21.8x	21.2x	19.2x
CFPS	\$3.35	\$2.77	\$2.89	\$3.06
P/CFPS		8.7x	8.3x	7.9x
Div.	\$0.54	\$0.59	\$0.64	\$0.70
EV (\$mm)	\$3,846	\$4,775	\$5,340	\$5,400
EBITDA (\$mm)	\$380	\$510	\$558	\$608
EV/EBITDA	10.1x	9.4x	9.6x	8.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005E	\$0.32a	\$0.28a	\$0.33a	\$0.20
2006E	\$0.32	\$0.30	\$0.24	\$0.29↑
Dividend	\$0.64			Yield 2.7%
Book Value	\$11.68			Price/Book 2.1x
Shares O/S (mm)	103.0			Mkt. Cap (\$mm) \$2,473
Float O/S (mm)	103.0			Float Cap (\$mm) \$2,473
Wkly Vol (000s)	746			Wkly \$ Vol (mm) \$15.8
Net Debt (\$mm)	\$2,599.7			Next Rep. Date 07-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2005E: \$1.19; 2006E: \$1.22; 2007E: \$1.27

Changes

Annual EPS
2006E \$1.12 to \$1.13
2007E \$1.24 to \$1.25

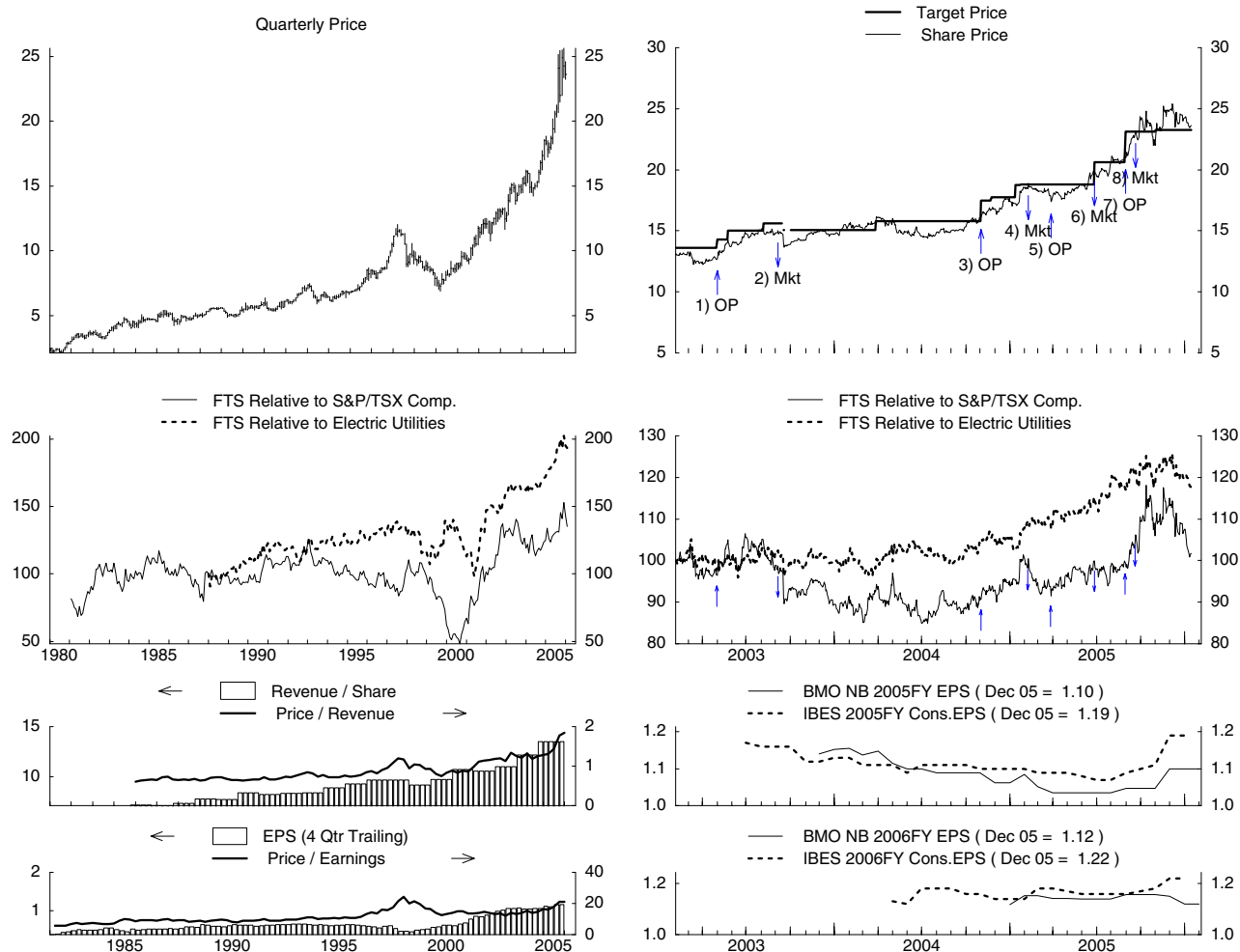
Quarterly EPS
Q4/06E \$0.28 to \$0.29

Table 1. Consolidated Summary Sheet

16-Jan-06								
Current Price:		\$24.01						Karen J. Taylor
12-Month Target Price:		\$23.25						BMO Nesbitt Burns Inc.
ROR:		-0.5%						Recommendation: Market Perform
Year Ending December 31								
	2000	2001	2002	2003	2004	2005E	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.13	\$1.15	\$1.29
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.13	\$1.25
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.30	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.07	\$0.07	\$0.10
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.13	\$0.13	\$0.14
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.20	\$0.19
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.17	\$0.19	\$0.19
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.45	\$0.47	\$0.51
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.30)	(\$0.25)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.59	\$0.64	\$0.70
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.0%	55.6%	54.3%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.5	103.3	106.1
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.59	12.14	13.15
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	-	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	-	-	-
Price: Current	-	-	-	-	-	\$24.01	-	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	-	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	-	-	-
P/E Ratio: Current	-	-	-	-	-	21.3	20.8	18.6
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	-	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	-	-	-
Price/Book Value: Current	-	-	-	-	-	2.07	1.98	1.83
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	-	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	-	-	-
Yield: Current	-	-	-	-	-	2.45%	2.67%	2.92%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	178.7	377.3	355.8
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	2074.5	2071.6	2084.9
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	65.0	65.0	65.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	37.5	37.5	37.5
Preferred Shares	50.0	50.0	0.0	125.0	321.5	321.5	321.5	321.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	24.0
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1193.7</u>	<u>1256.5</u>	<u>1429.1</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	3895.8	4153.4	4317.8
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	4.6%	9.1%	8.2%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	53.2%	49.9%	48.3%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	1.7%	1.6%	1.5%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	1.0%	0.9%	0.9%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.3%	7.7%	7.4%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.6%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.6%</u>	<u>30.3%</u>	<u>33.1%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	114.6	118.9	136.8
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	269.9	303.4	331.8

Source: BMO Nesbitt Burns

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
Current*	1.15	21	0.64	2.6	56	11.68	2.1	10
Average:		12		5.6	63		1.3	12.1
Growth(%):								
5 Year:	14.0		6.8			10.9		
10 Year:	6.2		4.1			6.8		
20 Year:	4.1		4.4			6.2		

* Current EPS is the 4 Quarter Trailing to Q3/2005.

FTS - Rating as of 4-Feb-03 = Mkt

Date	Rating Change	Share Price
1 30-Apr-03	Mkt to OP	\$12.65
2 4-Sep-03	OP to Mkt	\$14.83
3 2-Nov-04	Mkt to OP	\$16.12
4 8-Feb-05	OP to Mkt	\$18.42
5 28-Mar-05	Mkt to OP	\$17.90
6 27-Jun-05	OP to Mkt	\$19.99
7 30-Aug-05	Mkt to OP	\$21.13
8 20-Sep-05	OP to Mkt	\$22.72

Last Daily Data Point: January 13, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	41%	54%	47%
Hold	Market Perform	48%	39%	46%
Sell	Underperform	11%	7%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

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^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Market Perform
Stock Price: \$23.13
Target Price: \$23.25

February 7, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Kevin Cheng

Q4/05 and Fiscal 2005 Slightly Higher Than Expected

Impact

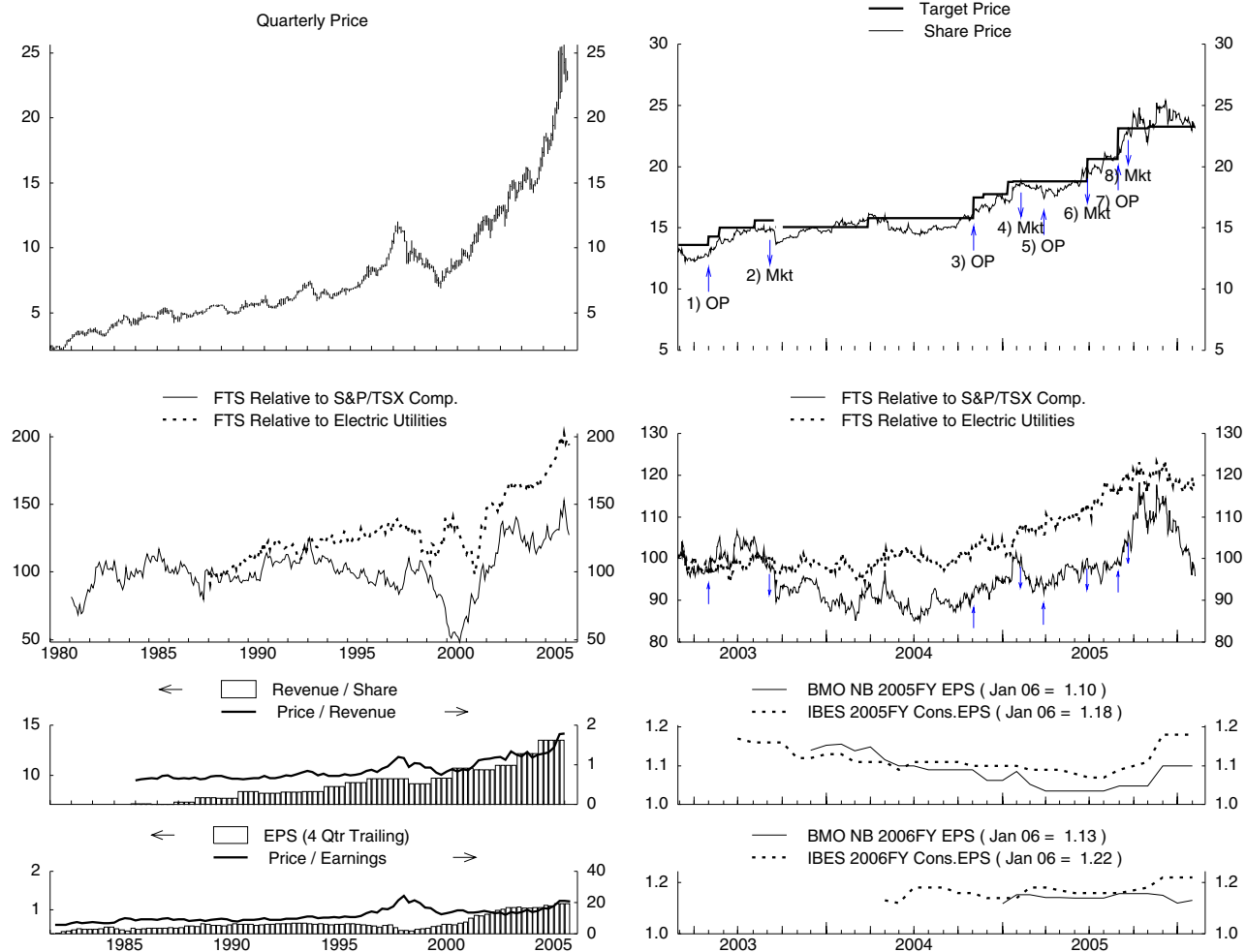
Neutral

Details & Analysis

Fortis Inc. reported Q4/05 and fiscal 2005 EPS of \$0.22 and \$1.35, respectively. After adjusting for one-time items in Q4/05 and throughout fiscal 2005, reported results were \$0.25 and \$1.17 (basic) respectively. Results were slightly higher than our expectation of \$0.20 for the quarter and \$1.15 (basic) for the year. We continue to review the comprehensive release. Fortis is rated Market Perform.

Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
Current*	1.15	21	0.64	2.7	56	11.68	2.0	10
Average:		12		5.6	63		1.3	12.1
Growth(%):								
5 Year:	14.0		6.8			10.9		
10 Year:	6.2		4.1			6.8		
20 Year:	4.1		4.4			6.2		

* Current EPS is the 4 Quarter Trailing to Q3/2005.

FTS - Rating as of 26-Feb-03 = Mkt

Date	Rating Change	Share Price
1 30-Apr-03	Mkt to OP	\$12.65
2 4-Sep-03	OP to Mkt	\$14.83
3 2-Nov-04	Mkt to OP	\$16.12
4 8-Feb-05	OP to Mkt	\$18.42
5 28-Mar-05	Mkt to OP	\$17.90
6 27-Jun-05	OP to Mkt	\$19.99
7 30-Aug-05	Mkt to OP	\$21.13
8 20-Sep-05	OP to Mkt	\$22.72

Last Daily Data Point: February 6, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Market Perform

February 8, 2006
Research Comment
Gas & Electrical

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Karen.Taylor@bmonb.com
Assoc: Kevin Cheng

Fiscal 2005 Diluted EPS In Line With Expectations; No Change in View - Market Perform

Event

Fortis reported Q4/05 and fiscal 2005 EPS of \$0.22 and \$1.35, respectively. After adjusting for one-time items in Q4/05 and those in the first three quarters of the year, reported results were \$0.24 and \$1.17 (basic), respectively. Diluted 2005 EPS were \$1.10. Aggregate normalized earnings of \$119.3 million were slightly higher than our expectation of \$114.6 million. On a diluted basis, fiscal 2005 EPS of \$1.10 were directly in line with our diluted EPS estimate of \$1.10.

Impact

Neutral.

Forecasts

We have fine-tuned our financial model to reflect actual fiscal 2005 results and updated our outlook for FortisAlberta. Our 2006 and 2007 diluted EPS estimates increase to \$1.18 and \$1.29, respectively from \$1.13 and \$1.25.

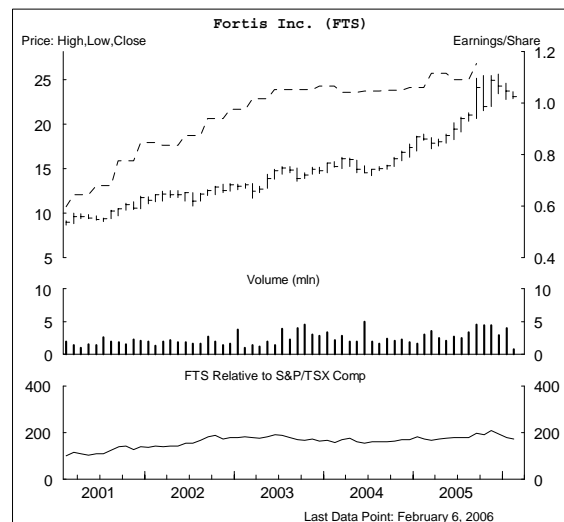
Valuation

Our new target price of \$23.75 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.29 (12.5%), 1.75x estimate 2007 book value per share of \$13.37 (12.5%), and a target yield of 3.00% (75%), assuming 2007 dividends of \$0.72 per share.

Recommendation

We believe that the shares are reasonably valued at current levels. Our rating is Market Perform.

Price (7-Feb) \$22.96
Target Price \$23.75↑
52-Week High \$25.64
52-Week Low \$17.25



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.18↑	\$1.29↑
P/E			19.5x	17.8x
CFPS	\$3.35	\$2.77	\$2.89	\$3.06
P/CFPS			7.9x	7.5x
Div.	\$0.54	\$0.61	\$0.64	\$0.72
EV (\$mm)	\$3,846	\$4,775	\$5,303	\$5,361
EBITDA (\$mm)	\$380	\$510	\$560	\$610
EV/EBITDA	10.1x	9.4x	9.5x	8.8x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.32	\$0.29↓	\$0.33↑	\$0.26↓
Dividend	\$0.64			2.8%
Book Value	\$11.76			2.0x
Shares O/S (mm)	103.2			Mkt. Cap (\$mm) \$2,369
Float O/S (mm)	103.2			Float Cap (\$mm) \$2,369
Wkly Vol (000s)	763			Wkly \$ Vol (mm) \$16.3
Net Debt (\$mm)	\$2,599.7			Next Rep. Date 04-May (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2005E: \$1.18; 2006E: \$1.22; 2007E: \$1.27

Changes

Annual EPS
2006E \$1.13 to \$1.18
2007E \$1.25 to \$1.29

Quarterly EPS

Q2/06E \$0.30 to \$0.29
Q3/06E \$0.24 to \$0.33
Q4/06E \$0.29 to \$0.26

Target

\$23.25 to \$23.75

Details & Analysis

Fortis reported Q4/05 and fiscal 2005 EPS of \$0.22 and \$1.35, respectively. After adjusting for one-time items in Q4/05 and those in the first three quarters of the year, reported results were \$0.24 and \$1.17 (basic), respectively. Diluted 2005 EPS were \$1.10. Aggregate normalized earnings of \$119.3 million were slightly higher than our expectation of \$114.6 million. On a diluted basis, fiscal 2005 EPS of \$1.10 were directly in line with our diluted EPS estimate of \$1.10.

We believe that the following points are relevant about Q4/05 and fiscal 2005 performance:

- We have normalized reported fiscal 2005 results for the following one-time items and adjustments:

First Quarter

- \$7.9 million after-tax benefit in Fortis Ontario arising from the Niagara Exchange Agreement with Ontario Power Generation.

Second Quarter

- \$7.0 million after-tax gain relating to the resolution of tax matters resulting in the reduction of liabilities associated with prior periods at FortisAlberta.
- \$1.4 million after-tax interest revenue from a tax settlement at Newfoundland Power.
- \$1.1 million after-tax gain at Caribbean Utilities relating to a change in accounting practice for recognizing unbilled revenue.

Third Quarter

- \$1.6 million future income tax reduction at Cornwall Electric.
- Approximately \$1.8 million after-tax associated with Fortis Alberta and the resolution of the EPCOR litigation.

Fourth Quarter

- \$3 million after-tax one-time adjustment relating to the implementation of the Negotiated Settlement reached on May 24, 2005 by FortisAlberta.
- Segment performance was largely in line with expectations, as set out in Table 1.

Table 1. Performance by Segment: Actual and Expected

Contribution by Segment	(Millions)									
	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005A	2005E	2006E	2007E
Newfoundland Power	29.5	31.1	13.0	10.1	3.4	2.9	29.4	30.9	30.9	33.7
Maritime Electric	7.2	8.2	2.1	2.3	3.0	1.7	9.1	9.0	9.6	10.0
Fortis Ontario	6.5	4.3	1.1	0.9	0.5	0.2	2.7	7.1	3.6	6.2
FortisAlberta	0.0	18.6	7.8	7.8	7.5	7.2	30.3	23.7	32.5	35.7
FortisBC	0.0	17.7	8.9	5.4	4.8	5.6	24.6	22.1	24.7	27.3
Belize Electricity	6.7	7.2	1.0	1.9	3.2	2.0	8.1	7.6	8.5	8.8
Caribbean Utilities	10.5	0.8	2.5	2.0	3.0	2.8	10.3	10.0	10.8	11.3
Fortis Generation	10.9	12.8	2.1	3.2	7.8	8.5	21.6	21.7	19.8	19.8
Fortis Properties	11.0	11.8	1.5	4.8	4.9	2.9	14.1	12.9	15.8	17.2
Corporate	(8.6)	(23.4)	(8.7)	(9.6)	(3.9)	(8.6)	(30.9)	(30.4)	(32.5)	(29.2)
Earnings Before Non-Recurring items	73.6	89.1	31.3	28.7	34.2	25.2	119.3	114.6	123.8	140.7
Average Shares	69.2	84.7	98.0	102.9	103.0	103.0	101.8	101.5	103.4	106.3
Net Earnings to Common (Basic)	\$1.06	\$1.05	\$0.32	\$0.28	\$0.33	\$0.24	\$1.17	\$1.13	\$1.20	1.32
Net Earnings to Common (Diluted)	\$1.03	\$0.99					\$1.10	\$1.10	\$1.18	1.29

Source: BMO Nesbitt Burns, Company Reports

- The contribution from FortisOntario was lower than expected, largely due to the timing of anticipated regulatory decisions that are anticipated to provide rate relief at Canadian Niagara Power, increase the return on invested capital. We have reduced our outlook from this segment in 2006 and 2007 to more appropriately reflect the requirement for future rate applications to increase the realized return on equity at this utility.
- The contribution from FortisAlberta was higher than expected on a normalized basis, reflecting the difference between the contribution from the utility on a stand-alone basis (as reported separately) and the contribution to Fortis Inc. on a consolidated basis. The latter reflects adjustments to various regulatory accounts at the time of acquisition, increasing the return on a consolidated basis. We have made the requisite adjustments to our financial model to more appropriately reflect these ongoing adjustments.
- Our estimates and outlook for Maritime Electric do not yet include the January 31, 2006 rate application filed by the utility with the Island Regulatory and Appeals Commission and the January 20, 2006 decision by the regulator regarding the fiscal 2006 capital budget. We will update our outlook upon the receipt of these documents; however, we do not expect the application and the capital budget decision to materially change our outlook.
- We have fully incorporated the December 12, 2005 rate application filed by FortisAlberta for 2006/2007 with the Alberta Energy and Utilities Board and the November 24, 2005 application by FortisBC to the British Columbia Utilities Commission for 2006 rates.
- The contribution from FortisProperties was slightly higher than expected, largely due to the contribution from three hotels acquired in Alberta and Manitoba that were acquired in February 2005.
- The December 31, 2005 decision by the Public Utilities Commission of Belize that allows Belize Electricity Limited to: (1) recover approximately BZ\$8.4 million that has accrued in the Cost of Power Rate Stabilization Account via a BZ0.6 cent per kilowatt increase in electricity rates; (2) increase the cost of power per kilowatt hour for calendar year 2006 by BZ\$0.045 to BZ\$0.255 (or a reference cost of power of BZ\$0.224 per kWh); and (3) increase the mean electricity rate charged to customers to BZ\$0.441 from BZ\$0.39

previously, is positive. The decision does not increase the earnings contribution from the utility on a consolidated basis; however, we believe that a reduction in energy-related cost deferral accounts and the “true-up” of customer rates and power costs are likely to reduce capital employed, moderate risk and facilitate the continued investment in the utility system.

- We assume that capital expenditures are approximately \$419.8 million and \$381.0 million in 2006 and 2007, respectively. Anticipated expenditure levels reflect large capital programs at FortisAlberta and FortisBC.

Estimates

We have fine-tuned our financial model to reflect actual fiscal 2005 results and updated our outlook for FortisAlberta. Our 2006 and 2007 diluted EPS estimates increase to \$1.18 and \$1.29, respectively from \$1.13 and \$1.25. We assume that Fortis issues approximately \$100 million of common stock in 2007 to support the ongoing utility capital program and maintain adequate balance sheet strength.

Valuation

Our new target price of \$23.75 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.29 (12.5%), 1.75x estimate 2007 book value per share of \$13.37 (12.5%), and a target yield of 3.00% (75%), assuming 2007 dividends of \$0.72 per share.

Recommendation

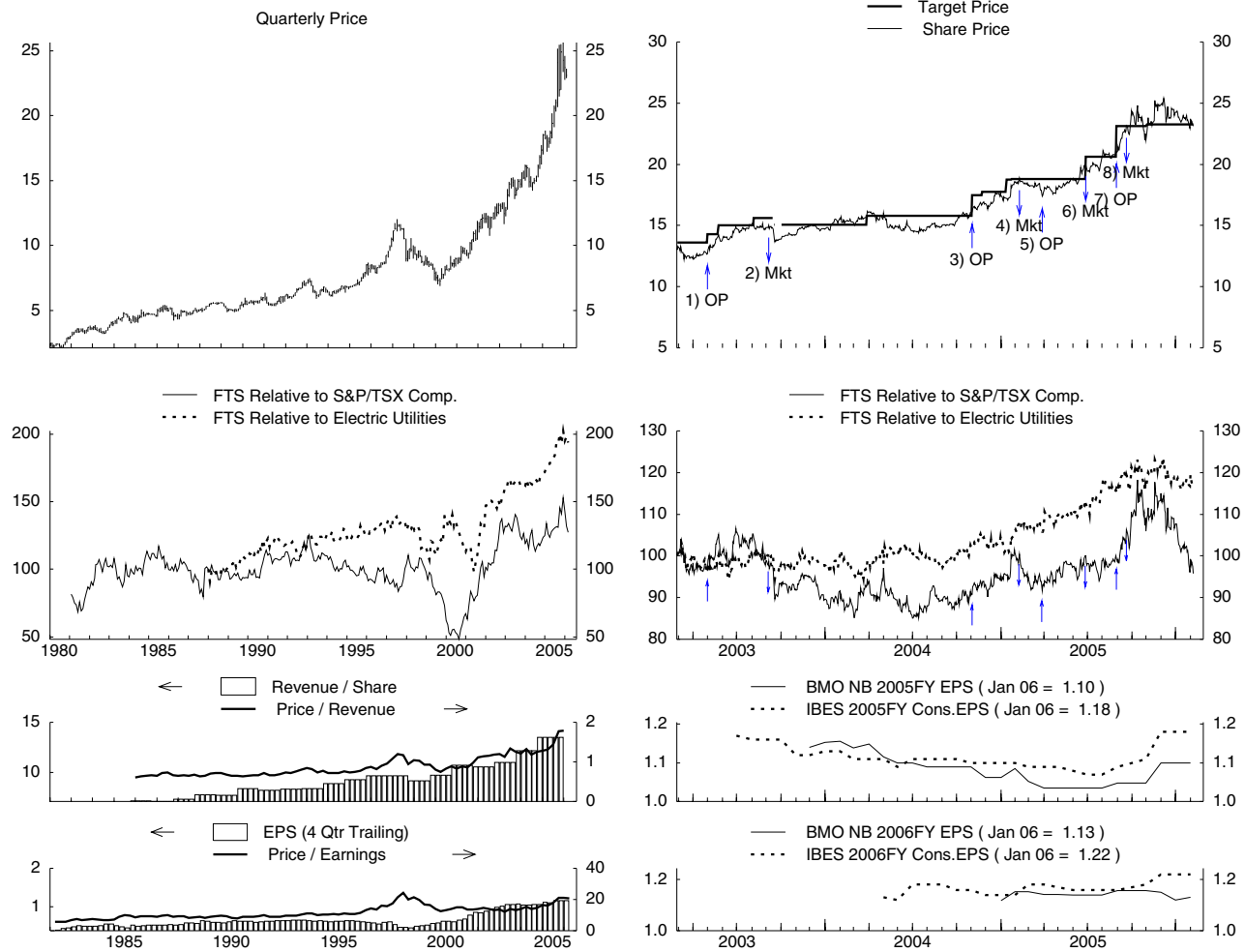
We believe that the shares are reasonably valued at current levels. Our rating is Market Perform.

Table 2. Consolidated Summary Sheet

08-Feb-06								Karen J. Taylor
Current Price:	\$22.96							BMO Nesbitt Burns Inc.
12-Month Target Price:	\$23.75							
ROR:	6.2%							
							Recommendation:	Market Perform
Year Ending December 31								
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.20	\$1.32
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.18	\$1.29
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.19	\$0.19
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.19	\$0.19
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.55	\$0.59
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.72
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	53.5%	54.4%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.36	13.37
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$22.96	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.2	17.3
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.86	1.72
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.79%	3.14%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	225.8	367.8	344.7
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2071.0	2084.3
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	24.0
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1281.0</u>	<u>1455.2</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	4005.4	4294.0	4458.4
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.6%	8.6%	7.7%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.7%	48.2%	46.7%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.4%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.4%	7.2%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.3%</u>	<u>29.8%</u>	<u>32.6%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	123.8	140.7
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	308.5	335.8

Source: BMO Nesbitt Burns

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
Current*	1.15	21	0.64	2.7	56	11.68	2.0	10
Average:		12		5.6	63		1.3	12.1
Growth(%):								
5 Year:	14.0		6.8			10.9		
10 Year:	6.2		4.1			6.8		
20 Year:	4.1		4.4			6.2		

* Current EPS is the 4 Quarter Trailing to Q3/2005.

FTS - Rating as of 26-Feb-03 = Mkt

Date	Rating Change	Share Price
1 30-Apr-03	Mkt to OP	\$12.65
2 4-Sep-03	OP to Mkt	\$14.83
3 2-Nov-04	Mkt to OP	\$16.12
4 8-Feb-05	OP to Mkt	\$18.42
5 28-Mar-05	Mkt to OP	\$17.90
6 27-Jun-05	OP to Mkt	\$19.99
7 30-Aug-05	Mkt to OP	\$21.13
8 20-Sep-05	OP to Mkt	\$22.72

Last Daily Data Point: February 6, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	41%	54%	47%
Hold	Market Perform	48%	39%	46%
Sell	Underperform	11%	7%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR** = No rating at this time; **(R) = Restricted** - Dissemination of research is currently restricted.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

March 3, 2006
 Research Comment
 Gas & Electrical

Karen Taylor, CFA
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 Karen.Taylor@bmonb.com
 Assoc: Kevin Cheng

Maritime Electric Files for 2006/07 Rates; Market Perform Rating Maintained

Event

On January 31, Maritime Electric Company, Limited (100% - Fortis Inc.) applied to the Island Regulatory and Appeals Commission for rates, tolls and charges for electric service for the period July 1 2006 to December 31, 2007. The application was made available as a public document on March 1. The application contains the following highlights: (1) average 2006 and 2007 rate base of \$223.1 million and \$250.9 million; (2) net capital expenditures of \$20.5 million in 2006 and \$15.9 million in 2007; (3) deemed equity of 42.2% in 2006 and 41.5% in 2007; and (4) return on equity range of 10.0% to 10.5%, as per the current authorization.

Impact

Neutral.

Forecasts

We have updated our financial model to reflect the application and fine-tuned our outlook pursuant to the conclusion of fiscal 2005. Our diluted 2006 and 2007 EPS estimates decline marginally to \$1.17 and \$1.26 from \$1.18 and \$1.29, respectively.

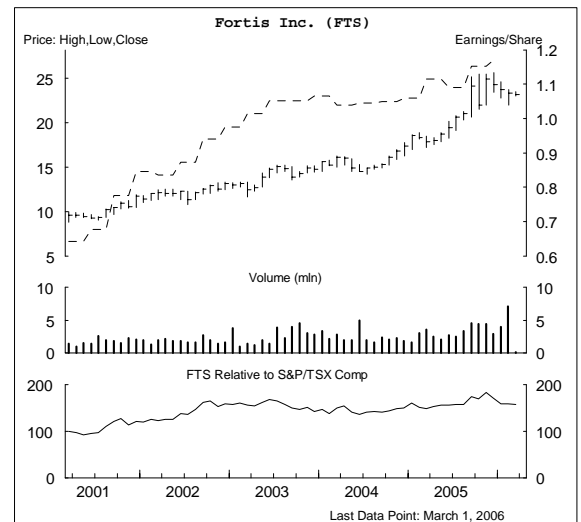
Valuation

Our target price of \$23.75 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.26 (12.5%), 1.75x estimated book value per share of \$13.33 (12.5%), and a target yield of 3% (75%), assuming 2007 dividends per share of \$0.72 per share.

Recommendation

We believe that the shares are reasonably valued. Our rating is Market Perform.

Price (2-Mar) \$22.60
Target Price \$23.75
52-Week High \$25.64
52-Week Low \$17.25



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.17↓	\$1.26↓
P/E			19.3x	17.9x
CFPS	\$3.35	\$2.77	\$2.89	\$3.06
P/CFPS			7.8x	7.4x
Div.	\$0.54	\$0.61	\$0.64	\$0.72
EV (\$mm)	\$3,846	\$4,871	\$5,426	\$5,482
EBITDA (\$mm)	\$380	\$507	\$568	\$615
EV/EBITDA	10.1x	9.6x	9.6x	8.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.32↓	\$0.28↓	\$0.33↓	\$0.25↓
Dividend	\$0.64			2.8%
Book Value	\$11.76			Price/Book
Shares O/S (mm)	103.2			1.9x
Float O/S (mm)	103.2			Mkt. Cap (\$mm)
Wkly Vol (000s)	839			\$2,332
Net Debt (\$mm)	\$2,560.5			Float Cap (\$mm)
				\$2,332
				Wkly \$ Vol (mm)
				\$18.2
				Next Rep. Date
				5-Apr (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.23; 2007E: \$1.32

Changes

Annual EPS
 2006E \$1.18 to \$1.17
 2007E \$1.29 to \$1.26

Quarterly EPS

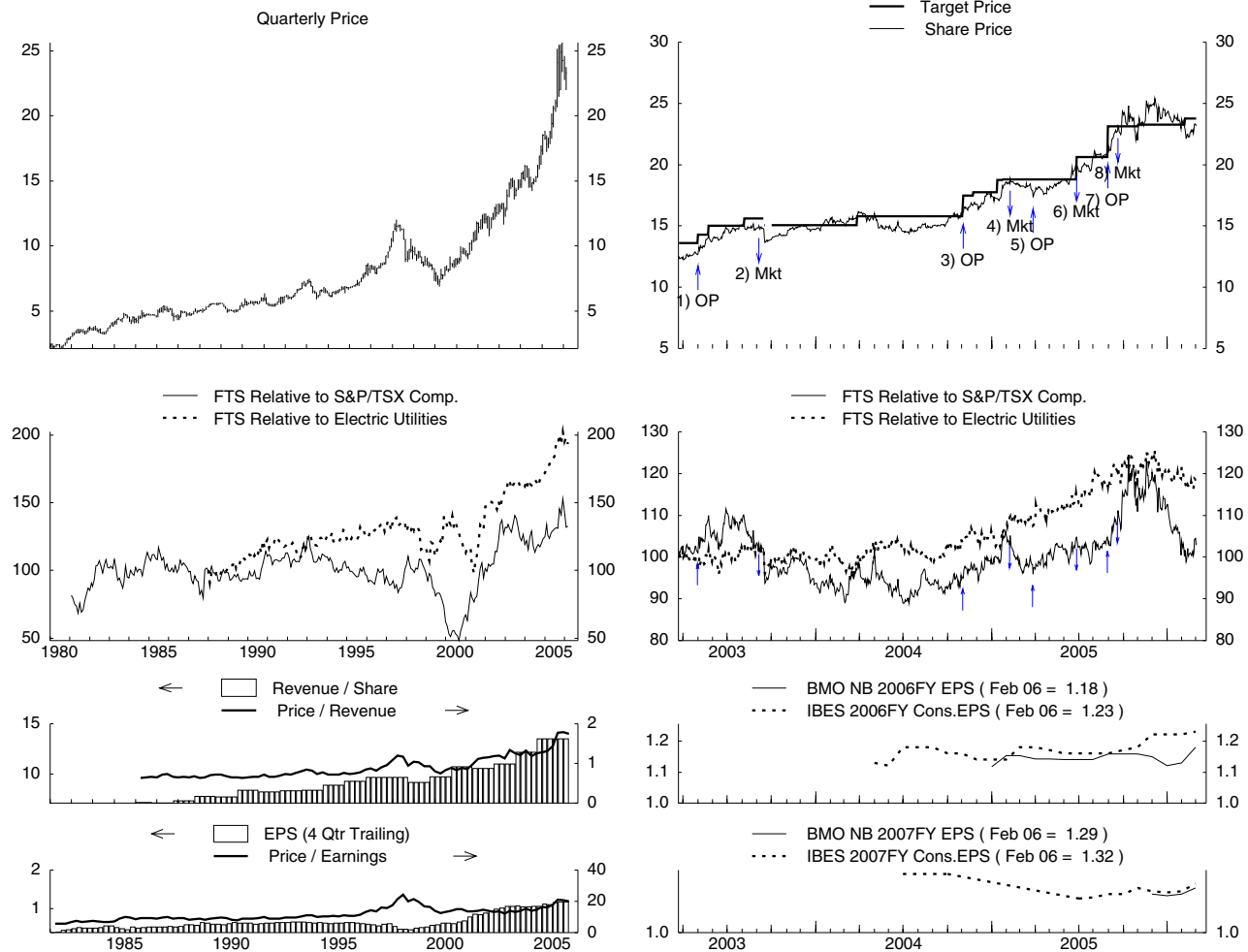
Q1/06E \$0.32 to \$0.32
 Q2/06E \$0.29 to \$0.28
 Q3/06E \$0.33 to \$0.33
 Q4/06E \$0.26 to \$0.25

Table 1. Consolidated Summary Sheet

03-Mar-06								Karen J. Taylor	
Current Price:	\$22.60		BMO Nesbitt Burns Inc.						
12-Month Target Price:	\$23.75								
ROR:	7.9%		Recommendation: Market Perform						
			Year Ending December 31						
	2000	2001	2002	2003	2004	2005	2006E	2007E	
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.18	\$1.29	
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.17	\$1.26	
Segmented EPS									
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32	
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16	
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.19	\$0.19	
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.19	\$0.19	
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.53	\$0.55	
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)	
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.72	
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	54.1%	55.7%	
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3	
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.34	13.33	
Market Valuation									
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-	
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-	
Price: Current	-	-	-	-	-	-	\$22.60	-	
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-	
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-	
P/E Ratio: Current	-	-	-	-	-	-	19.1	17.5	
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-	
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-	
Price/Book Value: Current	-	-	-	-	-	-	1.83	1.70	
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-	
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-	
Yield: Current	-	-	-	-	-	-	2.83%	3.19%	
Balance Sheet (\$mm)									
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	225.8	367.3	340.6	
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2071.0	2084.3	
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0	
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7	
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5	
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	24.0	
Shareholders' Equity	412.1	444.0	584.2	624.6	1000.1	1213.4	1279.6	1450.6	
	1270.3	1442.1	1731.2	2250.9	3533.6	4005.4	4292.1	4449.7	
Balance Sheet (%)									
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.6%	8.6%	7.7%	
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.7%	48.3%	46.8%	
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.4%	
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%	
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.4%	7.2%	
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%	
Shareholders' Equity	32.4%	30.8%	33.7%	27.7%	28.3%	30.3%	29.8%	32.6%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement									
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	122.4	137.5	
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	309.4	335.4	
Key Statistics									
Newfoundland Light & Power									
Average Utility Rate Base (\$mm)	559.8	549.3	602.0	640.8	720.5	744.1	744.0	811.0	
Growth Rate	5.9%	-1.9%	9.6%	6.4%	12.4%	3.3%	0.0%	9.0%	
2004 - 2007 CAGR								4.0%	
Allowed Return on Equity	10.28%	9.25%	9.05%	9.75%	9.75%	9.24%	8.77%	8.77%	
Deemed Equitiv	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	

Source: BMO Nesbitt Burns

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	ND	14	0.47	4.0	56	7.49	1.6	nm
2002	ND	13	0.49	3.7	50	8.50	1.5	nm
2003	ND	14	0.52	3.5	49	8.82	1.7	nm
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	10.45	2.3	11
Current*	1.17	20	0.64	2.7	55	11.76	2.0	10
Average:		12		5.4	62		1.4	12.0
Growth(%):								
5 Year:	14.4		6.8			11.0		
10 Year:	6.3		4.1			6.9		
20 Year:	4.2		4.4			6.3		

* Current EPS is the 4 Quarter Trailing to Q4/2005.

FTS - Rating as of 21-Mar-03 = Mkt

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1 30-Apr-03	Mkt to OP	\$12.65
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4 8-Feb-05	OP to Mkt	\$18.42
5 28-Mar-05	Mkt to OP	\$17.90
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7 30-Aug-05	Mkt to OP	\$21.13
8 20-Sep-05	OP to Mkt	\$22.72

Last Daily Data Point: March 1, 2006

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In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	41%	54%	47%
Hold	Market Perform	48%	39%	46%
Sell	Underperform	11%	7%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR** = No rating at this time; **(R) = Restricted** - Dissemination of research is currently restricted.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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TO U.S. RESIDENTS: Harris Nesbitt Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through Harris Nesbitt Corp. and/or BMO Nesbitt Burns Securities Ltd.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

March 6, 2006
Research Comment
Gas & Electrical

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Assoc: Kevin Cheng

BCUC Increases Benchmark ROE; Market Perform Rating Unchanged

Event

On March 2, the British Columbia Utilities Commission issued its Decision relating to an application by Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. to determine the appropriate return on equity and capital structure, and to review and revise the automatic adjustment mechanism. In the decision, the Commission increases the benchmark return on equity for 2006 to 8.80% versus 8.29% previously and alters the automatic adjustment mechanism (see our industry comment dated March 6 for additional information). FortisBC (100% - Fortis Inc.) is regulated by the Commission and is subject to the automatic adjustment mechanism and the established benchmark ROE.

Impact

Slightly positive.

Forecasts

We have revised our financial model to reflect the change in benchmark ROE. The utility operations of FortisBC earn the benchmark ROE plus a 0.40% premium, for a total allowed return in 2006 of 9.20% versus 8.69% previously. Our diluted 2006 and 2007 EPS estimates increase to \$1.18 and \$1.27, respectively, from \$1.17 and \$1.26 previously.

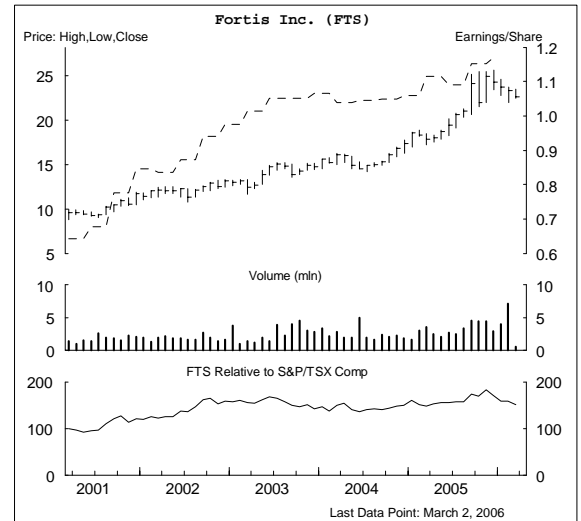
Valuation

Our target price reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.27 (12.5%), 1.75x 2007E book value per share of \$13.35 (12.5%), and a target yield of 3.0% (75%), assuming 2007 dividends per share of \$0.72.

Recommendation

We believe that the shares are reasonably valued. Our rating is Market Perform.

Price (2-Mar) \$22.60
Target Price \$23.75
52-Week High \$25.64
52-Week Low \$17.25



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.18↑	\$1.27↑
P/E			19.2x	17.8x
CFPS				
P/CFPS	\$3.35	\$3.15	\$2.99	\$3.16
			7.6x	7.2x
Div.	\$0.54	\$0.61	\$0.64	\$0.72
EV (\$mm)	\$3,846	\$4,871	\$5,350	\$5,401
EBITDA (\$mm)	\$380	\$507	\$567	\$611
EV/EBITDA	10.1x	9.6x	9.4x	8.8x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.32	\$0.29↑	\$0.33	\$0.26↑
Dividend	\$0.64			
Book Value	\$11.76			
Shares O/S (mm)	103.2			
Float O/S (mm)	103.2			
Wkly Vol (000s)	839			
Net Debt (\$mm)	\$2,560.5			
Yield				2.8%
Price/Book				1.9x
Mkt. Cap (\$mm)				\$2,332
Float Cap (\$mm)				\$2,332
Wkly \$ Vol (mm)				\$18.2
Next Rep. Date				5-Apr (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.23; 2007E: \$1.32

Changes

Annual EPS
2006E \$1.17 to \$1.18
2007E \$1.26 to \$1.27

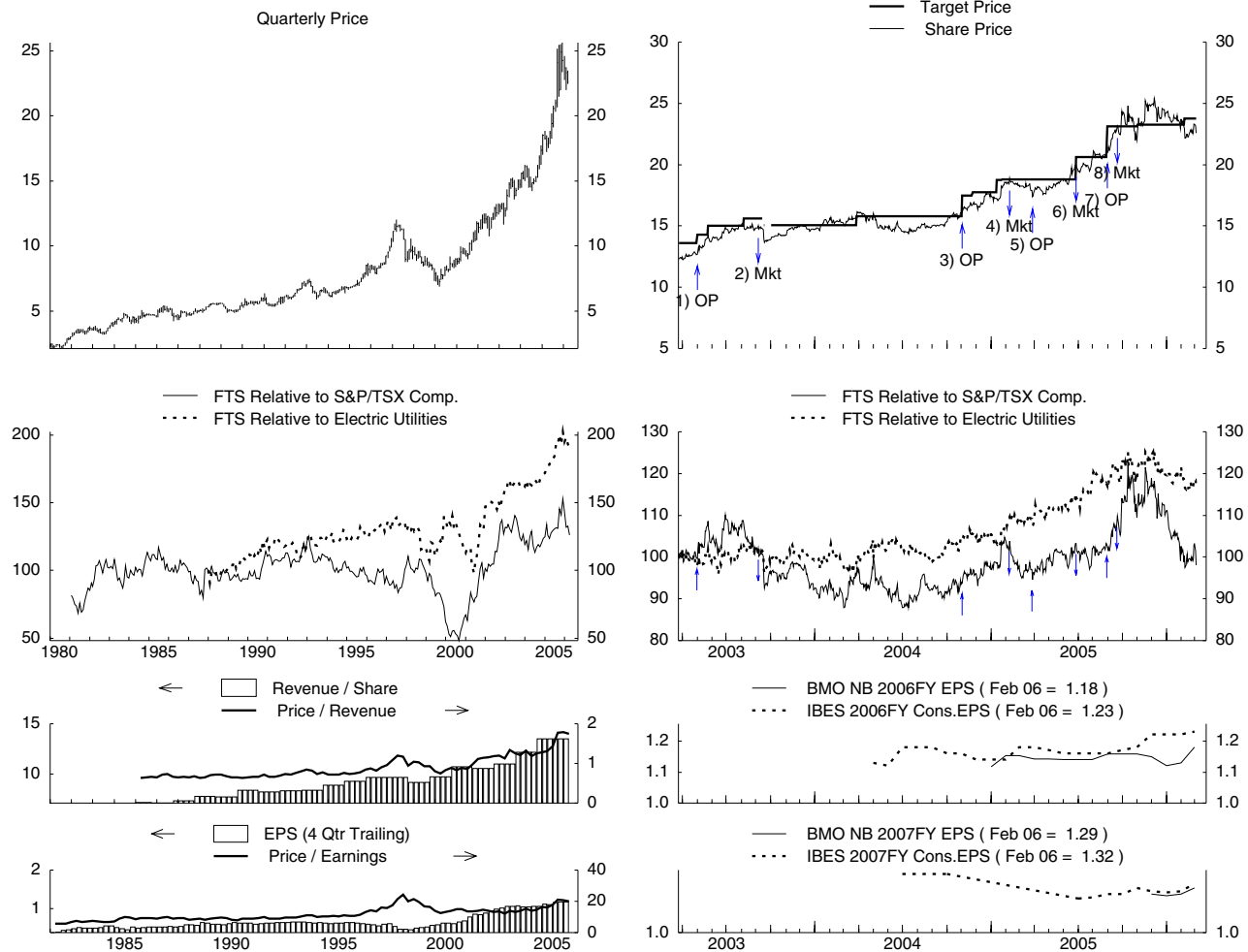
Quarterly EPS
Q2/06E \$0.28 to \$0.29
Q4/06E \$0.25 to \$0.26

Table 1. Consolidated Summary Sheet

3-Mar-06								Karen J. Taylor
Current Price:	\$22.50	BMO Nesbitt Burns Inc.						
12-Month Target Price:	\$23.75							
ROR:	8.4%	Recommendation:					Market Perform	
	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.20	\$1.31
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.18	\$1.27
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.19	\$0.19
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.19	\$0.19
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.55	\$0.56
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.72
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	53.5%	55.0%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.36	13.35
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$22.50	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	18.8	17.2
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.82	1.68
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.84%	3.20%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	225.8	366.0	337.7
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2071.0	2084.3
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	24.0
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1281.0</u>	<u>1453.5</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	4005.4	4292.1	4449.7
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.6%	8.5%	7.6%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.7%	48.3%	46.8%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.4%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.4%	7.2%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.3%</u>	<u>29.8%</u>	<u>32.7%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	123.8	139.0
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	310.8	336.9

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1993	0.64	11	0.40	5.6	63	5.53	1.3	12
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2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	10.45	2.3	11
Current*	1.17	20	0.64	2.7	55	11.76	2.0	10
Average:		12		5.4	62		1.4	12.0
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10 Year:	6.3		4.1			6.9		
20 Year:	4.2		4.4			6.3		

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I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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Buy	Outperform	41%	54%	47%
Hold	Market Perform	48%	39%	46%
Sell	Underperform	11%	7%	7%

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^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Fortis

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

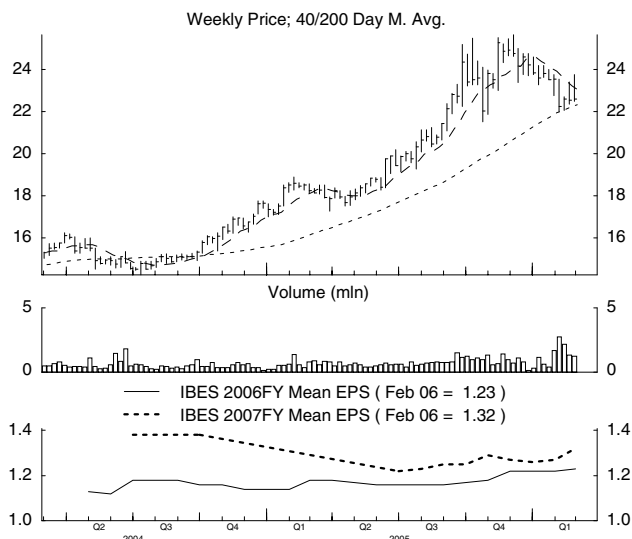
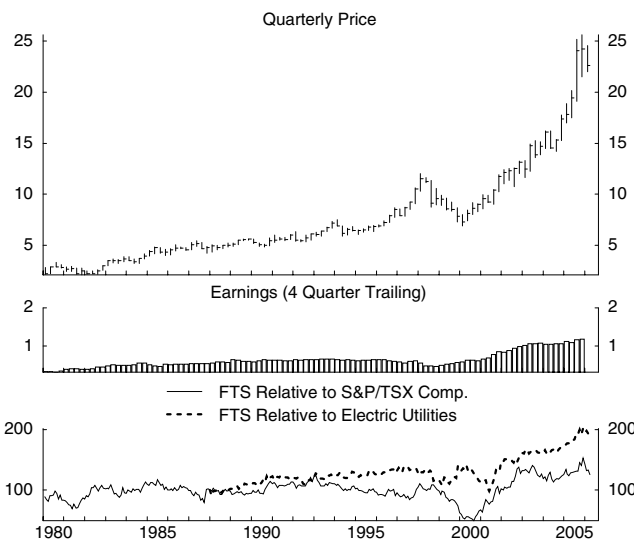
March 2, 2006
Research Fact Sheet
Gas & Electrical

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(416) 359-4304
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Assoc: Kevin Cheng

Price (2-Mar)	\$22.60	52-Week High	\$25.64	
Target Price	\$23.75	52-Week Low	\$17.25	
Dividend	\$0.64	Book Value	\$11.76	
Yield	2.8%	Price/Book	1.9x	
Shares O/S (mm)	103.2	Mkt. Cap (\$mm)	\$2,332	
Float O/S (mm)	103.2	Float Cap (\$mm)	\$2,332	
Wkly Vol (000s)	839	Wkly \$ Vol (mm)	\$18.5	
Net Debt (\$mm)	\$2,560	Next Rep. Date	5-Apr (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.32	\$0.28	\$0.33	\$0.25

Notes: EPS estimates are diluted; Quarterly numbers are basic

(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.17	\$1.26
P/E			19.3x	17.9x
CFPS	\$3.35	\$3.15	\$2.99	\$3.16
P/CFPS			7.6x	7.2x
Div.	\$0.54	\$0.61	\$0.64	\$0.72
EV (\$mm)	\$3,846	\$4,871	\$5,350	\$5,401
EBITDA (\$mm)	\$380	\$507	\$567	\$611
EV/EBITDA	10.1x	9.6x	9.4x	8.8x
ROE (%)	8.9%	9.8%	9.7%	9.6%
Book Value (\$)	\$10.47	\$11.76	\$12.36	\$13.35
D/Tot. Cap. (%)	68.8%	63.9%	64.8%	62.2%
Reg. ROE (%)	9.8%	9.2%	8.8%	8.8%



Company Description – Fortis is a publicly listed holding company with three key businesses: electric utility operations, non-regulated electric power generation, and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (37.17%, Grand Cayman Island), FortisAlberta

(100%, Alberta) and FortisBC (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis reported Q4/05 and fiscal 2005 EPS of \$0.22 and \$1.35, respectively. After adjusting for one-time items in Q4/05 and those in the first three quarters of the year, reported results were \$0.24 and \$1.17 (basic), respectively. Diluted 2005 EPS were \$1.10. Aggregate normalized earnings of \$119.3 million were slightly higher

than our expectation of \$1.14.6 million. On a diluted basis, fiscal 2005 EPS of \$1.10 were directly in line with our diluted EPS estimate of \$1.10.

Corporate Developments – On December 31, the Public Utilities Commission of Belize issued a decision that allows Belize Electricity to: (1) recover approximately BZ8.4 million that has accrued in the Cost of Power Rate Stabilization Account via a BZ0.6 cent per kWh increase in electricity rates; (2) increase the cost of power per kWh for calendar year 2006 by BZ0.045 to BZ0.255 per kWh; and (3) increase the mean electricity rate charged to customers to BZ0.441 from BZ0.39 per kWh.

On December 23, 2005, the Newfoundland Board of Commissioners of Public Utilities approved Newfoundland Power's Accounting Policy Application. On January 9, the utility submitted a compliance filing with the Board,

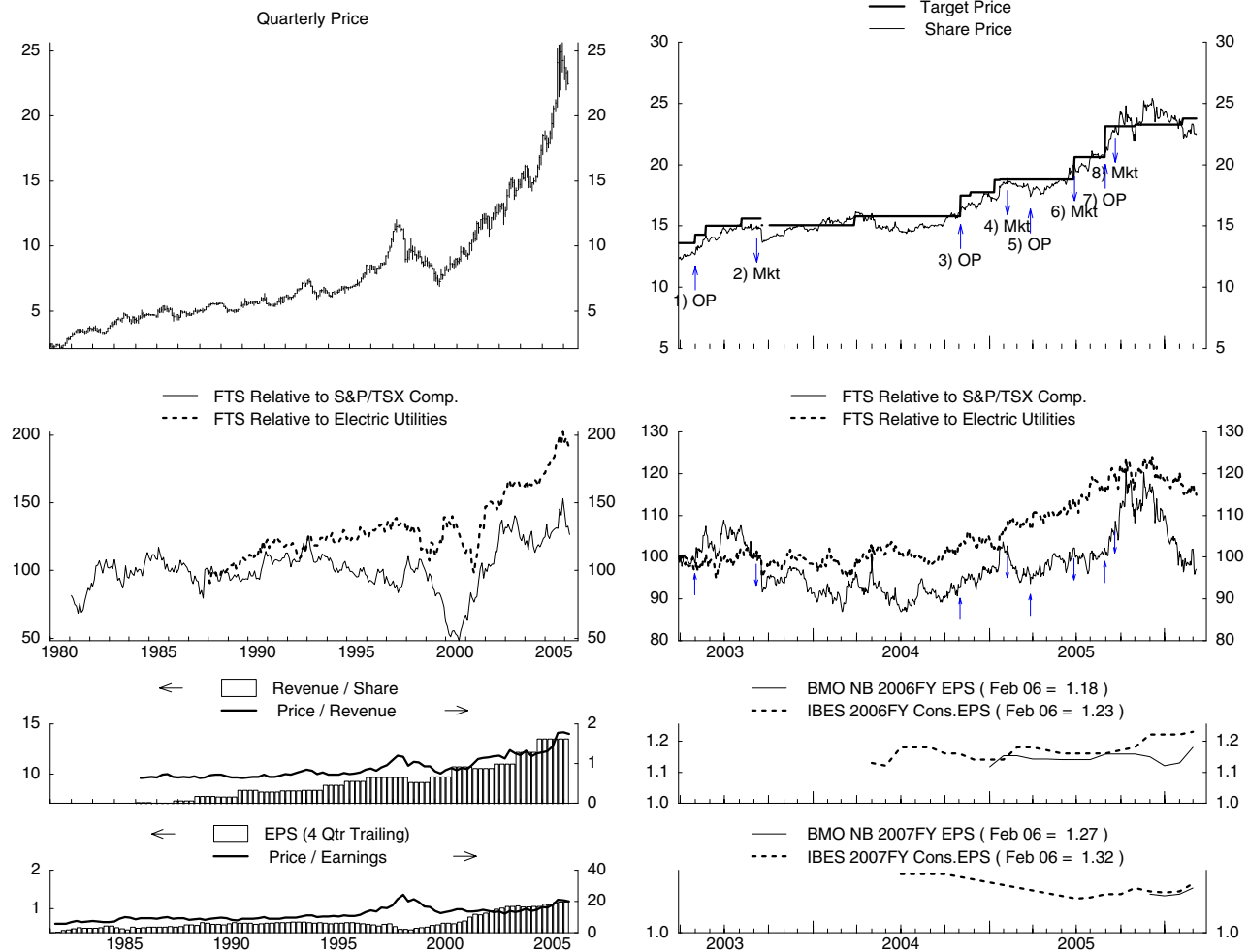
requesting final approval of the following key metrics: (1) forecast rate base for 2006 of \$743.976 million and actual capital outstanding of \$745.402 million for the purpose of determining the 2006 return on capital; and (2) approval of a range of return on rate base for 2006 of 8.50% to 8.86%, unchanged from 2004.

Forecasts – Our 2006 and 2007 diluted EPS estimates are \$1.17 and \$1.26, respectively.

Valuation – Our target price of \$23.75 reflects a weighted average valuation approach: 17x estimated 2007 diluted EPS of \$1.26 (12.5%), 1.75x estimated 2007 book value per share of \$13.35 (12.5%), and a target yield of 3.00%, assuming 2007 dividends per share of \$0.72 (75%).

Recommendation – We believe the shares are reasonably valued. Our rating is Market Perform

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	ND	14	0.47	4.0	56	7.49	1.6	nm
2002	ND	13	0.49	3.7	50	8.50	1.5	nm
2003	ND	14	0.52	3.5	49	8.82	1.7	nm
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	10.45	2.3	11
Current*	1.17	20	0.64	2.7	55	11.76	2.0	10
Average:		12		5.4	62		1.4	12.0
Growth(%):								
5 Year:	14.4		6.8			11.0		
10 Year:	6.3		4.1			6.9		
20 Year:	4.2		4.4			6.3		

* Current EPS is the 4 Quarter Trailing to Q4/2005.

FTS - Rating as of 27-Mar-03 = Mkt

Date	Rating Change	Share Price
1 30-Apr-03	Mkt to OP	\$12.65
2 4-Sep-03	OP to Mkt	\$14.83
3 2-Nov-04	Mkt to OP	\$16.12
4 8-Feb-05	OP to Mkt	\$18.42
5 28-Mar-05	Mkt to OP	\$17.90
6 27-Jun-05	OP to Mkt	\$19.99
7 30-Aug-05	Mkt to OP	\$21.13
8 20-Sep-05	OP to Mkt	\$22.72

Last Daily Data Point: March 7, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients *	First Call Universe **
Buy	Outperform	41%	54%	47%
Hold	Market Perform	48%	39%	46%
Sell	Underperform	11%	7%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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^Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

May 1, 2006
Research Comment
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Kevin Cheng

Q1/06 EPS Slightly Higher than Expected; Market Perform Rating Maintained

Event

Fortis reported Q1/06 EPS of \$0.35 versus \$0.32 from continuing operations in Q1/05 and our estimate of \$0.32. Q1/06 results were slightly higher than expected. The primary variance between expected and actual performance is largely attributable to a stronger than expected contribution from the non-regulated generation segment. We note that the Q1/06 contribution from Newfoundland Power and Caribbean Utilities (100% and 37% - Fortis Inc., respectively) was adversely affected by a change in review recognition and a lag in the recovery of fuel costs. We do not believe that these items are likely to adversely affect annual performance and are largely timing, likely to affect the seasonal pattern of earnings only.

Impact

Slightly Positive.

Forecasts

We have revised our diluted 2006 and 2007 EPS estimates to reflect slightly higher than expected average realized prices in the non-regulated power segment. Our diluted 2006 estimate is unchanged at \$1.18; however, our diluted 2007 EPS estimate increases slightly to \$1.28 from \$1.27.

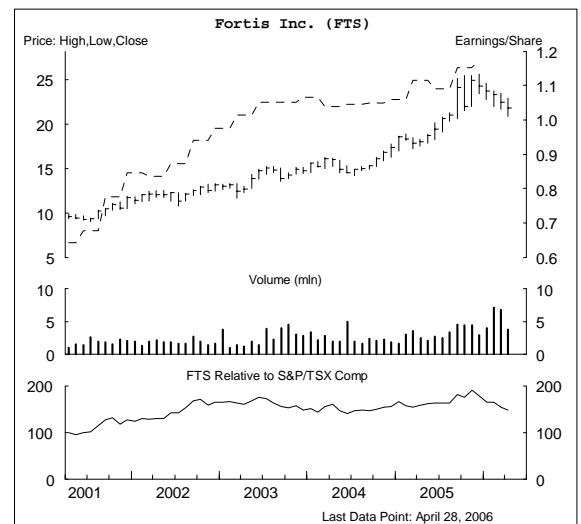
Valuation

Our revised target price reflects a weighted average valuation approach: 17x diluted 2007 EPS of \$1.28 (12.5%), 1.75x 2007E BV of \$13.37 (12.5%), and a target yield of 3.25% (75%), assuming 2007 dividends of \$0.73 per share.

Recommendation

We believe that the shares are reasonably valued. Our rating is Market Perform.

Price (28-Apr) \$21.79
Target Price \$22.50↓
52-Week High \$25.64
52-Week Low \$17.82



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.18	\$1.28↑
P/E			18.5x	17.0x
CFPS	\$3.35	\$3.15	\$2.99	\$3.16
P/CFPS			7.3x	6.9x
Div.	\$0.54	\$0.61	\$0.64	\$0.73
EV (\$mm)	\$3,846	\$4,871	\$5,291	\$5,338
EBITDA (\$mm)	\$380	\$507	\$569	\$613
EV/EBITDA	10.1x	9.6x	9.3x	8.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.28↓	\$0.33	\$0.25↓
Dividend	\$0.64			Yield 2.9%
Book Value	\$11.96			Price/Book 1.8x
Shares O/S (mm)	103.4			Mkt. Cap (\$mm) \$2,253
Float O/S (mm)	103.4			Float Cap (\$mm) \$2,253
Wkly Vol (000s)	934			Wkly \$ Vol (mm) \$20.8
Net Debt (\$mm)	\$2,560.5			Next Rep. Date 31-Jul (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.23; 2007E: \$1.32

Changes

Annual EPS
2007E \$1.27 to \$1.28

Quarterly EPS
Q2/06E \$0.29 to \$0.28
Q4/06E \$0.26 to \$0.25

Target
\$23.75 to \$22.50

Details & Analysis

Fortis reported Q1/06 EPS of \$0.35 versus \$0.32 from continuing operations in Q1/05 and our estimate of \$0.32. Q1/06 results were slightly higher than expected. The primary variance between expected and actual performance is largely attributable to a stronger than expected contribution from the non-regulated generation segment. We note that the Q1/06 contribution from Newfoundland Power and Caribbean Utilities (100% and 37% - Fortis Inc., respectively) was adversely affected by a change in review recognition and a lag in the recovery of fuel costs. We do not believe that these items are likely to adversely affect annual performance and are largely timing, likely to affect the seasonal pattern of earnings only.

We believe that the following points are relevant about Q1/06 performance:

- The contribution from FortisAlberta is approximately \$0.1 million higher than that reported by the utility in its Q1/06 release. We believe that the difference is attributable to restructuring charges that were anticipated by Fortis Inc. at the time it acquired the utility, therefore increasing current performance. We expect these charges to be approximately \$3 million in 2006 and \$0 in 2007.
- The contribution from FortisBC was approximately \$0.5 million higher than that reported by the utility in its Q1/06 release. We believe that the difference is attributable to: (1) inclusion of the 16 MW Walden facility in the Utility's financial results. The contribution from Walden was a loss of \$0.2 million in Q1/06. This facility is contained in the Generation segment in the reported results of Fortis Inc.; (2) contribution from Princeton Light & Power was \$0.2 million in Q1/06; and (3) various non-regulated services contracts, which contributed approximately \$0.1 million in Q1/06.
- Higher power production from Fortis' New York and Belize assets are set out in Tables 1 through 3.

Table 1. Fortis Generation – Performance by Quarter

Fortis Generation	Millions											
	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06
Operating Revenue	57.1	16.7	17.0	15.5	20.0	69.2	17.0	19.2	21.7	26.0	83.9	19.3
Energy Supply Costs	2.6	1.6	1.2	1.3	1.7	5.8	1.9	1.8	0.9	1.6	6.2	1.9
Operating Expenses	13.9	4.2	3.8	4.4	3.6	16.0	4.8	4.4	2.5	6.1	17.8	4.0
Depreciation	7.7	2.5	2.5	2.6	2.7	10.3	2.6	2.5	2.6	2.6	10.3	2.7
Operating Income	32.9	8.4	9.5	7.2	12.0	37.1	7.7	10.5	15.7	15.7	49.6	10.7
Interest Expense	13.3	3.8	3.8	4.0	3.8	15.4	3.9	4.0	3.5	2.7	14.1	2.7
Income Taxes	8.5	1.9	2.1	1.2	1.7	6.9	1.4	2.4	4.4	3.5	11.7	2.2
Non-controlling Interest	0.3	-0.2	0.4	0.0	1.7	1.9	0.3	0.9	0.0	1.0	2.2	0.4
Net Earnings	10.9	2.9	3.2	2.0	4.7	12.8	2.1	3.2	7.8	8.5	21.6	5.4

Source: Company Reports

Table 2. Fortis Generation – Sales in GWh

Energy Sales (GWh)	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06
Central Newfoundland	17	19	41	29	63	152	35	48	26	50	159	38
Ontario	705	165	166	174	184	721	184	176	166	182	708	187
Belize	61	15	11	16	21	63	7	7	18	36	68	27
British Columbia	0	0	6	9	8	23	5	11	15	8	39	3
Upper New York State	87	15	22	10	23	70	17	16	7	35	75	29
Total	870	214	246	238	299	1,029	248	258	232	311	1,049	284

Source: Company Reports

Table 3. Fortis Generation – Performance (\$/MWh)

Fortis Generation	\$/MWh											
	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06
Operating Revenue	65.6	78.0	69.1	65.1	67.0	67.3	68.5	74.4	93.5	83.6	80.0	68.0
Energy Supply Costs	2.9	7.5	4.9	5.5	5.7	5.6	7.7	7.0	3.9	5.1	5.9	6.7
Operating Expenses	16.0	19.6	15.4	18.5	12.2	15.6	19.4	17.1	10.8	19.6	17.0	14.1
Depreciation	8.8	11.7	10.2	10.9	9.0	10.0	10.5	9.7	11.2	8.4	9.8	9.5
Operating Income	37.9	39.3	38.6	30.3	40.2	36.1	31.0	40.7	67.7	50.5	47.3	37.7
Interest Expense	15.3	17.8	15.4	16.8	12.8	15.0	15.7	15.5	15.1	8.7	13.4	9.5
Income Taxes	9.8	8.9	8.5	5.0	5.8	6.7	5.6	9.3	19.0	11.3	11.2	7.7
Non-controlling Interest	0.3	-0.9	1.6	0.0	5.8	1.9	1.2	3.5	0.0	3.2	2.1	1.4
Net Earnings	12.5	13.6	13.0	8.4	15.7	12.4	8.5	12.4	33.6	27.3	20.6	19.0

Source: Company Reports

- On April 28, the Ontario Energy Board (OEB) issued its 2006 electricity distribution rate Decisions and Orders for Canadian Niagara Power (100% - Fortis Inc.), Eastern Ontario Power (100% - Fortis Inc.), Fort Erie (100% - Fortis Inc.) and Port Colbourne (10-year lease agreement). The OEB approved rates do not materially change our outlook for Fortis Ontario and the increased distribution and Regulated Price Plan (RPP) rates allowed by the Board are as follows:
 - CNPI – Eastern Ontario Power: Distribution Rate Change 2%; RPP Change 8.8%.
 - CNPI – Fort Erie: Distribution Rate Change 8.6%; RPP Change 9.0%.
 - CNPI – Port Colbourne: Distribution Rate Change 8.6%; RPP Change 8.9%.

Approved distribution rates reflect an allowed Return on Equity of 9.00% versus 9.88% previously.

Estimates

We have revised our diluted 2006 and 2007 EPS estimates to reflect slightly higher than expected average realized prices in the non-regulated power segment. Our diluted 2006 estimate is unchanged at \$1.18; however, our diluted 2007 EPS estimate increases slightly to \$1.28 from \$1.27.

Valuation

Our revised target price reflects a weighted average valuation approach: 17x diluted 2007 EPS of \$1.28 (12.5%), 1.75x 2007E BV of \$13.37 (12.5%), and a target yield of 3.25% (75%), assuming 2007 dividends of \$0.73 per share.

Recommendation

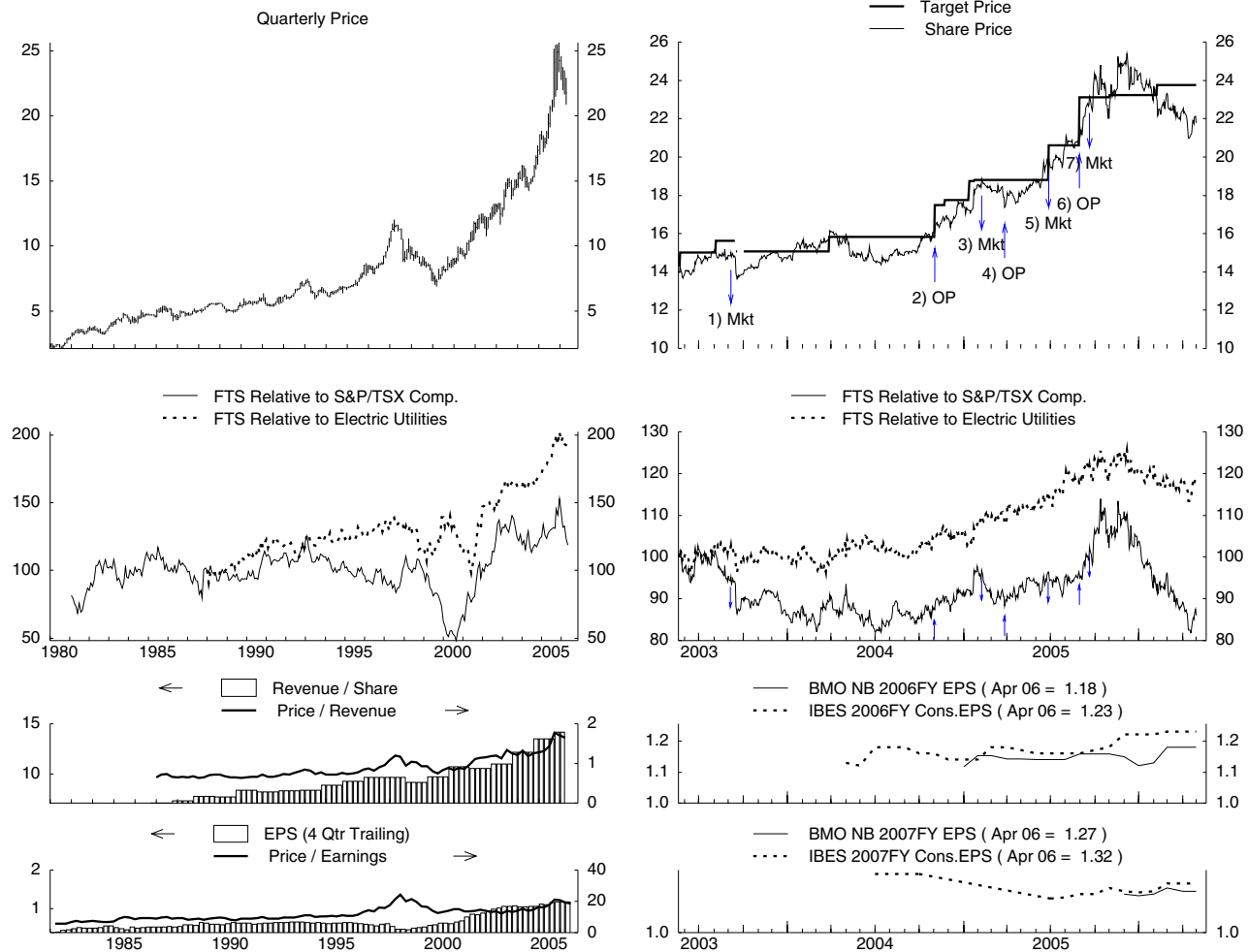
We believe that the shares of Fortis Inc. are reasonably valued at current levels. Our rating is Market Perform.

Table 4. Consolidated Summary Sheet

1-May-06								
Current Price:	\$21.46							Karen J. Taylor
12-Month Target Price:	\$22.50							BMO Nesbitt Burns Inc.
ROR:	7.8%							
						Recommendation:		Market Perform
	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.21	\$1.32
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.18	\$1.28
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.21	\$0.20
Belize, BECOL, CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.18	\$0.19
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.55	\$0.56
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.73
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	52.8%	55.3%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.37	13.37
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$21.46	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	17.7	16.3
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.73	1.61
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.98%	3.40%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	225.8	264.4	236.0
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2171.0	2184.3
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	24.0
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1282.6</u>	<u>1455.3</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	4005.4	4292.1	4449.7
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.6%	6.2%	5.3%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.7%	50.6%	49.1%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.4%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.4%	7.2%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.3%</u>	<u>29.9%</u>	<u>32.7%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	125.3	140.3
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	312.3	338.2

Source: BMO Nesbitt Burns

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	ND	14	0.47	4.0	56	7.49	1.6	nm
2002	ND	13	0.49	3.7	50	8.50	1.5	nm
2003	ND	14	0.52	3.5	49	8.82	1.7	nm
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.17	19	0.64	2.9	55	11.76	1.9	10
Average:		12		5.4	62		1.4	12.0
Growth(%):								
5 Year:	12.7		6.8			11.0		
10 Year:	6.3		4.1			6.9		
20 Year:	4.4		4.4			6.3		

* Current EPS is the 4 Quarter Trailing to Q4/2005.

FTS - Rating as of 20-May-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18

Last Daily Data Point: April 28, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	35%	39%	46%
Hold	Market Perform	54%	56%	47%
Sell	Underperform	11%	5%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform ↑
Industry Rating: Underperform

May 11, 2006
 Research Comment
 Gas & Electrical

Karen Taylor, CFA
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 Karen.Taylor@bmonb.com
 Assoc: Kevin Cheng

2007 Foreign Exchange Assumption Changed; Rating Increased to Outperform

Event

We have updated our financial model to reflect a new foreign exchange rate assumption for the USD for 2007 due to pervasive strength in the Canadian dollar versus the U.S. dollar. We now assume an exchange rate of C\$1.00 equals US\$0.90 versus our previous assumption that C\$1.00 equals US\$0.83. We are also increasing our rating on the shares of Fortis Inc. to Outperform from Market Perform due to recent weakness in share price.

Impact

Neutral.

Forecasts

Our diluted 2006 EPS estimate of \$1.18 is unchanged. Our diluted 2007 EPS estimate declines to \$1.27 from \$1.28.

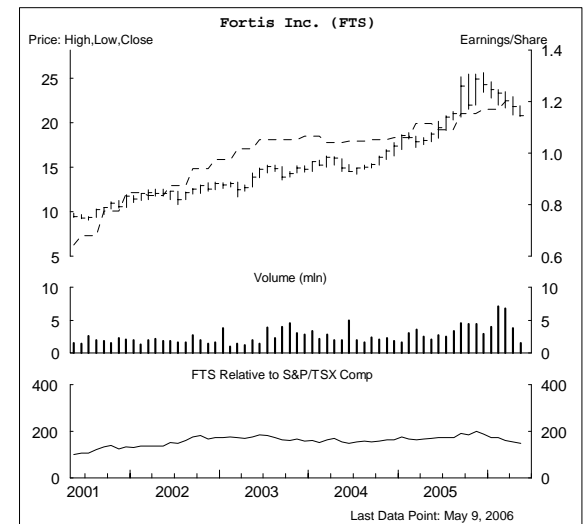
Valuation

Our target price of \$22.50 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.27 (12.5%), 1.75x 2007E BV of \$13.36 (12.5%), and a target yield of 3.25% (75%), assuming 2007 dividends per share of \$0.73.

Recommendation

We believe that the shares are attractively valued at current levels. We are increasing our rating to Outperform from Market Perform.

Price (9-May) \$20.76 **52-Week High** \$25.64
Target Price \$22.50 **52-Week Low** \$18.13



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.18	\$1.27↓
P/E			17.6x	16.3x
CFPS	\$3.35	\$3.15	\$2.99	\$3.16
P/CFPS			6.9x	6.6x
Div.	\$0.54	\$0.61	\$0.64	\$0.73
EV (\$mm)	\$3,846	\$4,871	\$5,291	\$5,338
EBITDA (\$mm)	\$380	\$507	\$569	\$613
EV/EBITDA	10.1x	9.6x	9.3x	8.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.28	\$0.33	\$0.25
Dividend	\$0.64	Yield		3.1%
Book Value	\$11.96	Price/Book		1.7x
Shares O/S (mm)	103.4	Mkt. Cap (\$mm)		\$2,146
Float O/S (mm)	103.4	Float Cap (\$mm)		\$2,146
Wkly Vol (000s)	943	Wkly \$ Vol (mm)		\$21.1
Net Debt (\$mm)	\$2,560.5	Next Rep. Date		31-Jul (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2006E: \$1.24; 2007E: \$1.33

Changes

Annual EPS
 2007E \$1.28 to \$1.27

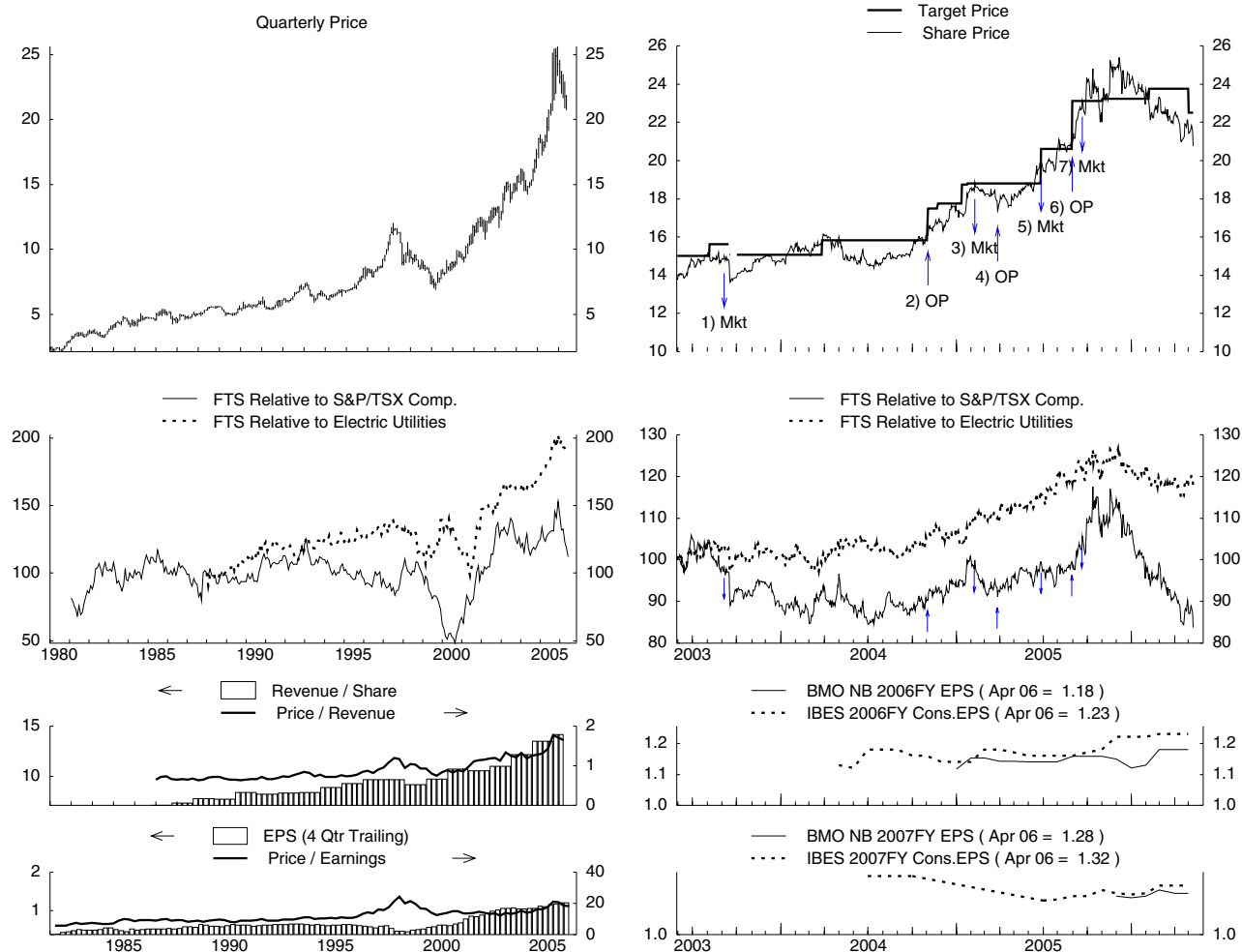
Rating
 Mkt to OP

Table 1. Consolidated Summary Sheet

10-May-06								Karen J. Taylor
Current Price:	\$20.59							BMO Nesbitt Burns Inc.
12-Month Target Price:	\$22.50							
ROR:	12.4%							
	Recommendation:							Outperform
	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.21	\$1.31
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.18	\$1.27
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.21	\$0.20
Belize, BECOL, CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.18	\$0.17
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.55	\$0.56
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.73
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	52.8%	55.5%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.37	13.36
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$20.59	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	17.0	15.7
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.66	1.54
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	3.11%	3.55%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	225.8	264.4	238.3
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2171.0	2182.5
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1282.6</u>	<u>1454.7</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	4005.4	4292.1	4447.9
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.6%	6.2%	5.4%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.7%	50.6%	49.1%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.4%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.4%	7.2%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.3%</u>	<u>29.9%</u>	<u>32.7%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	125.3	139.7
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	312.3	337.6

Source: BMO Nesbitt Burns

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	ND	14	0.47	4.0	56	7.49	1.6	nm
2002	ND	13	0.49	3.7	50	8.50	1.5	nm
2003	ND	14	0.52	3.5	49	8.82	1.7	nm
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	18	0.64	2.9	53	11.96	1.8	10
Average:		12		5.4	62		1.4	12.0
Growth(%):								
5 Year:	13.3		6.8			11.4		
10 Year:	6.5		4.1			7.1		
20 Year:	4.6		4.4			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

FTS - Rating as of 29-May-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18

Last Daily Data Point: May 9, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	35%	39%	46%
Hold	Market Perform	54%	56%	47%
Sell	Underperform	11%	5%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR** = No rating at this time; **(R) = Restricted** - Dissemination of research is currently restricted.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Underperform

May 19, 2006
Research Comment
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
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Settlement Agreements Filed in Alberta and British Columbia; Outperform Rating Maintained

Event

On May 9, FortisBC filed a Negotiated Settlement with the British Columbia Utilities Commission (BCUC) relating to its 2006 Revenue Requirements Application and Multi-Year Performance Based Regulation (PBR) for the years 2007 through 2009, inclusively. On May 17, FortisAlberta filed a Negotiated Settlement Agreement and a Negotiated Settlement Agreement on Terms and Conditions of Service for 2006 and 2007 with the Alberta Energy and Utilities Board. The key terms of these applications are set out herein.

Impact

Slightly positive.

Forecasts

We have updated our financial model to reflect these settlement agreements. Our diluted 2006 and 2007 EPS estimates decline by \$0.01 to \$1.17 and \$1.26 per share, respectively.

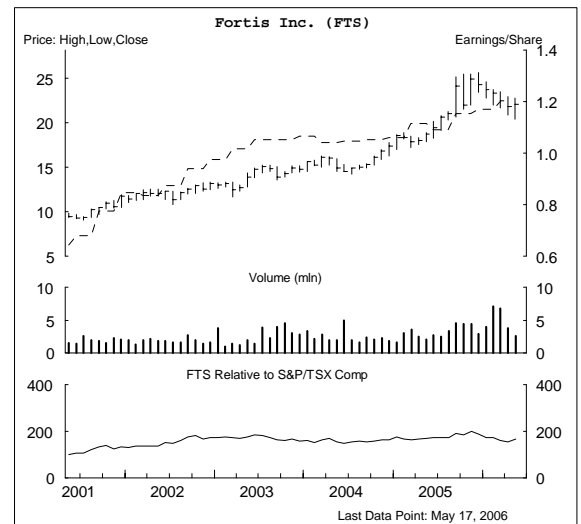
Valuation

Our target price of \$22.50 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.27 (12.5%), 1.75x 2007 BV of \$13.34 (12.5%), and a target yield of 3.25% (75%), assuming 2007 dividends per share of \$0.73.

Recommendation

We believe that the shares are attractively valued. Our rating is Outperform.

Price (18-May) \$22.10
Target Price \$22.50
52-Week High \$25.64
52-Week Low \$18.13



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.17↓	\$1.26↓
P/E			18.9x	17.5x
CFPS	\$3.35	\$3.15	\$2.99	\$3.16
P/CFPS			7.4x	7.0x
Div.	\$0.54	\$0.61	\$0.64	\$0.73
EV (\$mm)	\$3,846	\$4,871	\$5,234	\$5,278
EBITDA (\$mm)	\$380	\$507	\$564	\$603
EV/EBITDA	10.1x	9.6x	9.3x	8.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.27↓	\$0.32↓	\$0.25
Dividend	\$0.64			Yield 2.9%
Book Value	\$11.96			Price/Book 1.8x
Shares O/S (mm)	103.4			Mkt. Cap (\$mm) \$2,285
Float O/S (mm)	103.4			Float Cap (\$mm) \$2,285
Wkly Vol (000s)	952			Wkly \$ Vol (mm) \$21.3
Net Debt (\$mm)	\$2,560.5			Next Rep. Date 31-Jul (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2006E: \$1.24; 2007E: \$1.33

Changes

Annual EPS
2006E \$1.18 to \$1.17
2007E \$1.27 to \$1.26

Quarterly EPS
Q2/06E \$0.28 to \$0.27
Q3/06E \$0.33 to \$0.32

Details & Analysis

On May 9, FortisBC filed a Negotiated Settlement with the British Columbia Utilities Commission (BCUC) relating to its 2006 Revenue Requirements Application and Multi-Year Performance Based Regulation for the years 2007 through 2009, inclusively. On May 17, FortisAlberta filed a Negotiated Settlement Agreement and a Negotiated Settlement Agreement on Terms and Conditions of Service (T&C Settlement Agreement) for 2006 and 2007. The key financial terms of each Settlement are set out below.

FortisAlberta:

- The 2006/2007 Negotiated Settlement Agreement (NSA) provides for settlement of all 2006/2007 Phase I matters and is supported by representatives of all segments of FortisAlberta's customer base. The T&C Settlement Agreement provides agreed Terms and Conditions of Service and is to be effective January 1, 2007. This Settlement also has the support of FortisAlberta's customer base.
- The T&C Agreement is intended to result in upgrades that include: (i) clarity with respect to the requirement of a customer to provide notice to FortisAlberta prior to decreasing or exiting service; (ii) removes all instances where FortisAlberta granted to itself "sole discretion" or "sole judgment"; (iii) provides for options other than arbitration, and to make the arbitrator responsible for determining the allocation of compensation when disputes or differences arise; and (iv) deletes the previous section that pertained to Project Cancellation and the associated cancellation costs.
- Next distribution tariff application is expected for 2008.
- Distribution revenue requirement (after refunds) of \$217.1 million and \$228.2 million in 2006 and 2007, respectively.
- Effective change from 2005 rates: -1.9% in 2006 and 0.7% in 2007.
- Depreciation and amortization of \$73.8 million and \$78.5 million in 2006 and 2007, respectively.
- Deemed equity of 37%;
- Alberta Energy and Utility Board Generic Cost of Capital formula to apply in both 2006 and 2007 (i.e., the allowed ROE will be subject to reset annually). ROE for 2006 8.93% and this rate is used as a placeholder for 2007 rates.
- Mid-year Rate Base subject to debt and equity return is \$767.4 million in 2006 and \$864.9 million in 2007.
- Total Net Capital Invested in 2006 and 2007 of \$171.9 million and \$177.2 million, respectively.

FortisBC:

- Filed 2006 Revenue Requirements and Multi-Year Performance Based Regulation Plan for 2007 to 2009 is supported by a number of parties but does not yet have the support of all constituencies. The document has been filed with the Commission and all intervenors, including those that did not participate in the settlement process.
- The 2006 Revenue Requirement Settlement would result in a 5.9% general rate increase effective January 1, 2006, equal to the existing interim increase.
- The sharing mechanism adopted for the PBR term will apply to 2006, subject to certain performance standards.
- Capital expenditures are to be tested in a separate process.
- For the term of the PBR, Gross Operating and Maintenance Expenses before Capitalized Overheads will be set annually by the formula set out, incorporating a growth escalator (customer growth) and an inflation factor (the consumer price index for British Columbia), minus an agreed Productivity Improvement Factor (2% in 2007, 2% in 2008% and 3% in 2009 if the PBR is extended) were agreed to, in recognition that FortisBC is in the early stages of its transition to a stand-alone, locally managed utility, and that progress in achieving efficiencies will accelerate throughout the term of the PBR.
- Capitalized overheads will also be determined annually by formula, at 20% of gross O&M. All other cost accounts will be forecast annually.
- With respect to the allowed ROE, all variances, positive or negative, equal to or less than 2.0% will be shared equally between customers and the company. If the variance exceeds 2.0%, the excess will be placed in a deferral account for review at the next annual review. The 2008 Annual Review will include a review of the PBR mechanism, and the extension of the PBR plan to 2009 will be contingent upon the mutual agreement of the parties.
- Revenue requirement for 2006 of \$197.404 million.
- Depreciation and amortization for 2006 of \$26.740 million.
- 2006 mid-year utility rate base of \$675.906 million. Net plant additions of \$107.816 million in 2006.
- 40% common equity component and 9.20% return on equity. We do not believe that the British Columbia Utility Commission's ROE mechanism will apply through the term of the PBR agreement (i.e., the ROE will change annually, as per the formula). We have requested clarification from Fortis.

Estimates

We have updated our financial model to reflect these settlement agreements. Our diluted 2006 and 2007 EPS estimates decline by \$0.01 to \$1.17 and \$1.26 per share, respectively. Our estimates do not reflect material incentive returns at FortisBC.

Valuation

Our target price of \$22.50 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.27 (12.5%), 1.75x 2007 BV of \$13.34 (12.5%), and a target yield of 3.25% (75%), assuming 2007 dividends per share of \$0.73.

Recommendation

We believe that the shares are attractively valued. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

19-May-06

Current Price:

\$22.66

12-Month Target Price:

\$22.50

ROR:

2.1%

Karen J. Taylor

BMO Nesbitt Burns Inc.

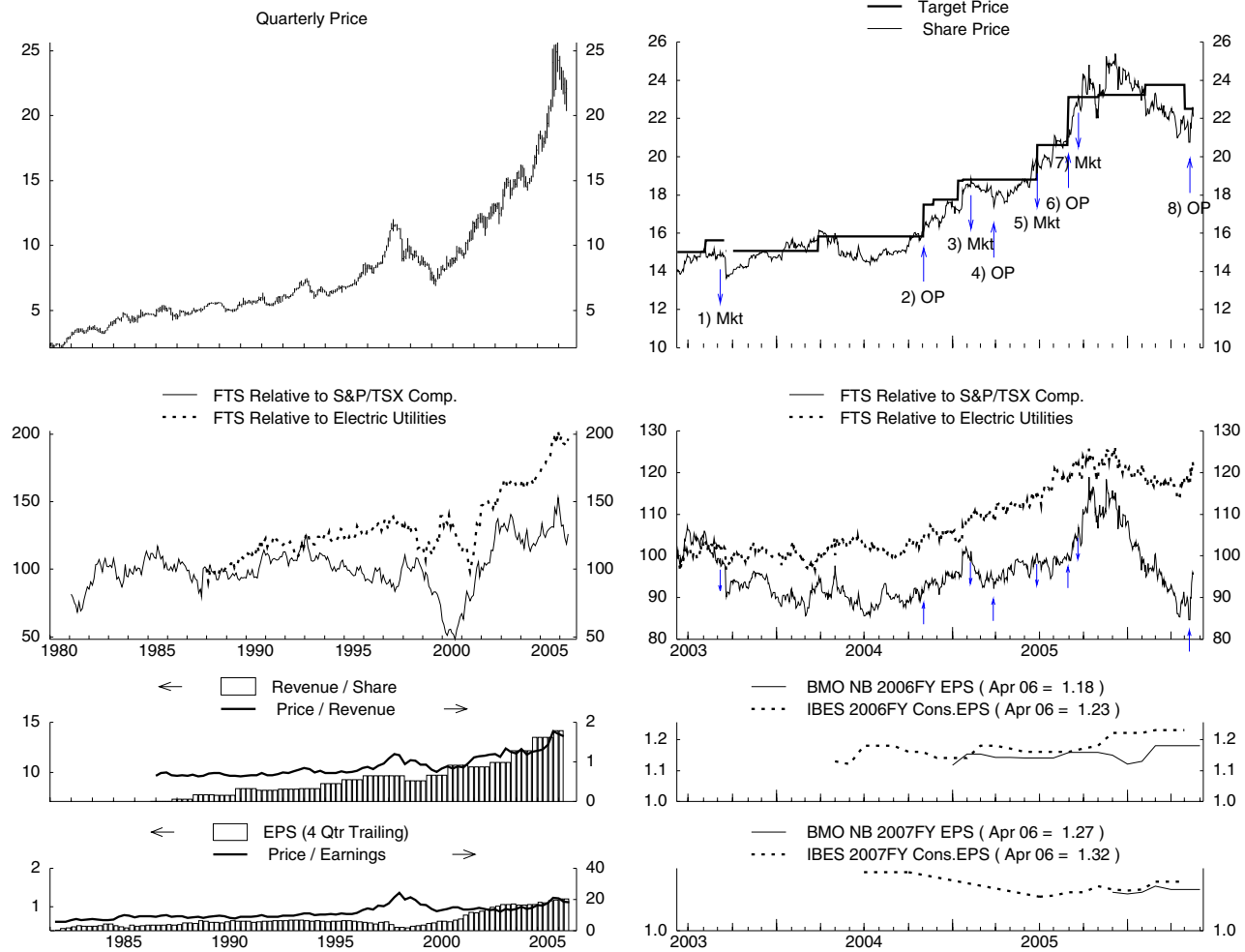
Recommendation:

Outperform

	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.19	\$1.31
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.17	\$1.26
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.21	\$0.20
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.19	\$0.18
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.53	\$0.54
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.73
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	53.6%	55.8%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.35	13.34
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$22.66	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.0	17.3
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.83	1.70
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.82%	3.22%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	225.8	263.7	249.1
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2171.0	2182.5
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	412.1	444.0	584.2	624.6	1000.1	1213.4	1280.8	1452.1
	1270.3	1442.1	1731.2	2250.9	3533.6	4005.4	4289.6	4456.1
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.6%	6.1%	5.6%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.7%	50.6%	49.0%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.4%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.4%	7.2%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%
Shareholders' Equity	32.4%	30.8%	33.7%	27.7%	28.3%	30.3%	29.9%	32.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	123.5	138.9
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	310.4	336.6

Source: BMO Nesbitt Burns

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1982	0.44	7	0.23	7.5	51	2.73	1.1	16
1983	0.49	7	0.24	6.6	49	2.99	1.2	17
1984	0.54	7	0.27	6.7	49	3.23	1.2	17
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	ND	14	0.47	4.0	56	7.49	1.6	nm
2002	ND	13	0.49	3.7	50	8.50	1.5	nm
2003	ND	14	0.52	3.5	49	8.82	1.7	nm
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	18	0.64	2.9	53	11.96	1.8	10
Average:		12		5.4	62		1.4	12.0
Growth(%):								
5 Year:	13.3		6.8			11.4		
10 Year:	6.5		4.1			7.1		
20 Year:	4.6		4.4			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

FTS - Rating as of 6-Jun-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75

Last Daily Data Point: May 17, 2006

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

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Buy	Outperform	35%	39%	46%
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^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$22.54
Target Price: \$22.50

May 24, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Kevin Cheng

BCUC Approves 2006 Settlement Agreement and Multi-Year PBR

Impact

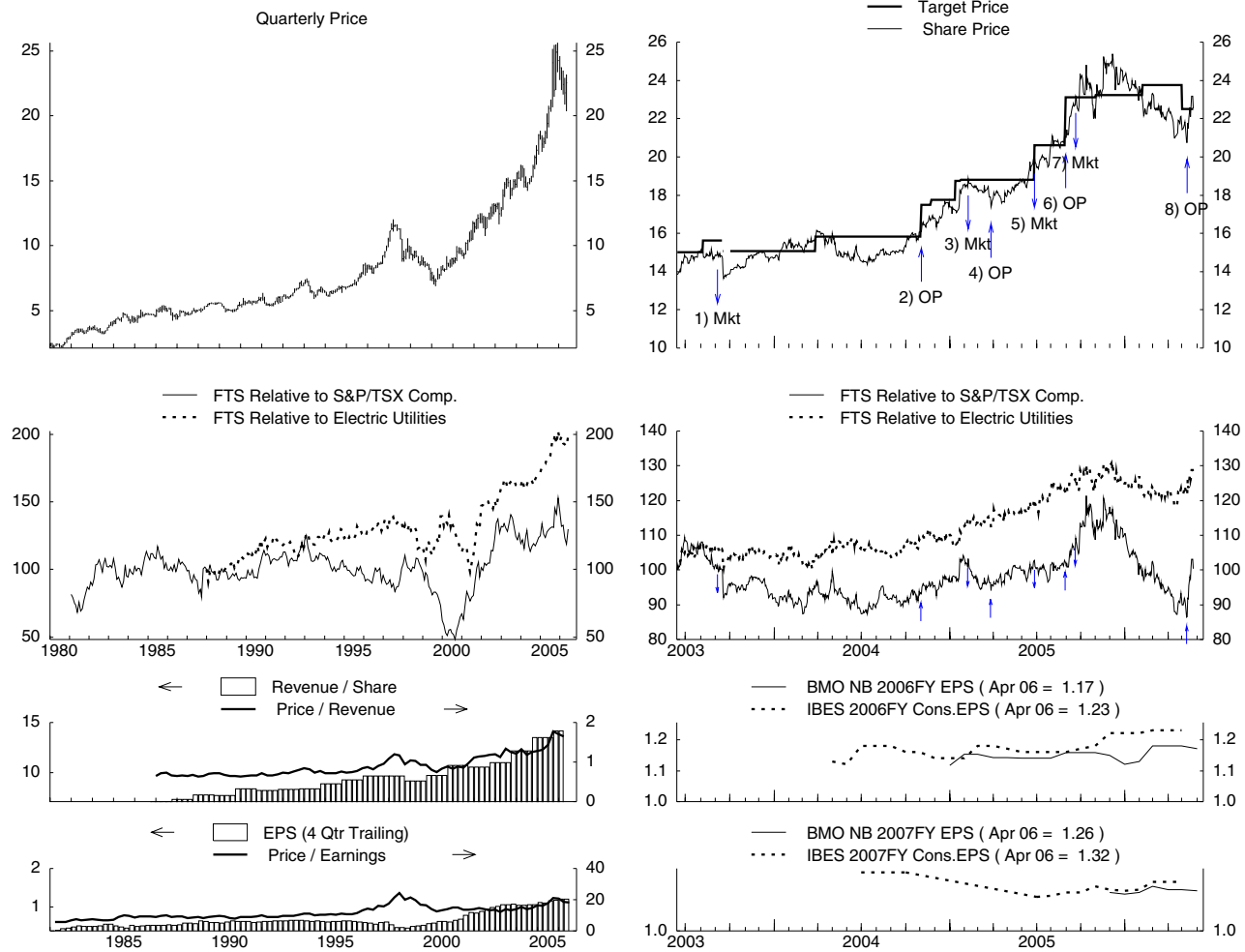
Neutral

Details & Analysis

On May 23, the British Columbia Utilities Commission (BCUC) approved the Settlement Agreement relating to FortisBC's (100% - Fortis Inc.) 2006 Revenue Requirements Application and Multi-Year Performance Based Regulation (PBR) for the years 2007 through 2009, filed by the utility on May 9, 2006. See our May 19 comment on Fortis Inc. for additional information about the Settlement Agreement and the Multi-Year PBR. Approval by the BCUC is in line with expectations and the financial terms of the Settlement Agreement are fully reflected in our financial model. No change in view. We rate the shares of Fortis Inc. Outperform.

Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
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20 Year:	4.6		4.4			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

FTS - Rating as of 12-Jun-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
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Last Daily Data Point: May 23, 2006

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

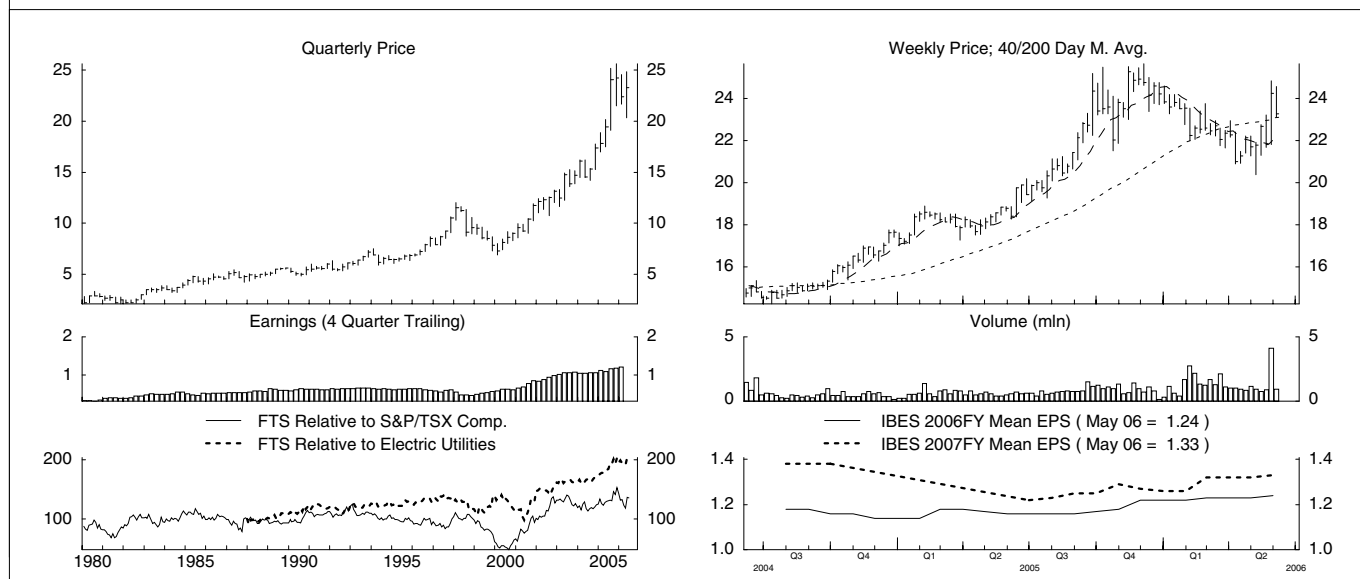
June 8, 2006
Research Fact Sheet
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com

Price (8-Jun)	\$23.27	52-Week High	\$25.64	
Target Price	\$22.50	52-Week Low	\$18.38	
Dividend	\$0.64	Book Value	\$11.96	
Yield	2.8%	Price/Book	1.9x	
Shares O/S (mm)	103.4	Mkt. Cap (\$mm)	\$2,406	
Float O/S (mm)	103.4	Float Cap (\$mm)	\$2,406	
Wkly Vol (000s)	1,038	Wkly \$ Vol (mm)	\$23.6	
Net Debt (\$mm)	\$2,553	Next Rep. Date	31-Jul (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35 a	\$0.27	\$0.32	\$0.25

(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.17	\$1.26
P/E			19.9x	18.5x
CFPS	\$3.35	\$3.15	\$2.99	\$3.16
P/CFPS			7.8x	7.4x
Div.	\$0.54	\$0.61	\$0.64	\$0.73
EV (\$mm)	\$3,846	\$4,863	\$5,408	\$5,469
EBITDA (\$mm)	\$380	\$507	\$560	\$600
EV/EBITDA	10.1x	9.6x	9.7x	9.1x
ROE (%)	8.9%	9.8%	9.6%	9.6%
Book Value (\$)	\$10.47	\$11.76	\$12.35	\$13.34
D/Tot. Cap. (%)	68.8%	63.9%	64.7%	62.2%
Reg. ROE (%)	9.8%	9.2%	8.8%	8.8%

Notes: EPS estimates are diluted; Quarterly numbers are basic



Company Description – Fortis is a publicly listed holding company with three key businesses: electric utility operations, non-regulated electric power generation, and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (37.17%, Grand Cayman Island), FortisAlberta

(100%, Alberta) and FortisBC (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis reported Q1/06 EPS of \$0.35 versus \$0.32 from continuing operations in Q1/05 and our estimate of \$0.32. Q1/06 results were slightly higher than expected and the primary variance between actual and expected performance is largely attributable to a stronger than expected contribution from the non-regulated power generation segment. We note that the Q1/06 contribution

from Newfoundland Power and Caribbean Utilities was adversely affected by a change in revenue recognition and a lag in the recovery of fuel costs. We believe that these issues are largely timing and are not expected to adversely affect fiscal performance.

Corporate Developments – On May 9, FortisBC filed a Negotiated Settlement with the British Columbia Utilities Commission (BCUC) relating to its 2006 Revenue Requirements Application and Multi-Year Performance Based Regulation (PBR) for the years 2007 through 2009. The Settlement Agreement was approved by the BCUC on May 23, which was in line with our expectation. The Settlement stipulates a 40% common equity component and a 9.20% return on equity. The ROE formula will apply throughout the term of the PRB plan; however, there will be an equal sharing of ROE variances, positive and negative, equal to or less than 2.0%. On May 17, FortisAlberta filed a

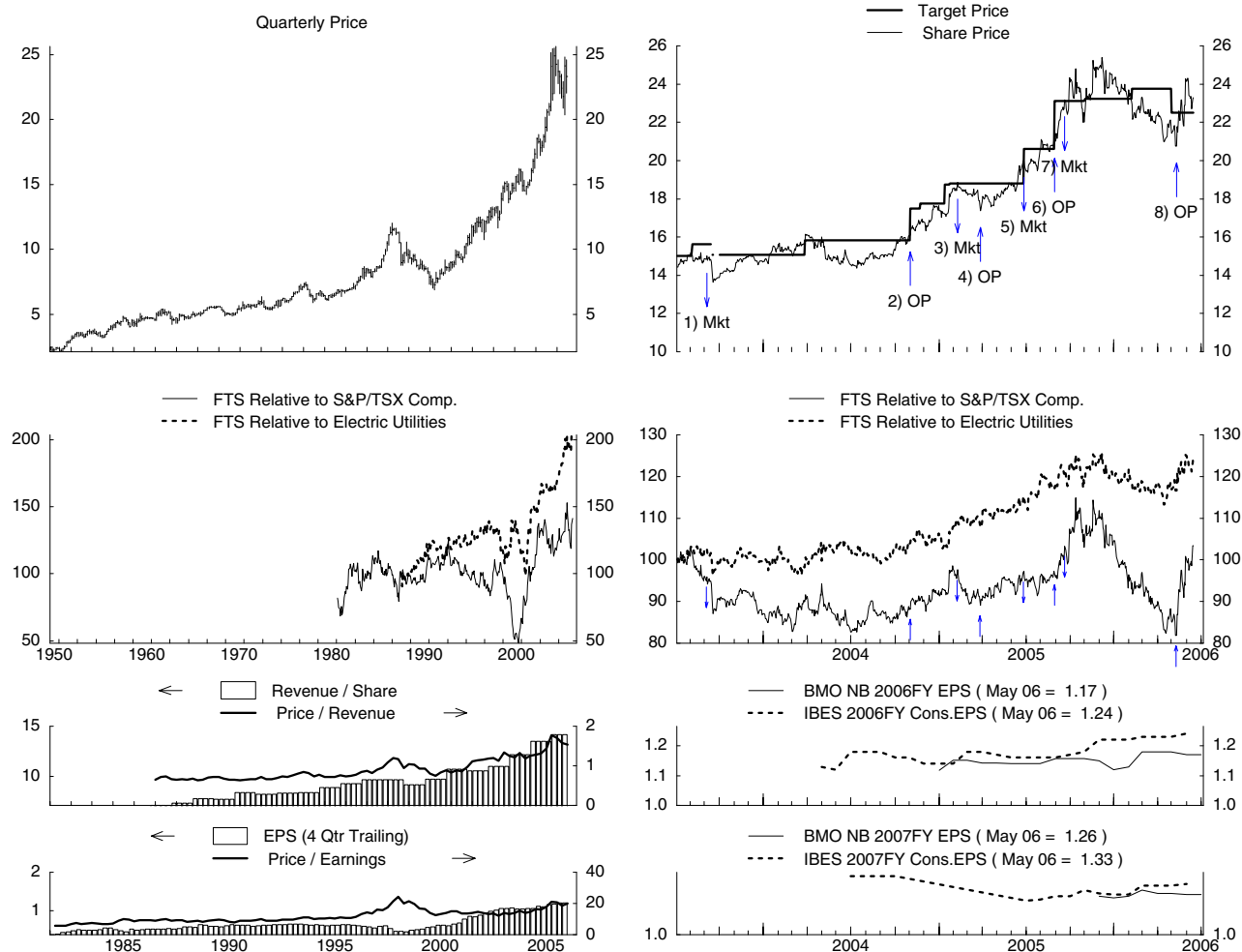
Negotiated Settlement Agreement and a Negotiated Settlement Agreement on Terms and Conditions of Service for 2006 and 2007 with the Alberta Energy and Utilities Board. The return on equity formula relevant in Alberta also applies in 2006 and 2007.

Forecasts – Our diluted 2006 and 2007 EPS estimates of \$1.17 and \$1.26, respectively, reflect these settlement agreements.

Valuation – Our target price of \$22.50 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.26 (12.5%), 1.75x 2007E BV of \$13.34 (12.5%), and a target yield of 3.25% (75%), assuming 2007E dividends per share of \$0.73. In light of recent price strength, we are reconsidering our target price.

Recommendation – We believe the shares are attractively valued. Our rating is Outperform

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
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1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	20	0.64	2.7	53	11.96	2.0	10

Average: 13 5.3 64 1.4 11.3

Growth(%):

5 Year:	13.3	6.4	11.4
10 Year:	6.5	4.1	7.1
20 Year:	4.6	3.9	6.3

* Current EPS is the 4 Quarter Trailing to Q1/2006.

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Last Daily Data Point: June 14, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., collectively ("BMO NB"). BMO NB is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. "BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal and BMO NB in Canada, and BMO Capital Markets Corp. in the U.S. BMO Capital Markets Corp. is an affiliate of BMO NB. BMO NB and BMO Capital Markets Corp. are subsidiaries of Bank of Montreal. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO NB research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein. The reader should assume that BMO NB, BMO Capital Markets Corp., Bank of Montreal or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The opinions, estimates and projections contained in this report are those of BMO NB as of the date of this report and are subject to change without notice. BMO NB endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NB makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NB or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NB and its affiliates, which includes the overall profitability of investment banking services. BMO NB, or its affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NB. BMO NB or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO NB or its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	First Call Universe **
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$22.29
Target Price: \$22.50

July 4, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com

AEUB Approves 2006/07 Revenue Requirement

Impact

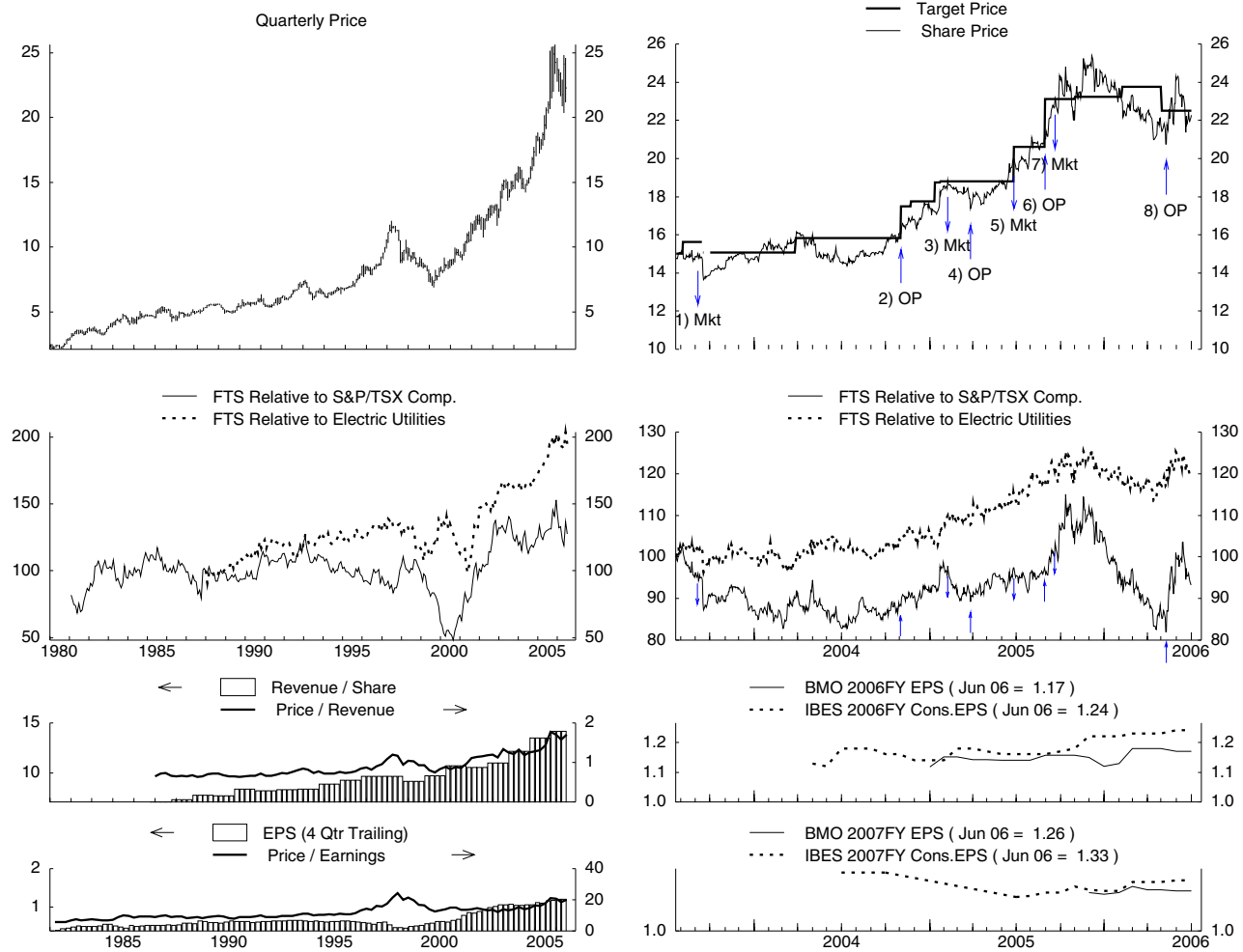
Neutral

Details & Analysis

On June 29, the Alberta Energy and Utilities Board (AEUB) approved the negotiated settlement agreement filed by FortisAlberta Inc. on May 17, 2006 relating to its 2006/07 Distribution Tariff Application. The negotiated settlement is fully reflected in our financial model and approval by the AEUB is in line with expectations. We are reviewing our target price and rating on the shares of Fortis Inc.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	20	0.64	2.7	53	11.96	2.0	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.3		6.4			11.4		
10 Year:	6.5		4.1			7.1		
20 Year:	4.6		3.9			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

FTS - Rating as of 22-Jul-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75

Last Daily Data Point: June 30, 2006

Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform ↓
Industry Rating: Market Perform

July 5, 2006
Research Comment
Gas & Electrical

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Karen.Taylor@bmo.com

IRAC Approves 3.35% Rate Increase; Rating Lowered to Market Perform

Event

On June 27, the Island Regulatory and Appeals Commission (IRAC) approved Maritime Electric's (100% - Fortis Inc.) January 31, 2006 application for an increase in basic utility rates of 3.35%, effective July 1, 2006 (see our comment dated March 3, 2006). The decision contains the following key highlights: (1) allowed maximum return on equity of 10.25% versus the previously allowed range of 10% to 10.50%; (2) deemed equity for rate purposes of 45%; (3) deferred cost recovery of \$1.5 million in 2006 and \$1.3 million in 2007, as per the company's application; and (4) continuation of the current Energy Cost Adjustment Mechanism, pending the receipt and review of depreciation and cost allocation studies, new energy supply agreements and Point Lepreau refurbishment costs.

Impact

Neutral.

Forecasts

No change.

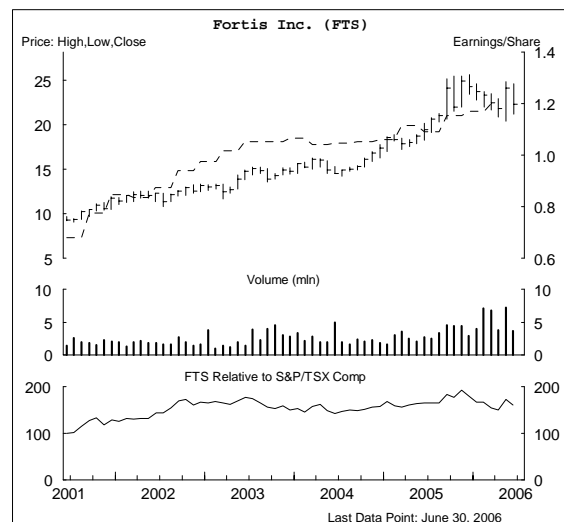
Valuation

Our target price of \$22.50 reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.26 (12.5%), 1.75x 2007E book value of \$13.33 (12.5%), and a target yield of 3.25% (75%), assuming 2007 dividends of \$0.73.

Recommendation

We are lowering our rating on the shares of Fortis Inc. to Market Perform from Outperform. We believe that the shares are reasonably valued at current levels.

Price (30-Jun) \$22.29
Target Price \$22.50
52-Week High \$25.64
52-Week Low \$19.13



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.17	\$1.26
P/E			19.1x	17.7x
CFPS	\$3.35	\$3.15	\$3.00	\$3.17
P/CFPS			7.4x	7.0x
Div.	\$0.54	\$0.61	\$0.64	\$0.73
EV (\$mm)	\$3,846	\$4,863	\$5,290	\$5,347
EBITDA (\$mm)	\$380	\$507	\$560	\$599
EV/EBITDA	10.1x	9.6x	9.5x	8.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.27	\$0.32	\$0.25
Dividend	\$0.64			2.9%
Book Value	\$11.96			Price/Book 1.9x
Shares O/S (mm)	103.4			Mkt. Cap (\$mm) \$2,304
Float O/S (mm)	103.4			Float Cap (\$mm) \$2,304
Wkly Vol (000s)	1,053			Wkly \$ Vol (mm) \$23.9
Net Debt (\$mm)	\$2,552.9			Next Rep. Date 4-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.24; 2007E: \$1.33

Changes

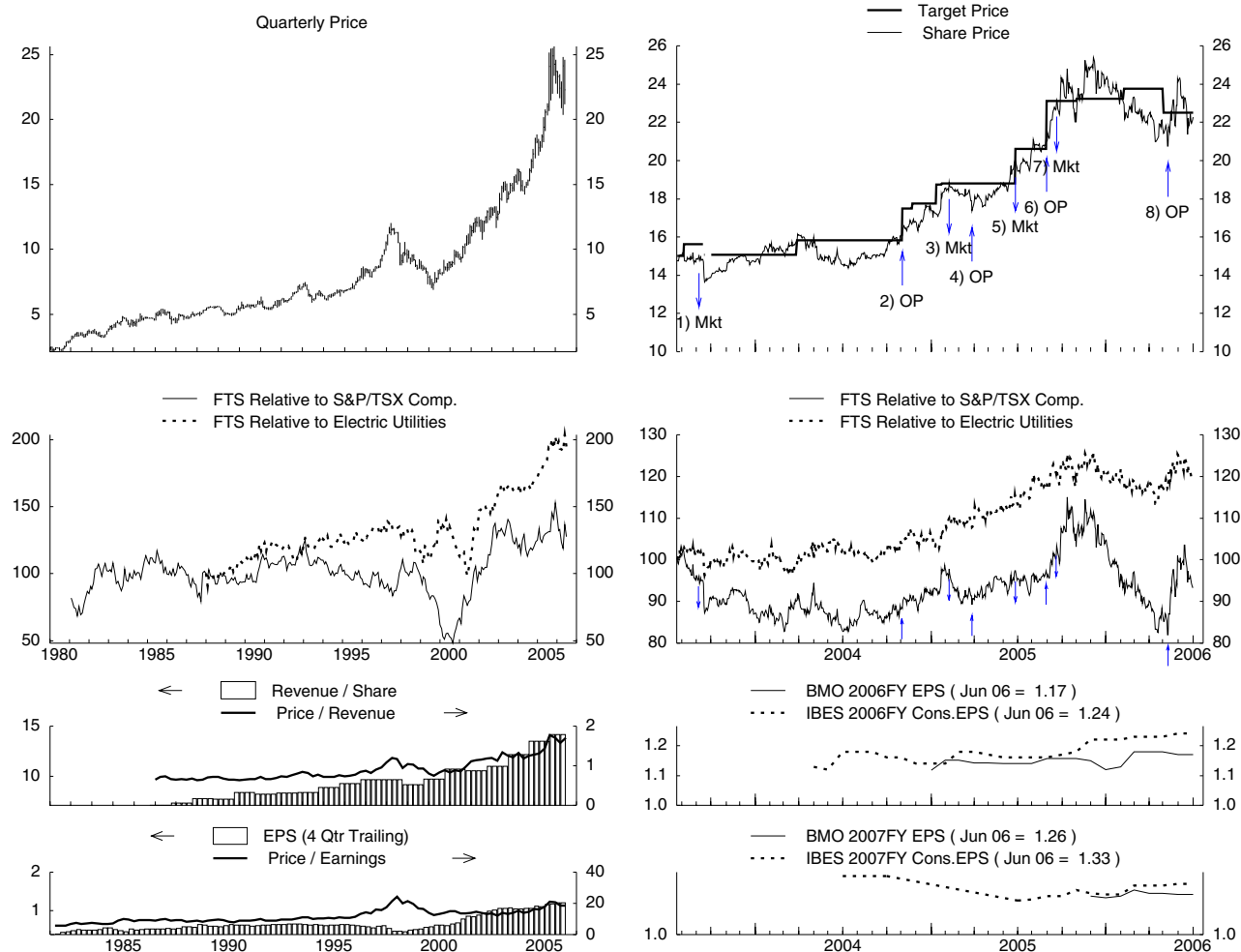
Rating
OP to Mkt

Table 1. Consolidated Summary Sheet

4-Jul-06								Karen J. Taylor	
Current Price:	\$22.75		BMO Capital Markets						
12-Month Target Price:	\$22.50								
ROR:	1.7%		Recommendation:					Market Perform	
	Year Ending December 31								
	2000	2001	2002	2003	2004	2005	2006E	2007E	
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.19	\$1.30	
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.17	\$1.26	
Segmented EPS									
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32	
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16	
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.21	\$0.20	
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.18	\$0.18	
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.53	\$0.54	
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)	
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.73	
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	53.7%	56.0%	
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3	
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.35	13.33	
Market Valuation									
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-	
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-	
Price: Current	-	-	-	-	-	-	\$22.75	-	
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-	
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-	
P/E Ratio: Current	-	-	-	-	-	-	19.1	17.5	
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-	
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-	
Price/Book Value: Current	-	-	-	-	-	-	1.84	1.71	
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-	
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-	
Yield: Current	-	-	-	-	-	-	2.81%	3.21%	
Balance Sheet (\$mm)									
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	262.9	248.7	
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2164.4	2175.9	
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0	
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7	
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5	
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2	
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1280.5</u>	<u>1451.5</u>	
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4282.0	4448.5	
Balance Sheet (%)									
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	6.1%	5.6%	
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	50.5%	48.9%	
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.6%	4.4%	
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%	
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.5%	7.2%	
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%	
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>29.9%</u>	<u>32.6%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement									
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	123.3	138.5	
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	310.1	336.2	

Source: BMO Capital Markets

Fortis Inc. (FTS)



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2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	19	0.64	2.9	53	11.96	1.9	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	12.1		6.4			11.4		
10 Year:	6.7		4.1			7.1		
20 Year:	4.4		3.9			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: **Market Perform**
Stock Price: **\$22.51**
Target Price: **\$22.50***

* Under review

August 4, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com

Q2/06 EPS Higher Than Expected

Impact

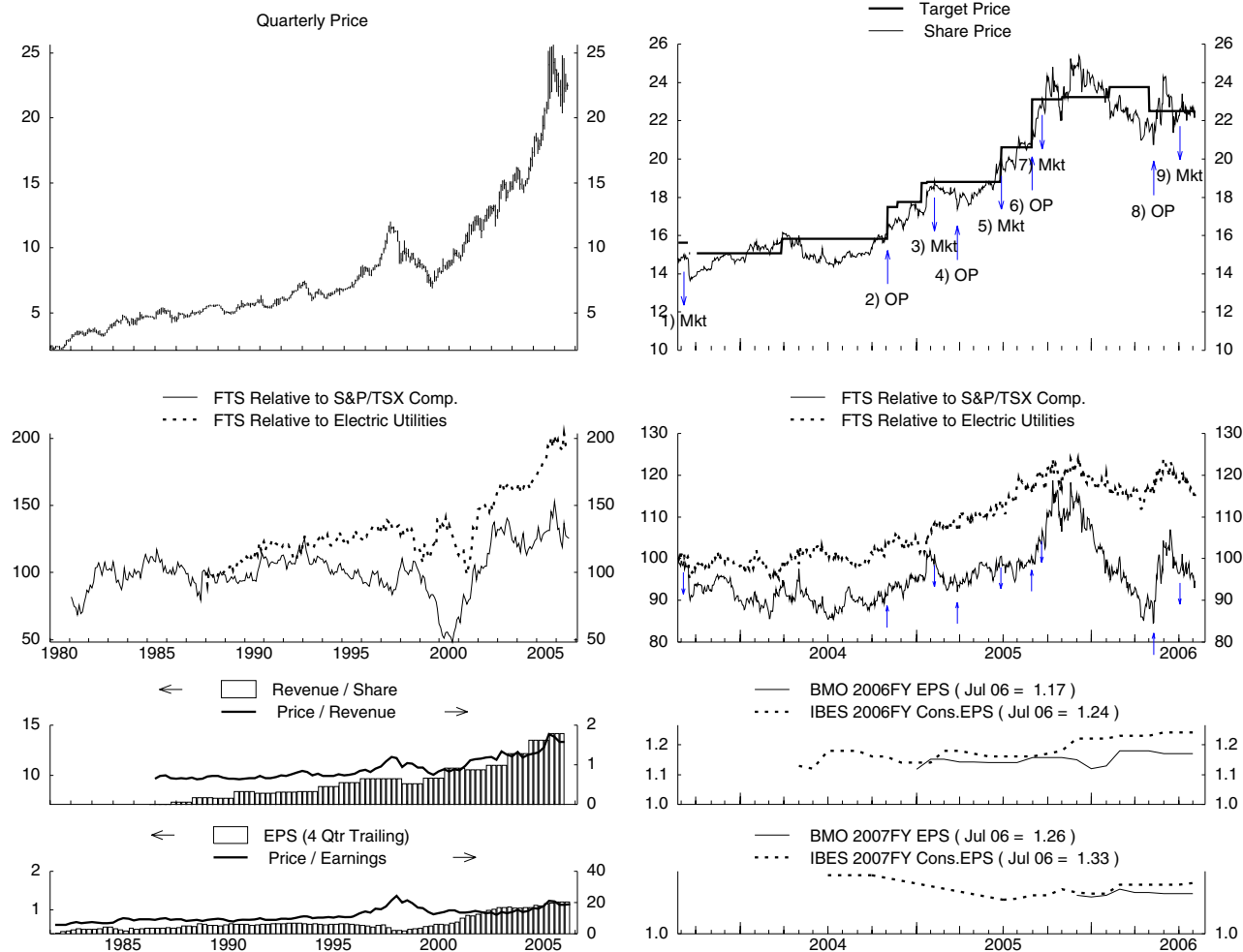
Positive

Details & Analysis

Fortis Inc. reported Q2/06 EPS of \$0.37. After adjusting for the following one-time items: (i) after tax insurance gain of \$0.7 million; (ii) gain on the sale of a hotel asset of \$1.6 million after tax; (iii) benefit from the reduction of future income tax rates of \$1.5 million; and (iv) unrealized foreign exchange gains of \$1.6 million after tax, Q2/06 EPS were \$0.31, higher than our expectation of \$0.27 per share. The variance between actual and expected performance is largely due to: (1) better than expected performance at FortisAlberta due to higher than expected ratebase growth; and (2) return to normal hydrological conditions in Belize, substantially increasing the contribution from the non-regulated generation business segment. We are continuing to review the release. Our estimates, target price and rating are under review. We currently rate the shares Market Perform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	19	0.64	2.8	53	11.96	1.9	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	12.1		6.4			11.4		
10 Year:	6.7		4.1			7.1		
20 Year:	4.4		3.9			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

FTS - Rating as of 25-Aug-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60

Last Daily Data Point: August 3, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

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Fortis Inc.

Lower Cash Flows Marginally Weaken Credit Metrics

Event

Fortis Inc. reported Q2/06 earnings.

Impact

Slightly negative.

Key Points

Although Q2/06 results were higher than expected on an EPS basis, lower earnings and cash flows relative to Q2/05 resulted in marginally weaker credit metrics, with funds from operations (FFO) interest and FFO-to-total debt lower than expected. Lower FFO, high capital expenditure, and higher dividend payments not surprisingly led to negative free cash flow for the quarter and first half of 2006. However, leverage, as measured by total debt-to-total capital remained steady in Q2/06 at 59%. The reliability and flexibility of Fortis' credit facilities at the holding company level were enhanced with two facilities extended in Q2/06, and the size of its major facility increased in July 2006. An unquantifiable credit risk for Fortis' is its appetite for acquisitions.

Recommendation

Year-to-date 2006, Fortis' 5-year generic credit spreads have remained steady, while the 10-year spreads are back to where they were at the start of the year after narrowing during the second quarter. Like its 10-year spreads, Fortis' 30-year spreads tightened in the second quarter before finishing wider by 5 basis points compared to year-end 2005. In the absence of a material debt funded or higher risk asset acquisition, the ratings on Fortis are expected to be consolidated at their current levels as the company's financial profile is expected to show modest improvement from its recent weakened position and Fortis works its way through its major capital expenditure program. We are working toward initiating coverage of Fortis.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A	A-	A3
Stable	Stable	Stable

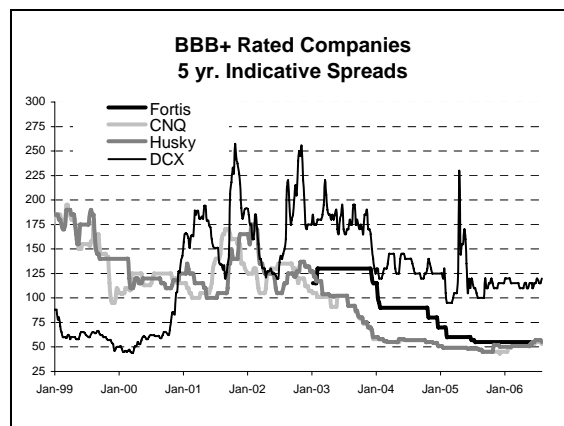
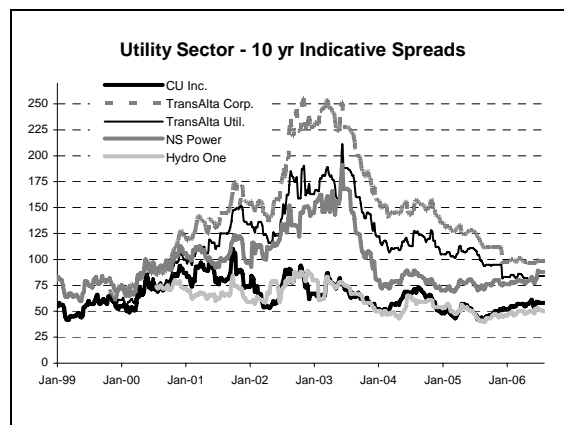
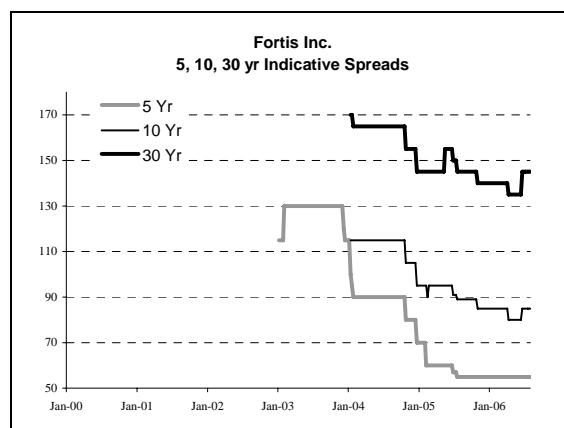
August 8, 2006

Research Comment

Laurie Conheady

(416) 359-4584

Laurence.conheady@bmo.com



Details & Analysis

Although Fortis' Q2/06 results were higher than expected on an EPS basis, lower earnings and cash flows relative to Q2/05 resulted in marginally weaker credit metrics, with funds from operations (FFO) interest and FFO-to-total debt lower than expected. The company reported Q2/06 EPS of \$0.37, and after adjusting for one-time items, the comparable results were \$0.31 versus the BMO equity research estimate of \$0.27.

Fortis' lower earnings translated to lower cash flows with consolidated FFO for Q2/06 of \$70.8 million, \$22.05 million lower than that recorded in Q2/05. The lower cash flow for the quarter also dragged down FFO for the first half of 2006 to \$150.4 million versus \$172 million in the first half of 2005. The lower FFO and high capital expenditure levels and higher dividend payments not surprisingly led to negative free cash (FFO less capital expenditure net of customer contributions, acquisitions and dividends) for Q2/06 and for the first half of 2006. For Q2/06 free cash flow was negative \$48.9 million and for the first two quarters of 2006 it was negative \$87.1 million. The funding shortfall was met largely through increased short and long-term borrowings. The company's large capital expenditure program will dominate cash flows outlays and financing activities for the next few years at least, with negative free cash flow expected to be the norm.

FFO interest coverage for the first half of 2006 was lower than expected at 3.1x, compared to 3.4x for the first half of 2005. On a rolling 12-month basis, FFO-to-total debt was low at 12.5%. Given the company's need to take on increased debt commitments to fund its large capital expenditure program (without immediate receipt of cash flows) and the presence of holding company debt, Fortis' consolidated FFO-to-total debt ratio is expected to be on the low side compared to other regulated network businesses in Canada. Nevertheless, the company's FFO-to-total debt for the year to June 30, 2006 was lower than expected and the company will need to ensure that this ratio in particular shows improvement in the coming quarters to avoid pressure on its ratings. Despite the lower cash flows, a positive development for future stability and predictability of cash flows in the second quarter of 2006 was the receipt of regulatory approvals of rate applications at FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, and Belize Electricity.

An unquantifiable credit risk is Fortis' appetite for acquisitions. In the company's Q2/06 outlook statement it says it expects to focus its capital on funding further acquisitions of utility assets and to this end will pursue acquisition opportunities in Canada, the Caribbean and the United States. Although this strategy is of no surprise, with the bedding down of its last major acquisitions now two years down the track and the recent increase in its major credit facility at the holding company level to be used for general corporate purposes, including acquisitions, it appears a further acquisition should not be unexpected over the medium term.

Capital Structure and Liquidity

Fortis' leverage as measured by total debt-to-total capital and treating the preference shares as equity at June 30, 2006 was consistent with year-end 2005. Despite higher debt outstanding, growth in assets during the first half of the year meant leverage of 58.8% was on a par with year-end 2005 leverage of 58.5%. As of June 30, 2006 Fortis had \$2.32 billion of consolidated debt, just over \$100 million higher than six months previously. The vast majority of the consolidated debt, about 85%, resides at the company's various subsidiaries, with the debt at the holding company level comprising \$100 million of senior unsecured debentures maturing 2010, US\$150

million senior unsecured notes maturing 2014, and US\$20 million in unsecured subordinated debt. At quarter-end Q2/06 Fortis also had additional bank debt of \$46.1 million at the holding company level. Fortis and its subsidiaries have manageable annual debt repayments of under \$100 million in the period 2006 – 2009.

During the second quarter of 2006, Fortis' access to liquidity improved. Available consolidated credit facilities at June 30, 2006 were \$573.8 million, up from \$542.7 million at quarter end March 31, 2006, and \$538.8 million at year end 2005. The improved access to liquidity in part reflects a \$50 million increase in credit facilities during the first half of 2006. Fortis also improved the reliability of its credit facilities at the holding company level by extending the maturity date of its \$145 million and \$50 million unsecured term credit facilities to May 2010 and January 2011 from May 2008 and January 2009, respectively. Furthermore, subsequent to the end of the second quarter the company increased the size of its \$145 million credit facility to \$250 million. As of June 30, 2006 Fortis had consolidated cash on hand of \$27.4 million, up from \$21.5 million at the end of the first quarter 2006.

Credit Ratings

Fortis has a BBB(High) unsecured debenture rating by DBRS, and a senior unsecured rating of BBB from Standard & Poor's. The outlook on the company by both agencies is Stable. Of interest is that apart from the different ratings assigned, a key differentiating feature of the ratings is the approach taken by DBRS and Standard & Poor's to the assessment of Fortis' financial risk profile. DBRS's focus is more on the non-consolidated financial profile, while Standard & Poor's focus is more on the consolidated financial profile. Both rating agencies recognize the structurally subordinated position of the holding company debt vis-à-vis the operating company debt.

DBRS confirmed its rating on Fortis on February 8, 2006, citing the underlying credit strength of the company's diversified portfolio of regulated utility holdings together with the strength of its non-consolidated balance sheet. The stable trend reflects the agency's expectations that the company's diversified portfolio of regulated utilities will continue to generate relatively stable consolidated earnings over the medium term, with growth coming primarily from growth in the utility's customer base and rate base. DBRS is comfortable with Fortis' non-consolidated debt to capital of 21% in 2005, with the agency adding that it expects the company to maintain this ratio within the 20% to 30% range. Leverage beyond 30% would not support the current rating.

Standard & Poor's last affirmed the ratings on Dec. 7, 2005, at which time the outlook on the ratings was changed to Stable, from Negative reflecting greater stability in Fortis' business and financial profiles and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. 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. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions resulting in a weakening of its credit metrics due to the limited cushion at the current ratings level for deterioration in Fortis' financial profile.

Recommendation

Year-to-date 2006, the company's 5-year generic credit spreads have remained steady, while the company's 10-year spreads are back to where they were at the start of the year after narrowing during the second quarter. Like its 10-year spreads, the company's 30-year spreads tightened in the second quarter before finishing wider by 5 basis points compared to year end 2005. In the absence of a material debt funded or higher risk asset acquisition, the ratings on Fortis are expected to be consolidated at their current levels as the company's financial profile is expected to show modest improvement from its recent weakened position and Fortis works its way through its major capital expenditure program. We are working toward initiating coverage of Fortis.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	Outstanding CUSIP	Outstanding (\$mm)
Newfoundland Power	11.88%	16-Dec-07	\$40	First Mortgage	16-Dec-87	145.0 bps	Make Whole (+ 75.0 bps)	651350BC3	\$32
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	01-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$6
Maritime Electric	12.00%	01-May-10	\$15	First Mortgage	01-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
Newfoundland Power	10.55%	01-Aug-14	\$40	First Mortgage	09-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debentures	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
FortisBC Inc.	8.77%	01-Feb-16	\$25	Unsecured Debenture	01-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	02-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric	11.50%	15-Aug-16	\$12	First Mortgage	01-Jan-91	NA	NA	NA	\$12
Maritime Electric	8.55%	07-Dec-18	\$15	First Mortgage	07-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	01-Oct-20	\$40	First Mortgage	01-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$36
FortisBC Inc.	7.81%	01-Dec-21	\$25	Unsecured Debenture	01-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$35
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DAA7	\$25
Maritime Electric	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	07-May-26	\$40	First Mortgage	07-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$47
Maritime Electric	8.92%	03-Jul-31	\$20	First Mortgage	03-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	01-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$73
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debentures	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	09-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debentures	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Available		Maturity	Type
		Q2/06	FY 2005		
Fortis Inc.*	\$795.0	\$573.8	\$538.8		Lines of Credit

*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.

Corp. Lease Schedule (12/31/2005)

Year	Capital Lease Payments (\$mm)	Operating Payments	Lease Receipts
2006	2.5	5.3	
2007	2.5	6.3	
2008	2.5	6.3	
2009	2.5	4.1	
2010	2.5	4.1	
Thereafter	55.8	17.4	

*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.

*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2005 (\$mm)	FY 2004 (\$mm)	FY 2005 (\$mm)	FY 2004 (\$mm)
Accrued Benefit Obligation	389.6	317.1	116.5	95.6
Plan Assets	349.8	309.0	-	-
Funded Status	(39.8)	(8.2)	(116.5)	(95.6)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	97.2	93.9	(53.6)	(45.4)
Discount Rate	6-6.25%	6-6.5%	6-6.25%	6-6.75%
Expected Long-term Rate of Return on Assets	7-7.5%	7.25-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.5%	3.5-4.5%	3.5-4.5%	3.5-4.5%

Historical Ratings Senior Unsecured Rating - Fortis								
DBRS Rating	Trend	Date	S&P Rating	Trend	Date	Moody's Rating	Trend	Date
BBB(H)	Stable	05-Nov-03	BBB	Stable	07-Dec-05	Not Rated		
BBB(H)	Under Review - Developing	16-Sep-03	BBB	Negative	07-Jan-04			
BBB(H)	Stable	06-Oct-00	BBB	Credit Watch Negative	22-Sep-03			

Analyst's Certification

I, Laurie Conheady, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform ↑
Industry Rating: Market Perform

August 8, 2006
 Research Comment
 Gas & Electrical

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Q2/06 EPS Higher than Expected; Rating Increased to Outperform

Event

Fortis Inc. reported Q2/06 EPS of \$0.37. After adjusting for the following one-time items: (i) after-tax insurance gain of \$0.7 million; (ii) gain on the sale of a hotel asset of \$1.6 million after tax; (iii) benefit from the reduction of future income tax rates of \$1.5 million; and (iv) unrealized foreign exchange gains of \$1.6 million after tax, Q2/06 EPS were \$0.31, higher than our expectation of \$0.27. The variance between actual and expected performance is largely due to: (1) better than expected performance at FortisAlberta due to higher than expected rate base growth; and (2) return to normal hydrological conditions in Belize, substantially increasing the contribution from the non-regulated generation business segment.

Impact

Positive.

Forecasts

We have revised our financial model to better reflect year-to-date financial performance and, as set out herein, made a number of changes to our outlook. As a result, our diluted 2006 and 2007 EPS estimates increase to \$1.24 and \$1.36 from \$1.17 and \$1.26, respectively.

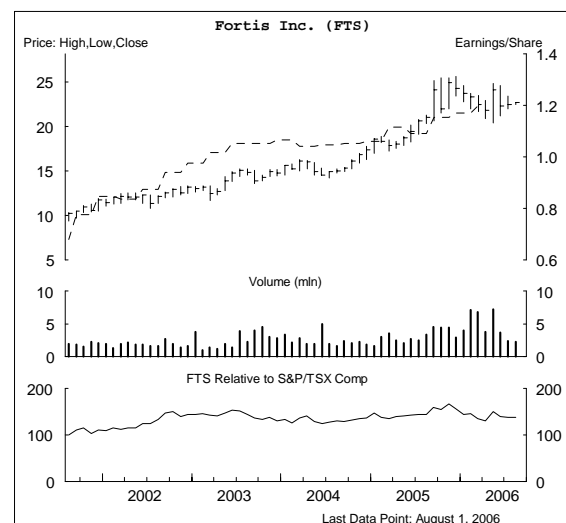
Valuation

Our revised target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.36 (12.5%), 1.75x 2007E BV of \$13.44 (12.5%) and a target yield of 3.00% (75%), assuming 2007 dividends per share of \$0.78.

Recommendation

We believe that the shares are attractively valued at current levels. We are increasing our rating to Outperform.

Price (3-Aug) \$22.51
Target Price \$25.25↑
52-Week High \$25.64
52-Week Low \$20.33



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.24↑	\$1.36↑
P/E			18.2x	16.6x
CFPS	\$3.35	\$3.15	\$3.00	\$3.17
P/CFPS			7.5x	7.1x
Div.	\$0.54	\$0.61	\$0.64	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,290	\$5,347
EBITDA (\$mm)	\$380	\$507	\$560	\$599
EV/EBITDA	10.1x	9.6x	9.5x	8.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.32	\$0.25
Dividend	\$0.64			2.8%
Book Value	\$12.18			Price/Book
Shares O/S (mm)	103.5			1.8x
Float O/S (mm)	103.5			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,046			\$2,330
Net Debt (\$mm)	\$2,552.9			Float Cap (\$mm)
				\$2,330
				Wkly \$ Vol (mm)
				\$23.9
				Next Rep. Date
				31-Oct (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.24; 2007E: \$1.33

Changes

Annual EPS
 2006E \$1.17 to \$1.24
 2007E \$1.26 to \$1.36

Target
 \$22.50 to \$25.25
Rating
 Mkt to OP

Details & Analysis

Fortis Inc. reported Q2/06 EPS of \$0.37. After adjusting for the following one-time items: (i) after-tax insurance gain of \$0.7 million; (ii) gain on the sale of a hotel asset of \$1.6 million after tax; (iii) benefit from the reduction of future income tax rates of \$1.5 million; and (iv) unrealized foreign exchange gains of \$1.6 million after tax, Q2/06 EPS were \$0.31, higher than our expectation of \$0.27. The variance between actual and expected performance is largely due to: (1) better than expected performance at FortisAlberta due to higher than expected rate base growth; and (2) return to normal hydrological conditions in Belize, substantially increasing the contribution from the non-regulated generation business segment.

As illustrated in Table 1, segment quarterly performance and annual estimated earnings (basic) include the non-cash foreign exchange gains/losses. Our estimates do not include these items and we exclude them for comparable purposes only.

Table 1. Quarterly and Annual Segment Performance

	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005A	Q1/06	Q2/06	2006E	2007E
Newfoundland Power	29.5	31.1	13.0	10.1	3.4	2.9	29.4	10.7	8.0	30.9	33.7
Maritime Electric	7.2	8.2	2.1	2.3	3.0	1.7	9.1	2.1	2.2	10.3	11.6
Fortis Ontario	6.5	4.3	1.1	0.9	0.5	0.2	2.7	1.0	0.5	3.6	6.2
FortisAlberta	0.0	18.6	7.8	7.8	7.5	7.2	30.3	9.5	11.3	31.8	34.0
FortisBC	0.0	17.7	8.9	5.4	4.8	5.6	24.6	11.8	3.4	26.0	28.8
Belize Electricity	6.7	7.2	1.0	1.9	3.2	2.0	8.1	1.5	2.3	8.9	9.4
Caribbean Utilities	10.5	0.8	2.5	2.0	3.0	2.8	10.3	1.6	2.1	10.2	9.8
Fortis Generation	10.9	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	24.8	26.2
Fortis Properties	11.0	11.8	1.5	4.8	4.9	2.9	14.1	1.5	5.0	15.8	17.2
Corporate	(8.6)	(23.4)	(8.7)	(9.6)	(3.9)	(8.6)	(30.9)	(8.5)	(6.7)	(32.3)	(28.3)
Earnings Before Non-Recurring items	73.6	89.1	31.3	28.7	34.2	25.2	119.3	36.6	34.1	129.9	148.6
Average Shares	69.2	84.7	98.0	102.9	103.0	103.0	101.8	103.3	103.4	103.4	106.3
Net Earnings to Common (Basic)	\$1.06	\$1.05	\$0.32	\$0.28	\$0.33	\$0.24	\$1.17	\$0.35	\$0.33	\$1.26	1.40
Net Earnings to Common (Diluted)	\$1.03	\$0.99					\$1.10			\$1.24	1.36

Source: BMO Capital Markets

We believe that the following points are relevant about Q2/06 performance:

- During the second quarter, negotiated settlement agreements were approved and implemented at FortisAlberta and FortisBC. Both of these agreements were effective January 1, 2006 and the respective adjustments required to implement the settlements were implemented in Q2/06. We believe that there may have been a moderate realignment of expenses from Q1/06 to Q2/06 due to the timing of approval of the settlements; however, we do not believe that the amount on a net basis is material to Q2/06 or likely to affect overall fiscal 2006 performance.
- As highlighted in Table 2, a return to normal hydrological conditions in Belize resulted in a substantial increase in hydroelectric energy production from the 25 MW Mollejon and the recently completed 7.3 MW Chalillo hydroelectric facilities. We note that the storage reservoir constructed in conjunction with Chalillo represents approximately 45 GWh when at full supply level. The reservoir is currently full. The combined Chalillo/Mollejon facilities are expected to produce approximately 150 GWh of energy in fiscal 2006. As illustrated by Table 2, annual production from the Mollejon facility has been adversely affected by lower than normal hydrology over consecutive fiscal periods and the lack of upstream storage that would have increased the production of the facility and potentially smoothed production over time. There was no benefit recorded in the generation segment arising from the reduction in future income tax rates.

- We have adjusted the segment contribution from Fortis Properties to net out the \$1.6 million after-tax gain on the sale of the Days Inn Sydney hotel and further adjusted the segment contribution to deduct a \$1.5 million benefit arising from lower future taxation rates.

Table 2. FortisGeneration – Actual Fiscal and Quarterly Performance

Fortis Generation		Millions											
	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06
Operating Revenue	57.1	16.7	17.0	15.5	20.0	69.2	17.0	19.2	21.7	26.0	83.9	19.3	19.3
Energy Supply Costs	2.6	1.6	1.2	1.3	1.7	5.8	1.9	1.8	0.9	1.6	6.2	1.9	1.4
Operating Expenses	13.9	4.2	3.8	4.4	3.6	16.0	4.8	4.4	2.5	6.1	17.8	4.0	3.9
Depreciation	7.7	2.5	2.5	2.6	2.7	10.3	2.6	2.5	2.6	2.6	10.3	2.7	2.6
Operating Income	32.9	8.4	9.5	7.2	12.0	37.1	7.7	10.5	15.7	15.7	49.6	10.7	11.4
Interest Expense	13.3	3.8	3.8	4.0	3.8	15.4	3.9	4.0	3.5	2.7	14.1	2.7	2.6
Income Taxes	8.5	1.9	2.1	1.2	1.7	6.9	1.4	2.4	4.4	3.5	11.7	2.2	2.3
Non-controlling Interest	0.3	-0.2	0.4	0.0	1.7	1.9	0.3	0.9	0.0	1.0	2.2	0.4	0.5
Net Earnings	10.9	2.9	3.2	2.0	4.7	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0

Energy Sales (GWh)		2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06
Central Newfoundland	17	19	41	29	63	152	35	48	26	50	159	38	39	
Ontario	705	165	166	174	184	721	184	176	166	182	708	187	177	
Belize	61	15	11	16	21	63	7	7	18	36	68	27	33	
British Columbia	0	0	6	9	8	23	5	11	15	8	39	3	13	
Upper New York State	87	15	22	10	23	70	17	16	7	35	75	29	28	
Total	870	214	246	238	299	1,029	248	258	232	311	1,049	284	290	

Fortis Generation		\$/MWh											
	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06
Operating Revenue	65.6	78.0	69.1	65.1	67.0	67.3	68.5	74.4	93.5	83.6	80.0	68.0	66.6
Energy Supply Costs	2.9	7.5	4.9	5.5	5.7	5.6	7.7	7.0	3.9	5.1	5.9	6.7	4.8
Operating Expenses	16.0	19.6	15.4	18.5	12.2	15.6	19.4	17.1	10.8	19.6	17.0	14.1	13.4
Depreciation	8.8	11.7	10.2	10.9	9.0	10.0	10.5	9.7	11.2	8.4	9.8	9.5	9.0
Operating Income	37.9	39.3	38.6	30.3	40.2	36.1	31.0	40.7	67.7	50.5	47.3	37.7	39.3
Interest Expense	15.3	17.8	15.4	16.8	12.8	15.0	15.7	15.5	15.1	8.7	13.4	9.5	9.0
Income Taxes	9.8	8.9	8.5	5.0	5.8	6.7	5.6	9.3	19.0	11.3	11.2	7.7	7.9
Non-controlling Interest	0.3	-0.9	1.6	0.0	5.8	1.9	1.2	3.5	0.0	3.2	2.1	1.4	1.7
Net Earnings	12.5	13.6	13.0	8.4	15.7	12.4	8.5	12.4	33.6	27.3	20.6	19.0	20.7

Source: Company Reports, BMO Capital Markets

- The contribution from FortisAlberta was higher than expected, largely due to the quantum and timing of capital expenditures. Gross capital expenditures were \$59.319 million in Q2/06 and \$105.1 million year to date, a \$40.4 million increase in gross capital expenditures versus the six months ended June 30, 2005. We previously assumed that planned capital expenditures would total some \$177 million in 2006 and a similar amount in 2007.
- The decline in the Q2/06 contribution from Newfoundland power versus Q2/05 reflects the previously announced change in the revenue recognition policy of the utility from a billed basis to an accrual basis. The change in revenue recognition policy is not expected to materially change fiscal 2006 performance. We expect Q3 and Q4/06 performance to compare favourably versus Q3 and Q4/05.

Estimates

We have revised our financial model to better reflect year-to-date financial performance. As a result, our diluted 2006 and 2007 EPS estimates increase to \$1.24 and \$1.36 from \$1.17 and \$1.26, respectively. Our outlook reflects a number of key assumptions:

- We continue to assume that the company issues approximately \$100 million in equity in 2007, in order to preserve and enhance its credit metrics over the forecast period.
- We have increased the company's ownership interest in Caribbean Utilities to 37.4% versus 37.3% previously.
- We have increased the company's ownership interest in Belize to 70.1% from 68.5%, previously, as a result of the recently completed rights offering.
- We have increased our gross capital expenditure expectation at FortisAlberta to approximately \$240 million in each of 2006 and 2007 from approximately \$177 million.
- We have increased the estimated production from Belizian facilities and reduced operating expenses in the non-regulated generating segment, reflecting a return to normal hydrological conditions for 2006 and 2007.

Valuation

Our revised target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.36 (12.5%), 1.75x 2007E BV of \$13.44 (12.5%) and a target yield of 3.00% (75%), assuming 2007 dividends per share of \$0.78. We have reduced our target yield to 3% from 3.25% to reflect the following key points:

- Over the 2005 to 2010 forecast period, diluted EPS are expected to grow by 5.2%. We note that this is one of the best growth rates in our coverage universe.
- EPS growth is largely reliant on rate base growth at utility operations subject to cost of service regulation. We believe that this growth profile has significantly lower project execution risk than the construction of large diameter, inter and intra-state/province liquids and natural gas transportation facilities and the refurbishment of laid-up nuclear reactors.
- The company's non-regulated generating portfolio is almost exclusively comprised of long-life, hydroelectric assets, without material exposure to natural gas spark spread risks.
- Forecast EPS do not rely on highly volatile midstream processing and natural gas storage revenues, which are subject to substantial seasonal volatility due to weather, basis differentials between natural gas hubs, fractionation margins and the relationship between natural gas and oil prices.
- Financial reporting structure of the company is transparent and superior to a number of entities in its Canadian peer group.
- The company's dividend payout ratio, actual and forecast, is expected to remain in the 50–60% of basic EPS range over the forecast period, below the average range of 60–70% of its utility peer group.

Recommendation

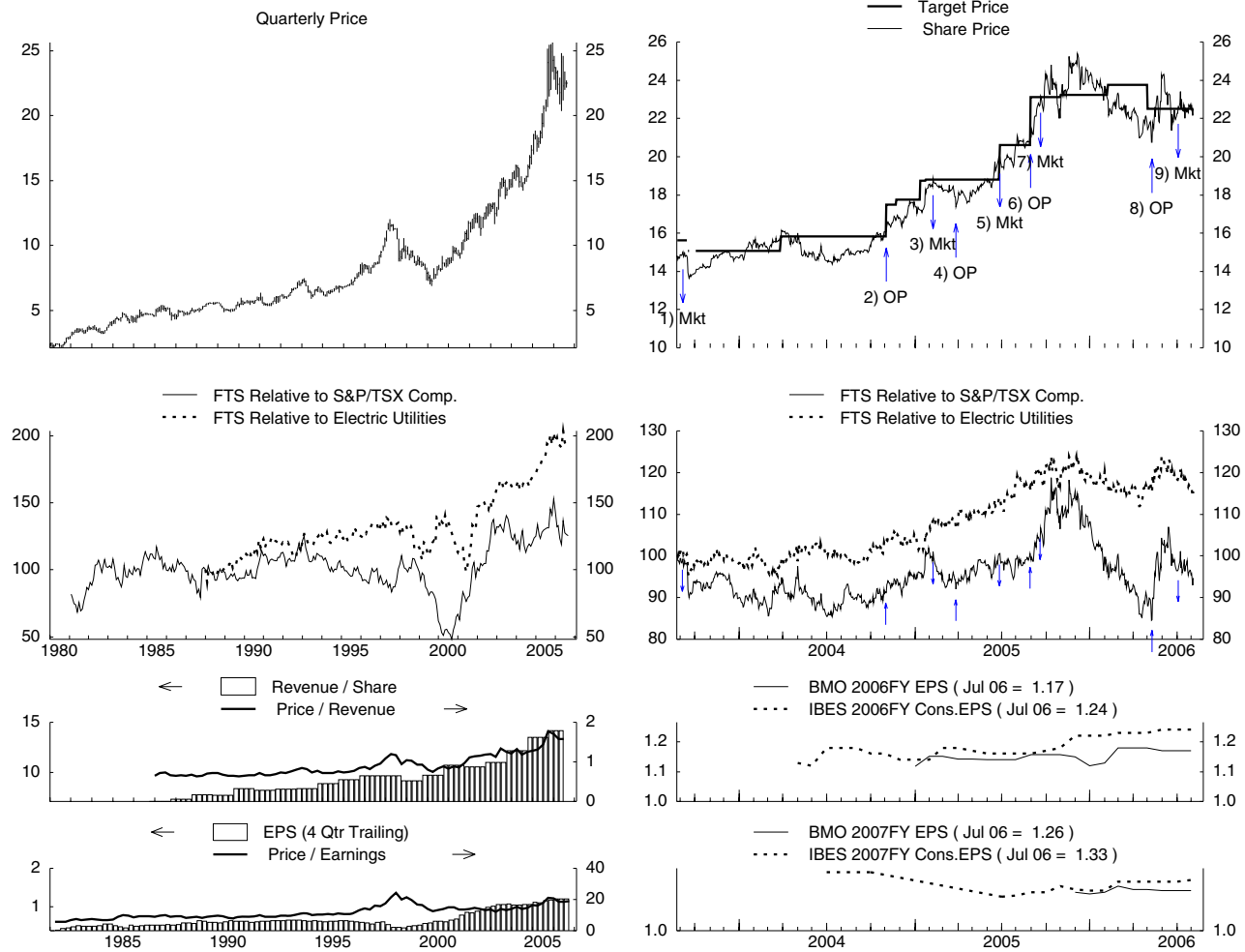
We believe that the shares are attractively priced at current levels. We are increasing our rating to Outperform.

Table 3. Consolidated Summary Sheet

Current Price:	\$22.59		BMO Capital Markets					
12-Month Target Price:	\$25.25							
ROR:	14.6%		Recommendation:				Outperform	
	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.26	\$1.40
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.24	\$1.36
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.18	\$0.18
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.56	\$0.59
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.27)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.78
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	50.9%	55.8%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	106.3
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.42	13.44
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$22.59	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	18.0	16.2
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.82	1.68
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.83%	3.45%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	324.4	368.3
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2164.4	2175.9
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1287.2</u>	<u>1462.9</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4350.1	4579.4
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	7.5%	8.0%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	49.8%	47.5%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.5%	4.3%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.3%	7.0%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.6%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>29.6%</u>	<u>31.9%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	129.9	148.6
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	316.8	346.3

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.20	19	0.64	2.8	53	11.96	1.9	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	12.1		6.4			11.4		
10 Year:	6.7		4.1			7.1		
20 Year:	4.4		3.9			6.3		

* Current EPS is the 4 Quarter Trailing to Q1/2006.

FTS - Rating as of 25-Aug-03 = OP

Date	Rating Change	Share Price
1 4-Sep-03	OP to Mkt	\$15.00
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60

Last Daily Data Point: August 3, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., collectively ("BMO NB"). BMO NB is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. "BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal and BMO NB in Canada, and BMO Capital Markets Corp. in the U.S. BMO Capital Markets Corp. is an affiliate of BMO NB. BMO NB and BMO Capital Markets Corp. are subsidiaries of Bank of Montreal. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO NB research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein. The reader should assume that BMO NB, BMO Capital Markets Corp., Bank of Montreal or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The opinions, estimates and projections contained in this report are those of BMO NB as of the date of this report and are subject to change without notice. BMO NB endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NB makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NB or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NB and its affiliates, which includes the overall profitability of investment banking services. BMO NB, or its affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NB. BMO NB or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO NB or its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

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"BMO Capital Markets" is a trade-mark of Bank of Montreal, used under licence.

"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$23.94
Target Price: \$25.25

August 28, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com

Acquisition of Turks and Caicos Utilities Announced

Impact

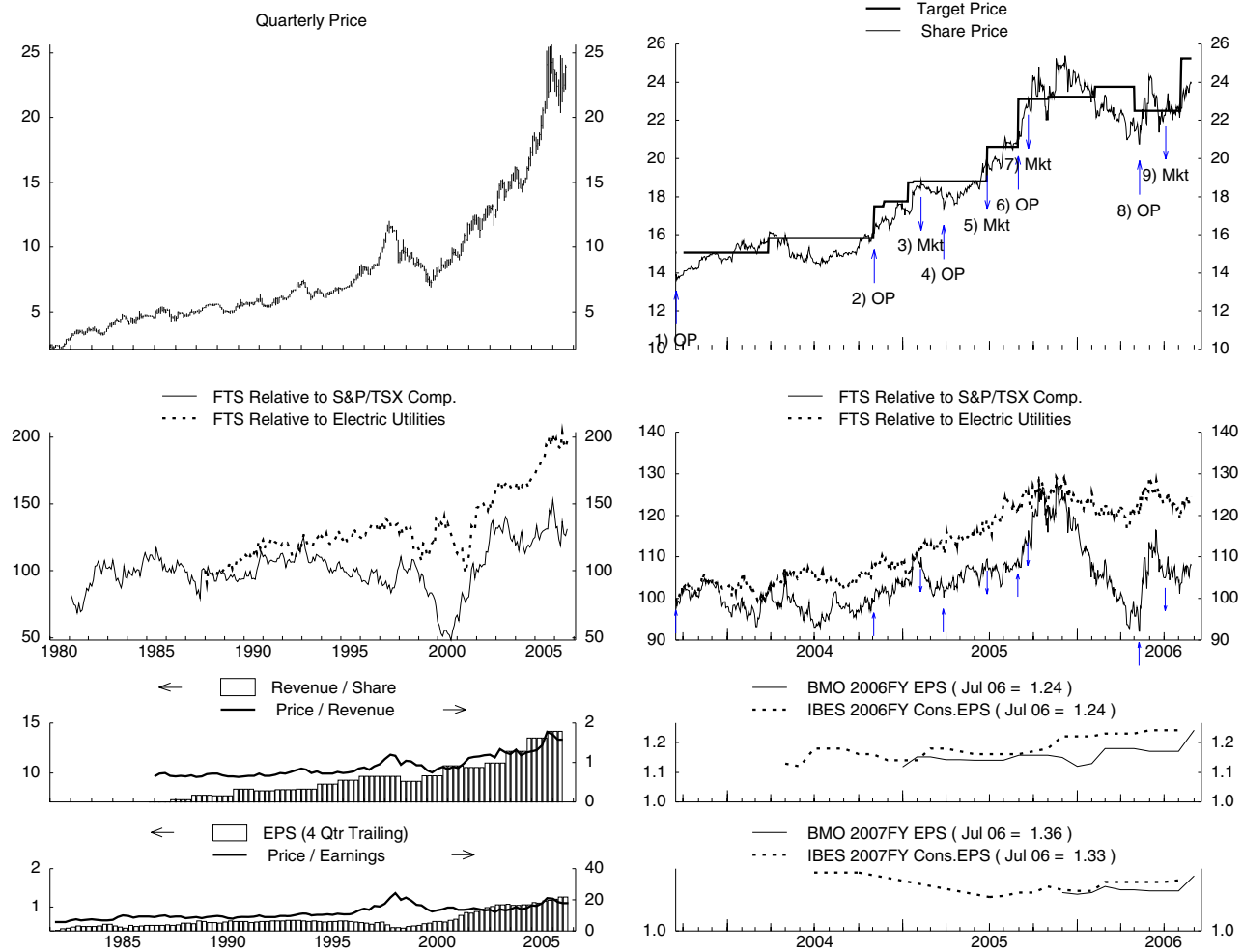
Slightly Positive

Details & Analysis

Fortis has announced that it has acquired all of the shares of two utilities based in the Turks and Caicos Islands, P.P.C. Limited and Atlantic Equipment and Power (Turks and Caicos) Limited, for US\$90 million, including assumed debt. Both utilities operate under exclusive, long-term licence arrangements in their respective jurisdictions and are regulated under a traditional rate of return on rate base approach. The utilities are allowed to earn a fixed rate of return of 17.5% on a defined asset base, which was approximately US\$50 million as at June 30, 2006. We estimate that the transaction could add approximately \$0.01-0.02 to our 2007E EPS, depending on financial assumptions, including the amount of project-level debt assumed by Fortis. This acquisition is in line with our expectations for the following reasons: (1) it allows Fortis to expand its regulated Caribbean utility operations in a stable jurisdiction; (2) it is consistent with management's past comments which indicated that Fortis was seeking to expand its regulated Caribbean operations; and (3) we presently assume that Fortis will issue approximately \$100 million of equity in 2007. No change in view. We rate the share of Fortis Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	18	0.64	2.8	51	12.18	1.8	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 16-Sep-03 = NR

Date	Rating Change	Share Price
1 16-Sep-03	NR to OP	\$13.94
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60

Last Daily Data Point: August 25, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

September 4, 2006
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com

Turks & Caicos Acquisition; Outperform Rating Maintained

Event

On August 28, Fortis announced that it has acquired all of the outstanding shares of P.P.C Limited and Atlantic Equipment and Power (Turks and Caicos) Limited from T.C. Energy Holdings Inc. for US\$90 million. The combined utilities serve approximately 7,500 customers or 80% of customers in the Turks and Caicos pursuant to 50-year licences. The utilities have a combined installed generating base of 35 MW and a peak load of 20 MW. We believe that the transaction price is approximately 7.5x fiscal 2005 EBITDA, the lower end of the range of observed transactions.

Impact

Positive.

Forecasts

We have updated our financial model to reflect this acquisition. We have included a number of assumptions, as set out herein and our diluted 2006 and 2007 EPS estimates increase to \$1.26 and \$1.41, respectively, from \$1.24 and \$1.36 per share previously.

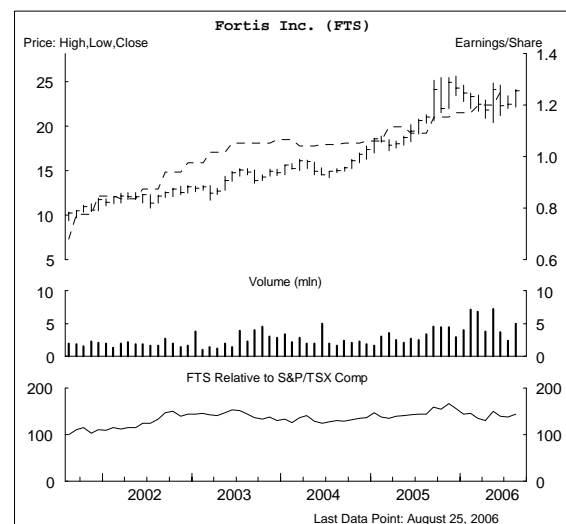
Valuation

We have increased our target price to \$26. Our new target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.41 (12.5%), 2.0x 2007E book value of \$13.68 (12.5%) and a target yield of 3% (75%), assuming 2007E dividends of \$0.78.

Recommendation

We believe that the shares are attractively valued. Our rating is Outperform.

Price (1-Sep) \$24.80
Target Price \$26.00↑
52-Week High \$25.64
52-Week Low \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.26↑	\$1.41↑
P/E			19.7x	17.6x
CFPS	\$3.35	\$3.15	\$3.00	\$3.17
P/CFPS			8.3x	7.8x
Div.	\$0.54	\$0.61	\$0.64	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,644	\$5,795
EBITDA (\$mm)	\$380	\$507	\$575	\$629
EV/EBITDA	10.1x	9.6x	9.8x	9.2x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.33↑	\$0.27↑
Dividend	\$0.64	Yield		2.6%
Book Value	\$12.18	Price/Book		2.0x
Shares O/S (mm)	103.5	Mkt. Cap (\$mm)		\$2,567
Float O/S (mm)	103.5	Float Cap (\$mm)		\$2,567
Wkly Vol (000s)	1,104	Wkly \$ Vol (mm)		\$25.4
Net Debt (\$mm)	\$2,552.9	Next Rep. Date		31-Oct (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.26; 2007E: \$1.37

Changes

Annual EPS
 2006E \$1.24 to \$1.26
 2007E \$1.36 to \$1.41

Quarterly EPS
 Q3/06E \$0.32 to \$0.33
 Q4/06E \$0.25 to \$0.27

Target

\$25.25 to \$26.00

Details & Analysis

On August 28, Fortis announced that it has acquired all of the outstanding shares of P.P.C Limited and Atlantic Equipment and Power (Turks and Caicos) Limited from T.C. Energy Holdings Inc. for US\$90 million. The combined utilities serve approximately 7,500 customers or 80% of customers in the Turks and Caicos pursuant to 50-year licences. The utilities have a combined installed generating base of 35 MW and a peak load of 20 MW. We note the following about the announced acquisition:

- PPC is the sole provider of electricity in Providenciales, North Caicos and Middle Caicos pursuant to an exclusive 50-year licence that expires in 2037. Atlantic is the sole provider of electricity in South Caicos pursuant to an exclusive 50-year licence that expires in 2036.
- We continue to believe that Fortis is likely to acquire additional utility assets in the Caribbean, likely Bermuda and the Bahamas. We do not expect Fortis to pursue the acquisition of the assets presently offered for sale by Mirant, which include: Jamaica Public Service Company Limited – 80%, Grand Bahama Power Company – 55%, Power Generation Company of Trinidad and Tobago – 39%, Curacao Utilities Company – 25.5%. In 2005, these assets contributed approximately US\$156 million of adjusted EBITDA.
- The announced acquisition of US\$90 million includes the assumption of approximately US\$20 million of existing bank debt, which is likely to be refinanced. The acquisition was priced at 7.5x EV/EBITDA, at the low end of the range of recently observed transactions.
- Utility rates are adjusted annually. The utilities make an annual filing with the Energy Commission and if the actual, realized return on defined assets is less than 17.5%, the utilities are entitled to a rate increase. There has not been a rate increase in a number of years. Base fuel costs (diesel) are included in rates and costs above the base rate are deferred and recovered from customers on a two-month lagged basis.
- The utilities maintain adequate hurricane insurance and the most recent policy was renewed on July 1, 2006. Approximately US\$20 million of the gross US\$57 million utility assets are transmission and distribution facilities that are not subject to insurance protection. Generating capacity of approximately US\$25 million is fully insured. The utilities maintain adequate business interruption insurance coverage, subject to a deductible.
- The two principle risks associated with this acquisition are: (1) hurricanes; and (2) risk of government intervention in the licence. Although we have not seen the governing licences, we understand that the government has limited ability to interfere with the normal course operation of the licences and can only intervene when the utilities don't deliver service.

Estimates

We have updated our financial model to reflect this acquisition. Our diluted 2006 and 2007 EPS estimates increase to \$1.26 and \$1.41, respectively, from \$1.24 and \$1.36 per share previously. Our estimates reflect the following key assumptions:

- Target capital structure for Fortis Inc. of 60% debt and 40% equity, with the equity component likely to be 30% common equity and 10% preferred shares.
- Equity issue in 2007 of \$140 million.

- Regulated asset base of US\$50 million in 2006, a return on rate base of 17.5%. Annual capital expenditures are assumed to be US\$8 million per annum and depreciation is assumed to be 3.5% per annum or approximately US\$2 million.
- 60% or US\$54 million of the purchase price is funded with U.S. dollar denominated debt at a cost of approximately 8%.

Valuation

We have increased our target price to \$26. Our new target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.41 (12.5%), 2.0x 2007E book value of \$13.68 (12.5%) and a target yield of 3% (75%), assuming 2007E dividends of \$0.78.

Recommendation

We believe the shares are attractively valued at current levels. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

05-Sep-06

Current Price: \$24.80

12-Month Target Price: \$26.00

ROR: 7.4%

Karen J. Taylor

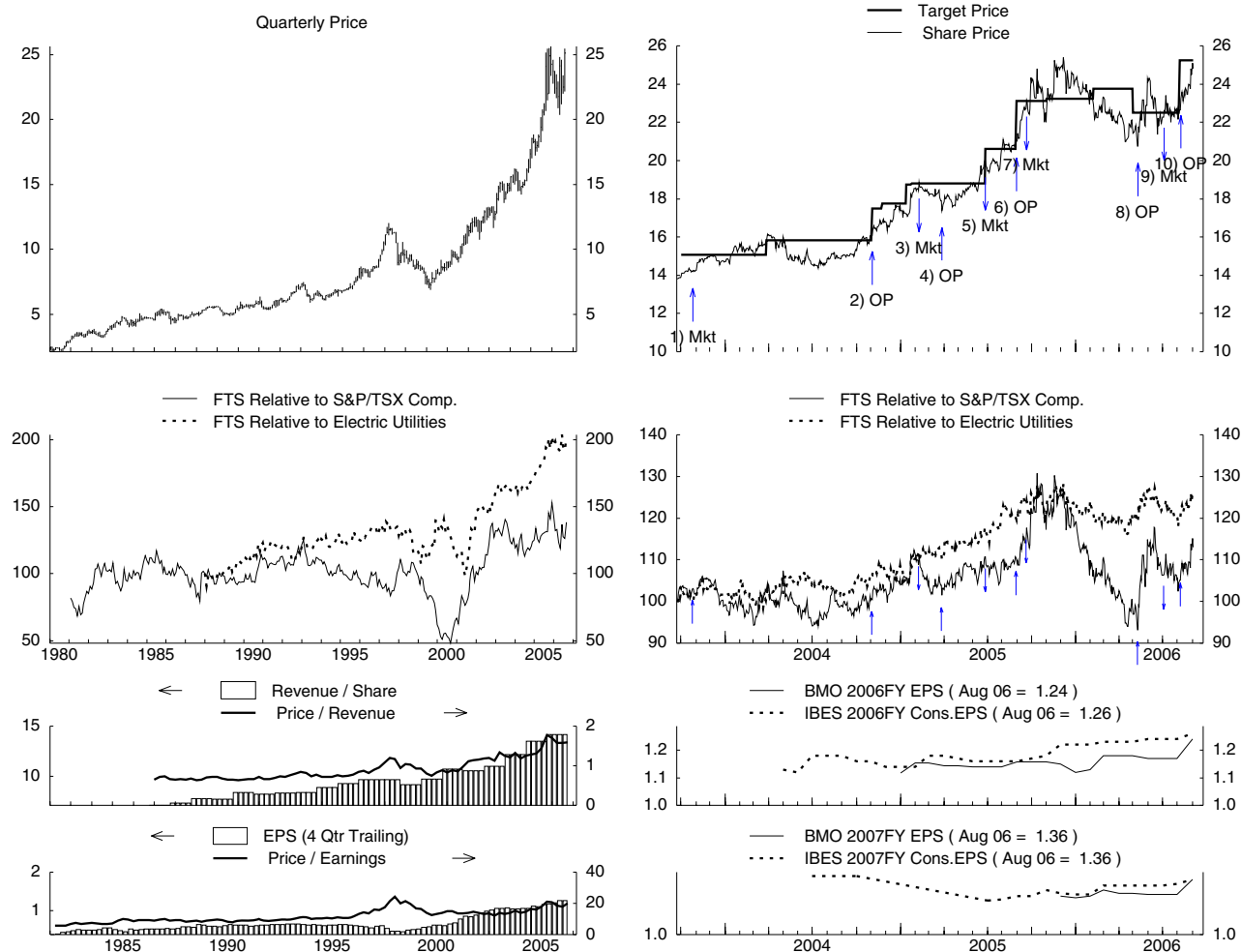
BMO Capital Markets

Recommendation: Outperform

	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.28	\$1.46
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.26	\$1.41
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.16
Fortis Trust/Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.24
Belize, BECOL, CUP/Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.24
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.56	\$0.59
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.26)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.78
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	50.1%	53.5%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	107.1
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.44	13.68
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$24.80	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.4	17.0
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.99	1.81
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.58%	3.15%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	423.8	457.2
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2164.4	2175.9
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	319.5	319.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1289.5</u>	<u>1512.0</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4451.8	4717.5
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	9.5%	9.7%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	48.6%	46.1%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.4%	4.1%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	7.2%	6.8%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.5%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>29.0%</u>	<u>32.1%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	132.3	156.0
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	319.1	354.8

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.5	51	12.18	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 23-Sep-03 = NR

Date	Rating Change	Share Price
1 24-Oct-03	NR to Mkt	\$14.19
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60
10 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: September 1, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

September 14, 2006

Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Perpetual Preferred Share Issue; Outperform Rating Maintained

Event

Fortis Inc. has announced that it has issued \$125 million Series F Cumulative Redeemable First Preference Shares, bearing a dividend rate of 4.90%. The shares are not redeemable prior to December 1, 2011 and have no shareholder retraction rights. Proceeds from the issue will be used to repay approximately \$72 million borrowed by the company on its corporate credit facility to partially fund the US\$90 million acquisition of utility assets on the Turks & Caicos Islands (announced on August 28, 2006) and to fund further equity investments in the company's western Canadian regulated utility operations, to support robust capital expenditure programs and general corporate purposes.

Impact

Neutral.

Forecasts

We have updated our financial model to reflect the issuance of the perpetual preferred shares. We have also assumed that the company is no longer likely to issue common equity of approximately \$130 million. As a result of these changes, our 2006 and 2007 EPS estimates decline by \$0.01 per share to \$1.25 and \$1.40, respectively.

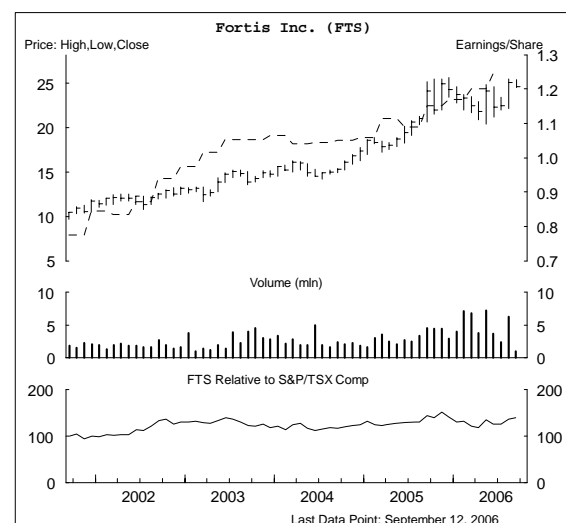
Valuation

Our target price reflects a weighted average valuation approach: 17x diluted 2007E EPS of \$1.40 (12.5%), 2x 2007E BV of \$13.13 (12.5%), and a target yield of 3% (75%), assuming 2007 dividends per share of \$0.78.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (12-Sep) \$24.64
Target Price \$26.00
52-Week High \$25.64
52-Week Low \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.25↓	\$1.40↓
P/E			19.7x	17.6x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			8.0x	7.4x
Div.	\$0.54	\$0.61	\$0.64	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,715	\$5,848
EBITDA (\$mm)	\$380	\$507	\$581	\$644
EV/EBITDA	10.1x	9.6x	9.8x	9.1x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.32↓	\$0.26↓
Dividend	\$0.64			2.6%
Book Value	\$12.18			2.0x
Shares O/S (mm)	103.5			Mkt. Cap (\$mm)
Float O/S (mm)	103.5			\$2,550
Wkly Vol (000s)	1,100			Float Cap (\$mm)
Net Debt (\$mm)	\$2,552.9			\$2,550
				Wkly \$ Vol (mm)
				\$25.4
				Next Rep. Date
				31-Oct (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.27; 2007E: \$1.41

Changes

Annual EPS
 2006E \$1.26 to \$1.25
 2007E \$1.41 to \$1.40

Quarterly EPS

Q3/06E \$0.33 to \$0.32
 Q4/06E \$0.27 to \$0.26

Table 1. Consolidated Summary Sheet

14-Sep-06

Current Price: \$24.38

12-Month Target Price: \$26.00

ROR: 9.3%

Karen J. Taylor

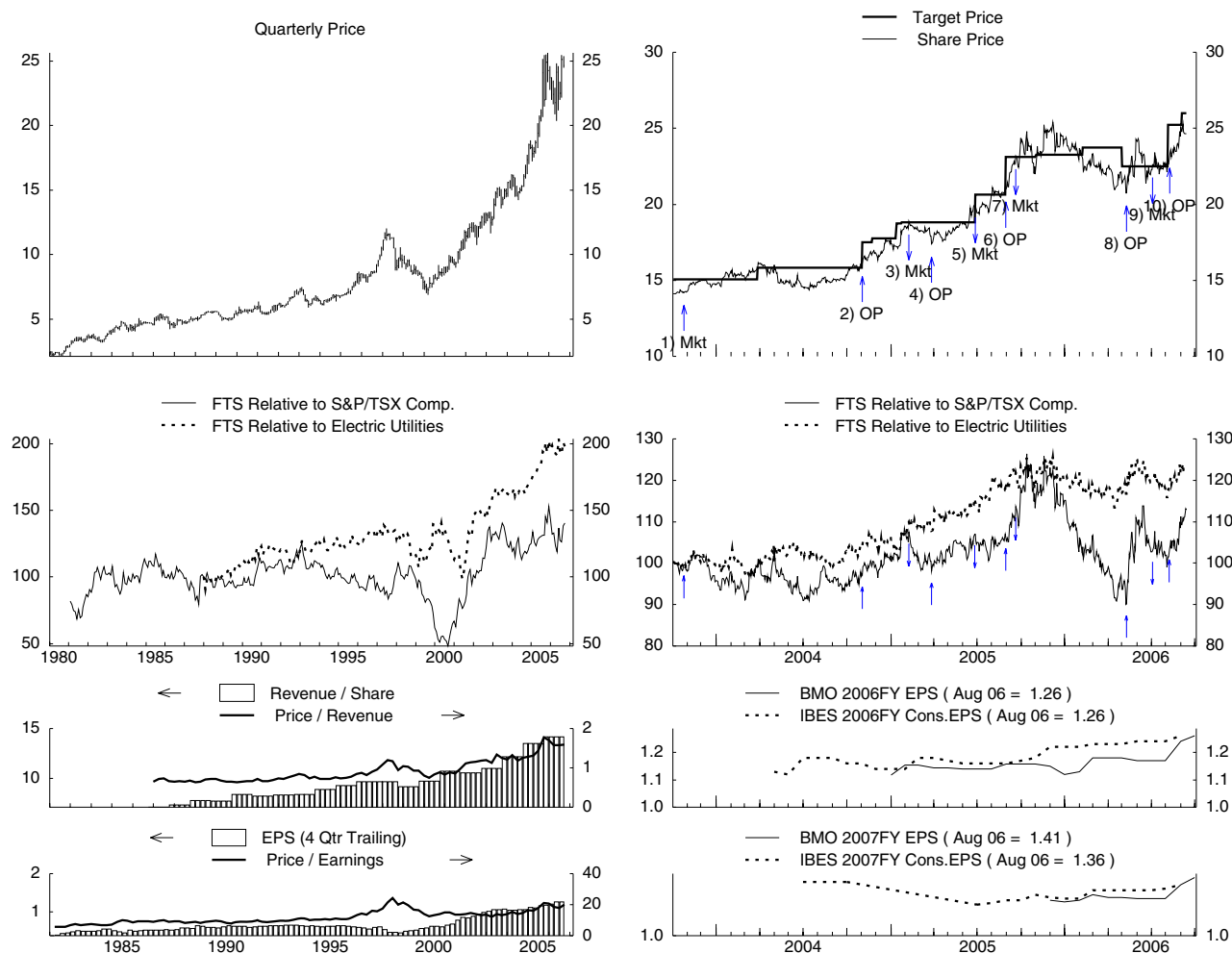
BMO Capital Markets

Recommendation: Outperform

	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.26	\$1.44
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.25	\$1.40
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.32
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.17
Fortis Trust/Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25
Belize, BECOL, CUP/Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.25
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.56	\$0.61
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.33)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.78
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	50.6%	54.1%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	103.9
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.42	13.13
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$24.38	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.3	16.9
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.96	1.86
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.63%	3.20%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	300.3	477.4
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2164.4	2175.9
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	444.5	444.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
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	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4451.8	4717.5
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	6.7%	10.1%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	48.6%	46.1%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.4%	4.1%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	10.0%	9.4%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.5%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.9%</u>	<u>29.0%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	130.7	149.9
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	319.1	354.8

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.5	51	12.18	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 2-Oct-03 = NR

Date	Rating Change	Share Price
1 24-Oct-03	NR to Mkt	\$14.19
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60
10 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: September 12, 2006

Company Risk Disclosure

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Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis

(FTS-TSX)

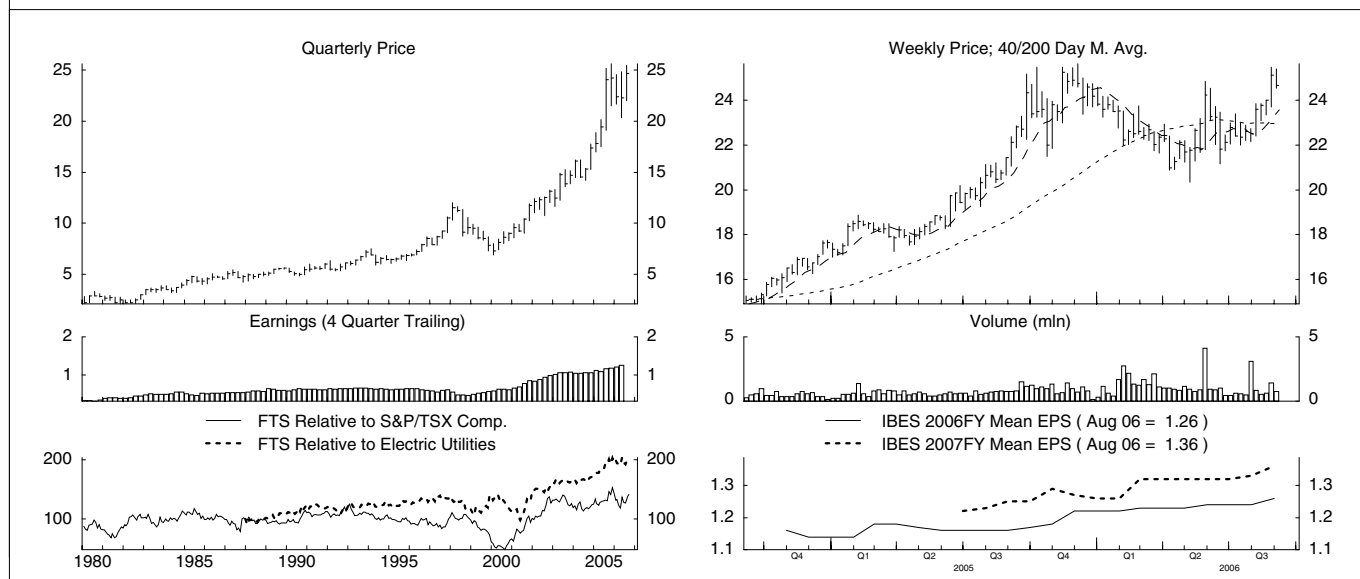
Stock Rating: Outperform
Industry Rating: Market Perform

September 7, 2006
Research Fact Sheet
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

				(FY-Dec.)	2004A	2005A	2006E	2007E
Price (7-Sep)	\$24.68	52-Week High	\$25.64	EPS	\$0.99	\$1.10	\$1.26	\$1.41
Target Price	\$26.00	52-Week Low	\$20.36	P/E			19.6x	17.5x
Dividend	\$0.64	Book Value	\$12.18	CFPS	\$3.35	\$3.15	\$3.08	\$3.31
Yield	2.6%	Price/Book	2.0x	P/CFPS			8.0x	7.4x
Shares O/S (mm)	103.5	Mkt. Cap (\$mm)	\$2,554	Div.	\$0.54	\$0.61	\$0.64	\$0.78
Float O/S (mm)	103.5	Float Cap (\$mm)	\$2,554	EV (\$mm)	\$3,846	\$4,863	\$5,715	\$5,848
Wkly Vol (000s)	1,104	Wkly \$ Vol (mm)	\$25.4	EBITDA (\$mm)	\$380	\$507	\$581	\$644
Net Debt (\$mm)	\$2,553	Next Rep. Date	31-Oct (E)	EV/EBITDA	10.1x	9.6x	9.8x	9.1x
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	8.9%	9.8%	10.3%
2004A	\$0.27	\$0.31	\$0.27	\$0.22	Book Value (\$)	\$10.47	\$11.76	\$12.44
2005A	\$0.32	\$0.28	\$0.33	\$0.24	D/Tot. Cap. (%)	68.8%	63.9%	65.9%
2006E	\$0.35 a	\$0.33 a	\$0.33	\$0.27	Reg. ROE (%)	9.8%	9.2%	8.8%

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 9, 10C



Company Description – Fortis is a publicly listed holding company with three key businesses: electric utility operations, non-regulated electric power generation, and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (37.2%, Grand Cayman Island), FortisAlberta

(100%, Alberta) and FortisBC (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis Inc. reported Q2/06 EPS of \$0.37. After adjusting for the following one-time items: (i) after-tax insurance gain of \$0.7 million; (ii) gain on the sale of a hotel asset of \$1.6 million after tax; (iii) benefit from the reduction of future income tax rates of \$1.5 million; and (iv) unrealized foreign exchange gains of \$1.6 million after tax, Q2/06 EPS were \$0.31, higher than our expectation of

\$0.27. The variance between actual and expected performance is largely due to: (1) better than expected performance at FortisAlberta due to higher than expected rate base growth; and (2) return to normal hydrological conditions in Belize, substantially increasing the contribution from the non-regulated generation business segment.

Corporate Developments – On August 28, Fortis announced that it has acquired all of the shares of two utilities based in the Turks and Caicos Islands, P.P.C. Limited and Atlantic Equipment and Power (Turks and Caicos) Limited, for US\$90 million, including assumed debt. Both utilities operate under exclusive, long-term licence arrangements in their respective jurisdictions and are

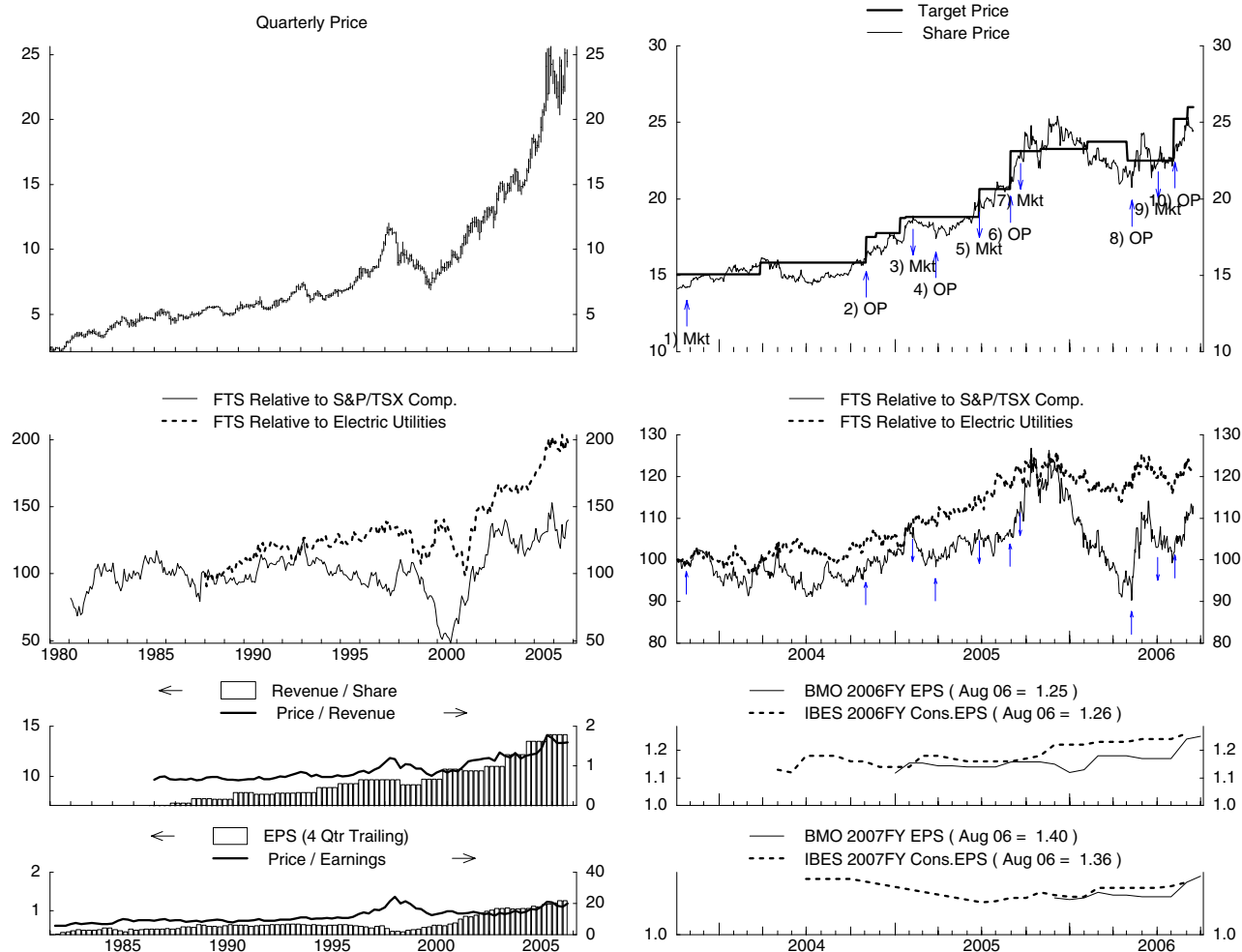
regulated under a traditional rate of return on rate base approach. The utilities are allowed to earn a fixed rate of return of 17.5% on a defined asset base, which was approximately US\$50 million as at June 30, 2006.

Forecasts – Our diluted 2006 and 2007 EPS are \$1.26 and \$1.41, respectively.

Valuation – Our target price of \$26.00 reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.41 (12.5%), 2.00x 2007E BV of \$13.68 (12.5%) and a target yield of 3.00% (75%), assuming 2007 dividends per share of \$0.78.

Recommendation – We believe the shares are attractively valued. Our rating is Outperform

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.5	51	12.18	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 6-Oct-03 = NR

Date	Rating Change	Share Price
1 24-Oct-03	NR to Mkt	\$14.19
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60
10 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: September 14, 2006

Company Risk Disclosure

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Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	First Call Universe **
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%
Sell	Underperform	10%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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OP = Outperform - Forecast to outperform the market;

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(S) = speculative investment;

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Dissemination of Research

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

September 26, 2006

Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Newfoundland Power Files Application – Outperform Maintained

Event

On September 13, Newfoundland Power filed a 2007 Amortization and Cost Deferrals Application with the Board of Commissioners of Public Utilities, in which the utility addresses a number of 2007 costs that are not reflected in customer rates (including \$2.7 million of increased income tax costs, \$5.8 million of increased depreciation expenses related to the conclusion of the depreciation true-up that was concluded in 2005, and \$1.8 million of replacement energy costs associated with the planned 2007 refurbishment of the Rattling Brook hydroelectric plant) and a proposal to: (1) amortize \$2.7 million of the 2005 Unbilled Revenue as revenue in 2007; (2) defer \$5.8 million in higher depreciation costs; (3) defer \$1.1 million of the replacement power costs; and (4) confirm a 2007 forecast rate base of \$785.3 million. The allowed rate of return on rate base appears to be within the band established by the automatic adjustment mechanism used by the Commission (allowed ROE currently 9.24%, with a 50 basis point range).

Impact

Neutral.

Forecasts

We have updated our outlook to incorporate the September 13 application. Our 2006 EPS estimate is unchanged and our diluted 2007 EPS estimate declines marginally to \$1.39 from \$1.40.

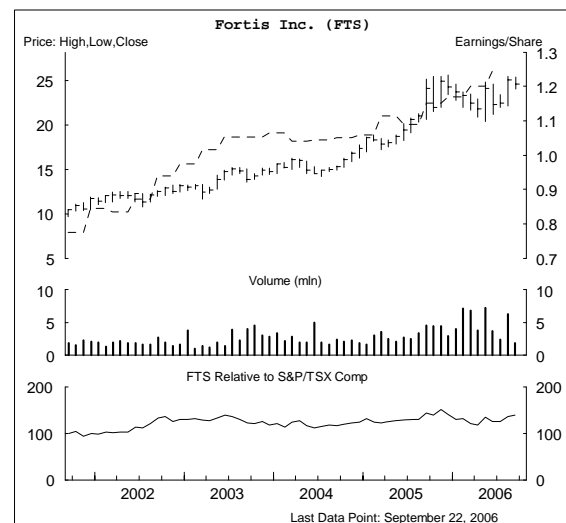
Valuation

Our target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.30 (12.5%), 2.00 2007E BV per share of \$13.11 (12.5%), and a target yield of 2.85% (75%), assuming 2007E dividends of \$0.78.

Recommendation

We believe the shares are attractively valued. Our rating is Outperform.

Price (22-Sep) \$24.60 **52-Week High** \$25.64
Target Price \$26.75 **52-Week Low** \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.25	\$1.39↓
P/E			19.7x	17.7x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			8.0x	7.4x
Div.	\$0.54	\$0.61	\$0.64	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,682	\$5,880
EBITDA (\$mm)	\$380	\$507	\$577	\$638
EV/EBITDA	10.1x	9.6x	9.8x	9.2x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.32	\$0.26
Dividend	\$0.64			2.6%
Book Value	\$12.18			Price/Book
Shares O/S (mm)	103.5			2.0x
Float O/S (mm)	103.5			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,077			\$2,546
Net Debt (\$mm)	\$2,552.9			Float Cap (\$mm)
				\$2,546
				Wkly \$ Vol (mm)
				\$24.9
				Next Rep. Date
				31-Oct (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.27; 2007E: \$1.41

Changes

Annual EPS
 2007E \$1.40 to \$1.39

Table 1. Consolidated Summary Sheet

25-Sep-06

Current Price: \$24.35

12-Month Target Price: \$26.75

ROR: 12.5%

Karen J. Taylor

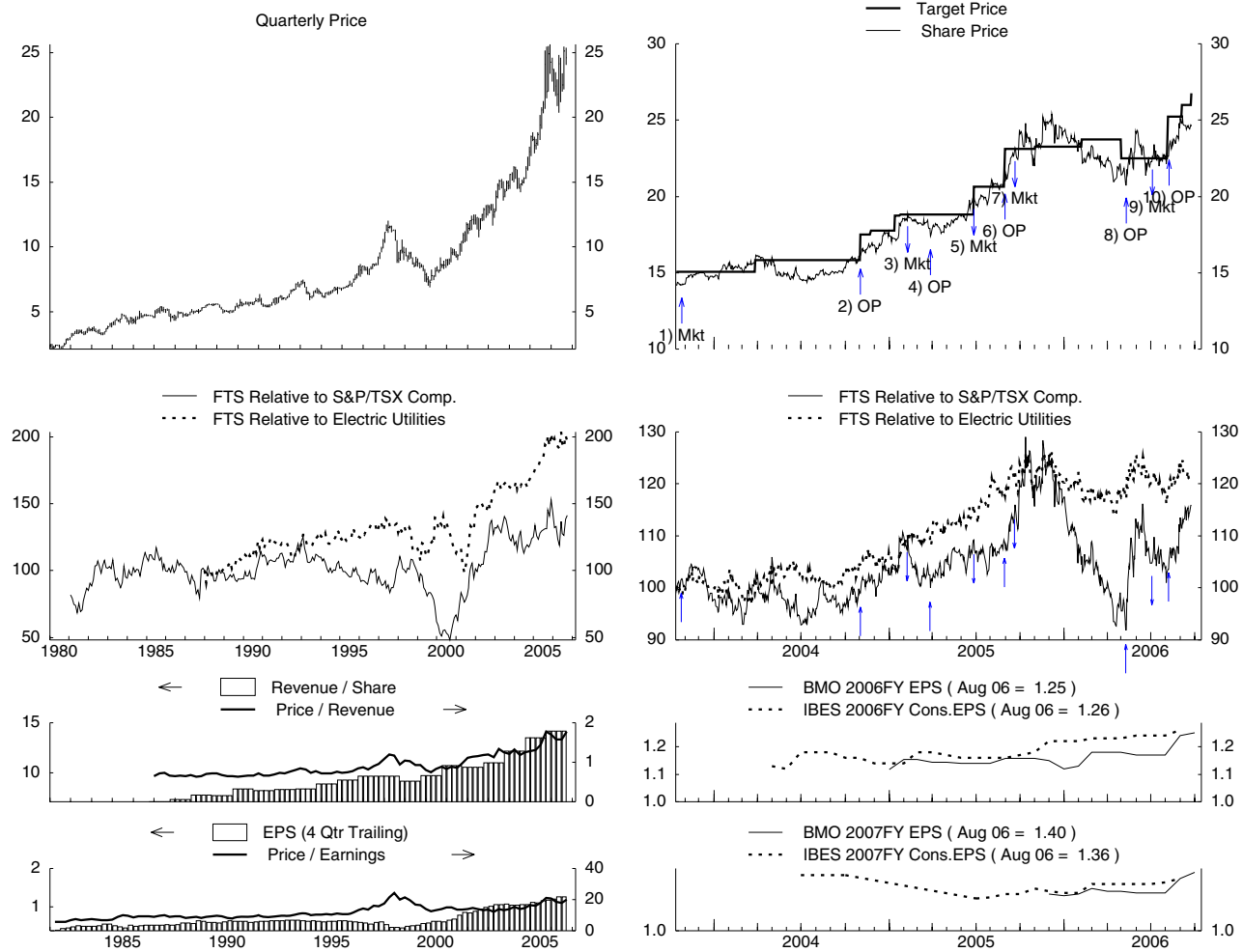
BMO Capital Markets

Recommendation: Outperform

	2000	2001	Year Ending December 31				2005	2006E	2007E
	2002	2003	2004	2005	2006E	2007E			
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.26	\$1.43	
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.25	\$1.39	
Segmented EPS									
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.31	
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	
CNP/Cornwall Elec/Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.17	
Fortis Trust/Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	
Belize, BECOL, CUP/Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.25	
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.56	\$0.61	
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.33)	
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.64	\$0.78	
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	50.6%	54.7%	
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	103.9	
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.42	13.11	
Market Valuation									
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-	
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-	
Price: Current	-	-	-	-	-	-	\$24.35	-	
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-	
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-	
P/E Ratio: Current	-	-	-	-	-	-	19.3	17.1	
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-	
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-	
Price/Book Value: Current	-	-	-	-	-	-	1.96	1.86	
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-	
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-	
Yield: Current	-	-	-	-	-	-	2.63%	3.20%	
Balance Sheet (\$mm)									
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	300.3	481.8	
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2164.4	2175.9	
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0	
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7	
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	444.5	444.5	
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2	
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1288.0</u>	<u>1365.1</u>	
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4451.8	4720.2	
Balance Sheet (%)									
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	6.7%	10.2%	
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	48.6%	46.1%	
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.4%	4.1%	
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%	
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	10.0%	9.4%	
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.5%	0.5%	
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.9%</u>	<u>28.9%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement									
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	130.7	148.2	
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	319.1	350.4	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.5	51	12.18	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 14-Oct-03 = NR

Date	Rating Change	Share Price
1 24-Oct-03	NR to Mkt	\$14.19
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60
10 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: September 22, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., collectively ("BMO NB"). BMO NB is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. "BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal and BMO NB in Canada, and BMO Capital Markets Corp. in the U.S. BMO Capital Markets Corp. is an affiliate of BMO NB. BMO NB and BMO Capital Markets Corp. are subsidiaries of Bank of Montreal. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO NB research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein. The reader should assume that BMO NB, BMO Capital Markets Corp., Bank of Montreal or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The opinions, estimates and projections contained in this report are those of BMO NB as of the date of this report and are subject to change without notice. BMO NB endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NB makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NB or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NB and its affiliates, which includes the overall profitability of investment banking services. BMO NB, or its affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NB. BMO NB or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO NB or its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Company Specific Disclosure

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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(S) = speculative investment;

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R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$24.19
Target Price: \$26.75

September 28, 2006

Brief Research Note
Gas & Electrical

Karen Taylor, CFA

(416) 359-4304

Karen.Taylor@bmo.com

Assoc: Benjamin Pham

Quarterly Dividend Increased 18.75%

Impact

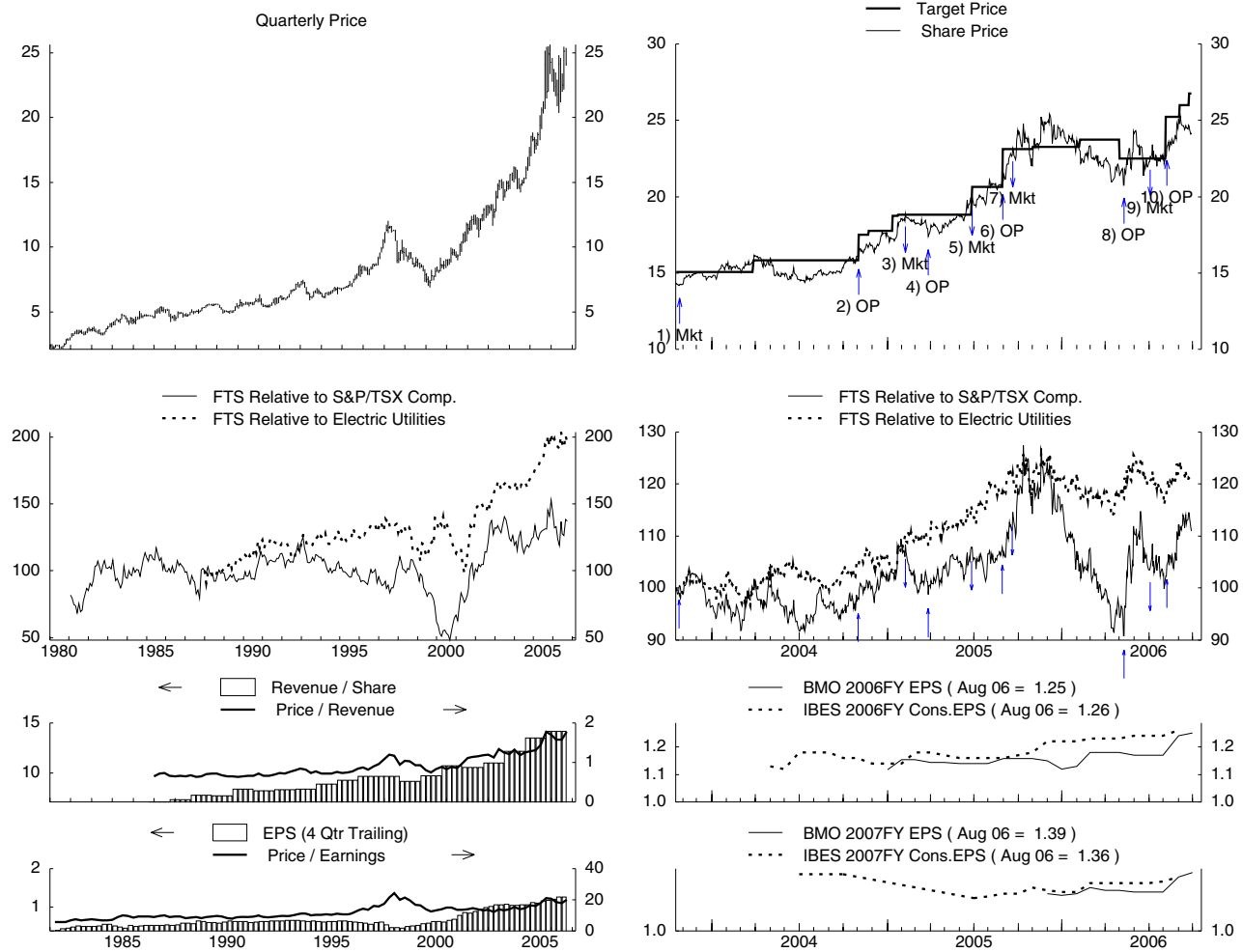
Neutral

Details & Analysis

Fortis has announced that its quarterly common share dividend has been increased by 18.75% to \$0.19 per share versus \$0.16 per share presently. The higher common share dividend is payable on December 1, 2006 to shareholders of record at the close of business on November 3, 2006. The dividend increase is one quarter earlier than expected and \$0.005 per share lower than expected. We estimated that the quarterly dividend would increase to \$0.195, effective for the first payment in 2007. No change in view. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.5	51	12.18	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 17-Oct-03 = NR

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2 2-Nov-04	Mkt to OP	\$16.10
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7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60
10 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: September 27, 2006



Company Risk Disclosure

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I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Sell	Underperform	9%	6%	6%

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Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$24.44
Target Price: \$26.75

October 2, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Capital Budget Approved and 2007 Rate Application Filed

Impact

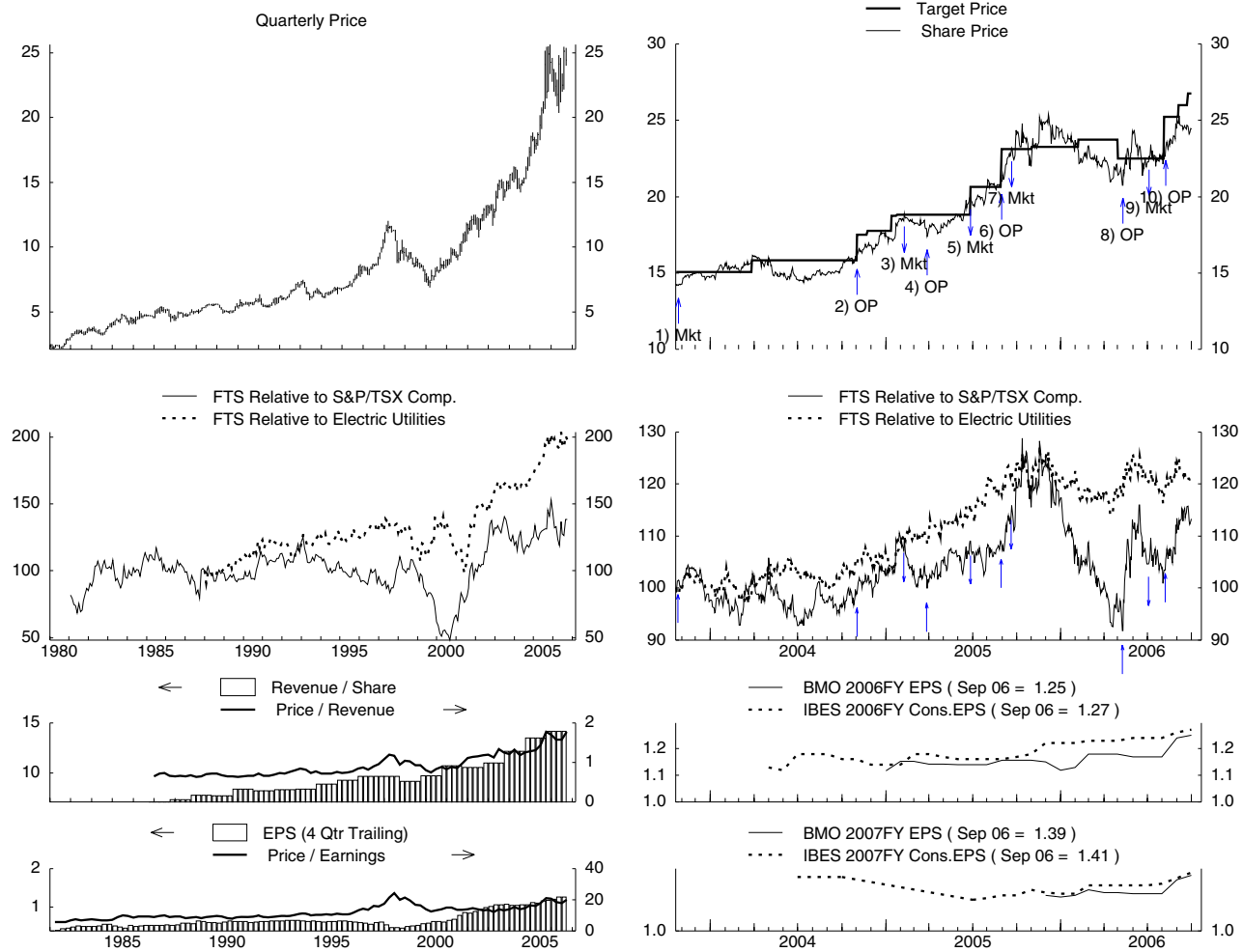
Neutral

Details & Analysis

On September 29, FortisBC Inc. (100% - Fortis Inc.) announced that it has filed an application with the British Columbia Utilities Commission to set customer electricity rates for 2007. The company is seeking a 2.9% rate increase, effective January 1, 2007. The multi-year performance based incentive regulation model approved for 2006 was used to calculate the proposed rate increase. We have not yet reviewed this application. Newfoundland Power (100% - Fortis Inc.) has announced that its 2007 Capital Budget of \$62 million has been approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities. The capital budget is consistent with our outlook for Newfoundland Power and is fully reflected in our 2007 estimates. No change in view. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

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FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
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1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.5	51	12.18	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	13.0		6.4			11.8		
10 Year:	7.2		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 21-Oct-03 = NR

Date	Rating Change	Share Price
1 24-Oct-03	NR to Mkt	\$14.19
2 2-Nov-04	Mkt to OP	\$16.10
3 8-Feb-05	OP to Mkt	\$18.88
4 28-Mar-05	Mkt to OP	\$17.38
5 27-Jun-05	OP to Mkt	\$20.01
6 30-Aug-05	Mkt to OP	\$21.01
7 20-Sep-05	OP to Mkt	\$23.18
8 10-May-06	Mkt to OP	\$20.75
9 4-Jul-06	OP to Mkt	\$22.60
10 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: September 29, 2006



Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Peter Rhamey, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

October 4, 2006
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

FortisBC Files for 2.9% Rate Increase; Outperform Rating Unchanged

Event

On September 29, FortisBC (100% - Fortis Inc.) filed a Preliminary 2007 Revenue Requirements application with the British Columbia Utilities Commission. The application was filed pursuant to the previously approved Performance Based Regulation (PBR) Settlement for the years 2007 to 2009, inclusively. The utility is also seeking to address the filing via the Commission's Negotiated Settlement Process. The application stipulates that the prime components of the requested rate increase include: (i) the increased cost of financing a growing rate base (2.4% increase); (ii) increased power purchase costs (1.8% increase); and (iii) slightly higher operating costs (0.3%), offset by: (i) lower income tax expense due to timing differences and lower water fees (reduction of 1.1%); and (ii) incentive flow-through adjustments from the PBR (reduction of 0.5%).

Impact

Neutral.

Forecasts

We have updated our financial model to reflect the application. In particular, we have updated our outlook to reflect the reorganization of FortisBC and Princeton Light and Power Company, Limited. Our fiscal 2006 diluted EPS estimate is unchanged at \$1.25, but our diluted 2007E EPS declines marginally to \$1.38 from \$1.39. Key metrics in the application include mid-year rate base of \$771.3 million and capital expenditures of \$128.5 million. We note that our estimates are likely to be subject to a further change once the ROE is set for 2007 in early December 2006.

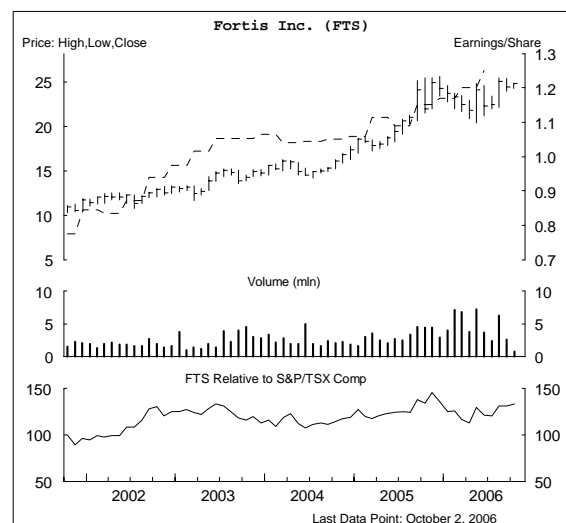
Valuation

Our target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.38 (12.5%), 2.0x 2007E BV of \$13.07 (12.5%), and a target yield of 2.85% (75%), assuming 2007 dividends of \$0.78 per share.

Recommendation

We believe that the shares are attractively valued. Our rating is Outperform.

Price (3-Oct) \$24.84 **52-Week High** \$25.64
Target Price \$26.75 **52-Week Low** \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.25	\$1.38↓
P/E			19.9x	18.0x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			8.1x	7.5x
Div.	\$0.54	\$0.61	\$0.67	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,683	\$5,885
EBITDA (\$mm)	\$380	\$507	\$577	\$633
EV/EBITDA	10.1x	9.6x	9.8x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.32	\$0.26
Dividend	\$0.64		Yield	2.6%
Book Value	\$12.18		Price/Book	2.0x
Shares O/S (mm)	103.5		Mkt. Cap (\$mm)	\$2,571
Float O/S (mm)	103.5		Float Cap (\$mm)	\$2,571
Wkly Vol (000s)	1,067		Wkly \$ Vol (mm)	\$24.7
Net Debt (\$mm)	\$2,552.9		Next Rep. Date	31-Oct (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2006E: \$1.27; 2007E: \$1.40

Changes

Annual EPS
 2007E \$1.39 to \$1.38

Table 1. Consolidated Summary Sheet

4-Oct-06

Current Price: \$24.84

12-Month Target Price: \$26.75

ROR: 10.4%

Karen J. Taylor

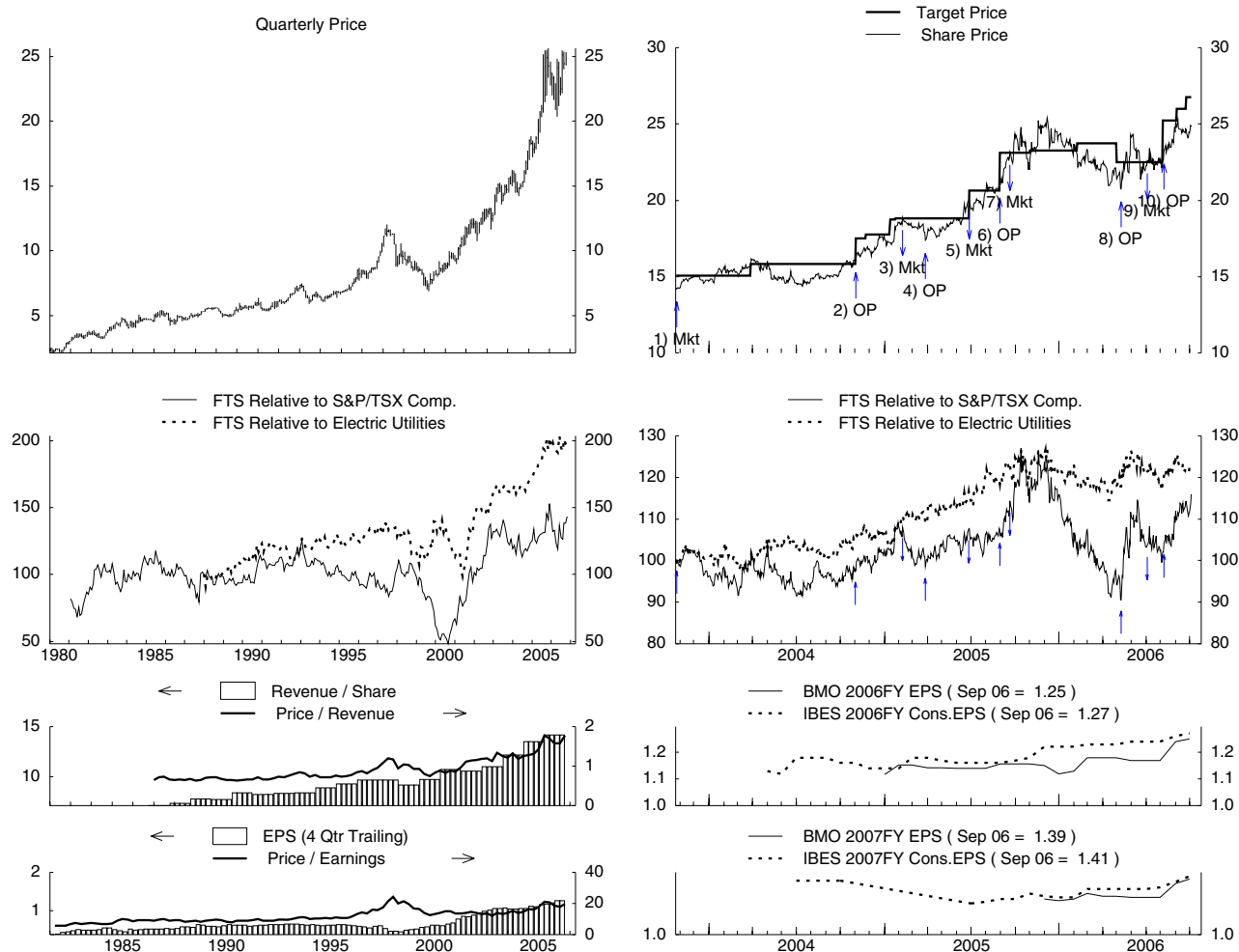
BMO Capital Markets

Recommendation: Outperform

	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.26	\$1.42
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.25	\$1.38
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.31
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.17
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25
Belize, BECOL, CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.25
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.56	\$0.60
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.33)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	53.0%	55.1%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	103.9
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.39	13.07
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$24.84	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.7	17.5
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.00	1.90
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.70%	3.14%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	303.4	497.9
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2164.4	2175.9
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	444.5	444.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1284.9</u>	<u>1361.0</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4451.8	4732.2
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	6.8%	10.5%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	48.6%	46.0%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.4%	4.1%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.8%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	10.0%	9.4%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.5%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.9%</u>	<u>28.8%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	130.7	147.2
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	319.1	349.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
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2005	1.10	21	0.64	2.6	55	11.74	2.1	10
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Growth(%):								
5 Year:	10.0		6.4			11.8		
10 Year:	7.6		4.1			7.3		
20 Year:	4.6		3.9			6.4		

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I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Hotel Acquisition Consistent with Strategy; Outperform Rating Maintained

Event

Fortis Properties (100% - Fortis Inc.) has announced that it has agreed to acquire four internationally branded hotel properties in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for \$51.6 million, including \$16 million of assumed debt. The transaction reflects a cap rate of approximately 10x and is consistent with the average cap rate of 9.8x observed on 49 sales transactions year to date for hotel properties of similar quality and size. The transaction is expected to close on October 31, 2006.

Impact

Neutral. The transaction is consistent with Fortis' stated strategy for its properties division: (i) maintain a portfolio that is approximately 10–15% of the company's total assets; (ii) "follow" the regulated utility operations; (iii) acquire mid-market hospitality assets; (iv) focus on smaller centres; and (v) enhance corporate tax efficiency. Tables 1 and 2 highlight Fortis' commercial and hospitality portfolio, as at October 2006.

Forecasts

Our diluted 2006 EPS estimate of \$1.25 is unchanged. Our diluted 2007 EPS estimate increases by \$0.01 per share to \$1.39. We have updated our financial model to reflect this transaction and have assumed: (i) a target capital structure of 65% debt and 35% equity; and (ii) target return on equity of 10%.

Valuation

Our target price reflects a weighted average valuation approach: 17x 2007E diluted EPS of \$1.39 (12.5%), 2.0x 2007E BV of \$13.08 (12.5%), and a target yield of 2.85% (75%), assuming 2007 dividends per share of \$0.78.

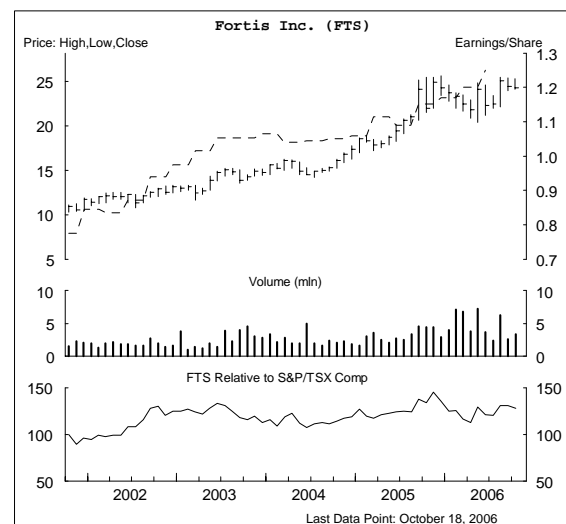
Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

October 20, 2006
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Price (19-Oct) \$24.30
Target Price \$26.75
52-Week High \$25.64
52-Week Low \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.25	\$1.39↑
P/E			19.4x	17.5x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			7.9x	7.3x
Div.	\$0.54	\$0.61	\$0.67	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,683	\$5,885
EBITDA (\$mm)	\$380	\$507	\$577	\$633
EV/EBITDA	10.1x	9.6x	9.8x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.32	\$0.26
Dividend	\$0.76			Yield 3.1%
Book Value	\$12.18			Price/Book 2.0x
Shares O/S (mm)	103.5			Mkt. Cap (\$mm) \$2,515
Float O/S (mm)	103.5			Float Cap (\$mm) \$2,515
Wkly Vol (000s)	1,073			Wkly \$ Vol (mm) \$24.9
Net Debt (\$mm)	\$2,552.9			Next Rep. Date 31-Oct (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.26; 2007E: \$1.39

Changes

Annual EPS
 2007E \$1.38 to \$1.39

Table 1. Commercial Real Estate Portfolio

Property	Location	Area (sq. ft)	Type	Year Built	Renovations
Marystown Mall	Newfoundland	86,891	Retail	1969	1981/98
Fraser Mall	Newfoundland	97,677	Retail	1972	1981/96
Millbrook Mall	Newfoundland	121,936	Retail	1966	1996
Viking Mall	Newfoundland	64,872	Retail	1980	1995
Water Street Properties ¹	Newfoundland	69,613	Office/Retail	Various	NA
Fortis Tower	Newfoundland	70,245	Office	1969	1975/92/94
Cabot Place I	Newfoundland	133,759	Office	1987	NA
Fort William Building	Newfoundland	188,170	Office	1980	NA
TD Building	Newfoundland	96,308	Office	1970's	NA
Fortis Building	Newfoundland	81,260	Office	1969	1992
Maritime Centre	Nova Scotia	560,367	Office/Retail	1977	1988
Blue Cross Centre	New Brunswick	325,000	Office/Retail	1988	2006
Brunswick Square	New Brunswick	511,032	Office/Retail	1980	NA
Kings Place	New Brunswick	290,764	Office/Retail	1974	1974/76/89/91 and 2001
		2,697,894			

Notes:

NA = Not Applicable

(1) Includes Martin Royale Building, Delgado Building, Fanning Building, 155 Water St. Property, Neal Building, and Vogue Building

Source: Company Reports

Table 2. Hospitality Portfolio

Hotel	Location	Number of Rooms
Holiday Inn Express Kelowna ¹	British Columbia	120
Holiday Inn Express and Suites Medicine Hat ¹	Alberta	93
Best Western Medicine Hat ¹	Alberta	122
Ramada Hotel and Suites Lethbridge ¹	Alberta	119
Greenwood Inn Calgary	Alberta	213
Greenwood Inn Edmonton	Alberta	224
Holiday Inn St. John's	Newfoundland	252
Delta St. John's	Newfoundland	403
Greenwood Inn Corner Brook	Newfoundland	102
Mount Peyton Hotel	Newfoundland	150
Delta Sydney	Nova Scotia	152
Four Points by Sheraton	Nova Scotia	177
Delta Brunswick	New Brunswick	254
Holiday Inn Sarnia	Ontario	151
Holiday Inn Kitchener	Ontario	183
Holiday Inn Cambridge	Ontario	143
Holiday Inn Peterborough Waterfront	Ontario	153
Greenwood Inn Winnipeg	Manitoba	213
		3,224

Notes:

(1) Recent acquisitions with expected closing date of October 31, 2006

Source: Company Reports

Table 3. Consolidated Summary Sheet

19-Oct-06

Current Price:

\$24.38

12-Month Target Price:

\$26.75

ROR:

12.5%

Karen J. Taylor

BMO Capital Markets

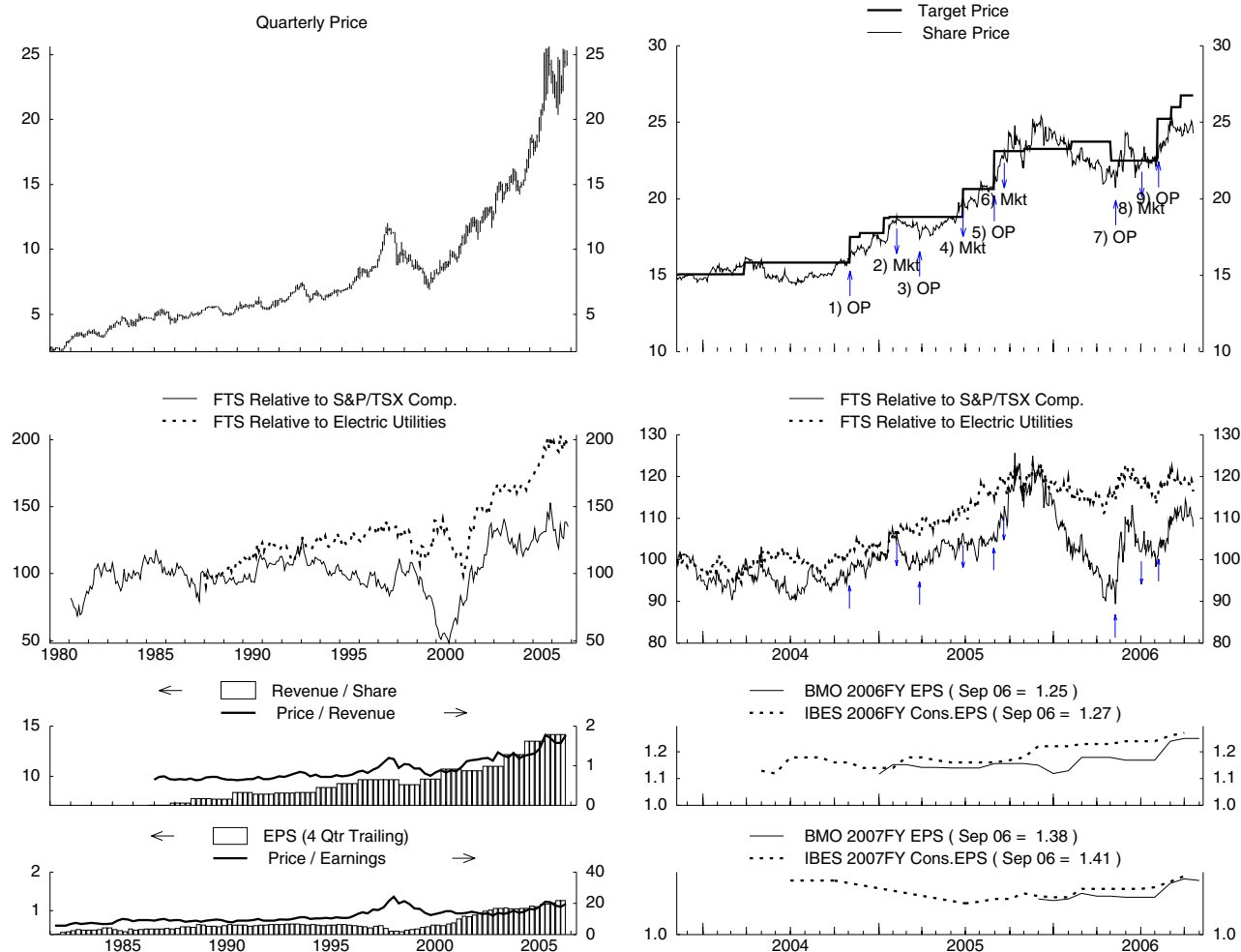
Recommendation:

Outperform

	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.26	\$1.43
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.25	\$1.39
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.31
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.18
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25
Belize, BECOL, CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.25
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.56	\$0.60
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.33)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	53.2%	54.5%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	103.9
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.39	13.08
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$24.38	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.4	17.0
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.97	1.86
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.75%	3.20%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	321.9	514.9
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2197.9	2209.4
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	444.5	444.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1284.4</u>	<u>1362.2</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4503.4	4783.8
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	7.1%	10.8%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	48.8%	46.2%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.3%	4.1%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	9.9%	9.3%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.5%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.5%</u>	<u>28.5%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	130.3	148.8
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	318.7	351.0

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.6	51	12.18	2.0	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.0		6.4			11.8		
10 Year:	7.6		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 7-Nov-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: October 18, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the **past 12 months**.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$24.85
Target Price: \$26.75

October 31, 2006
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Q3/06 Higher than Expected

Impact

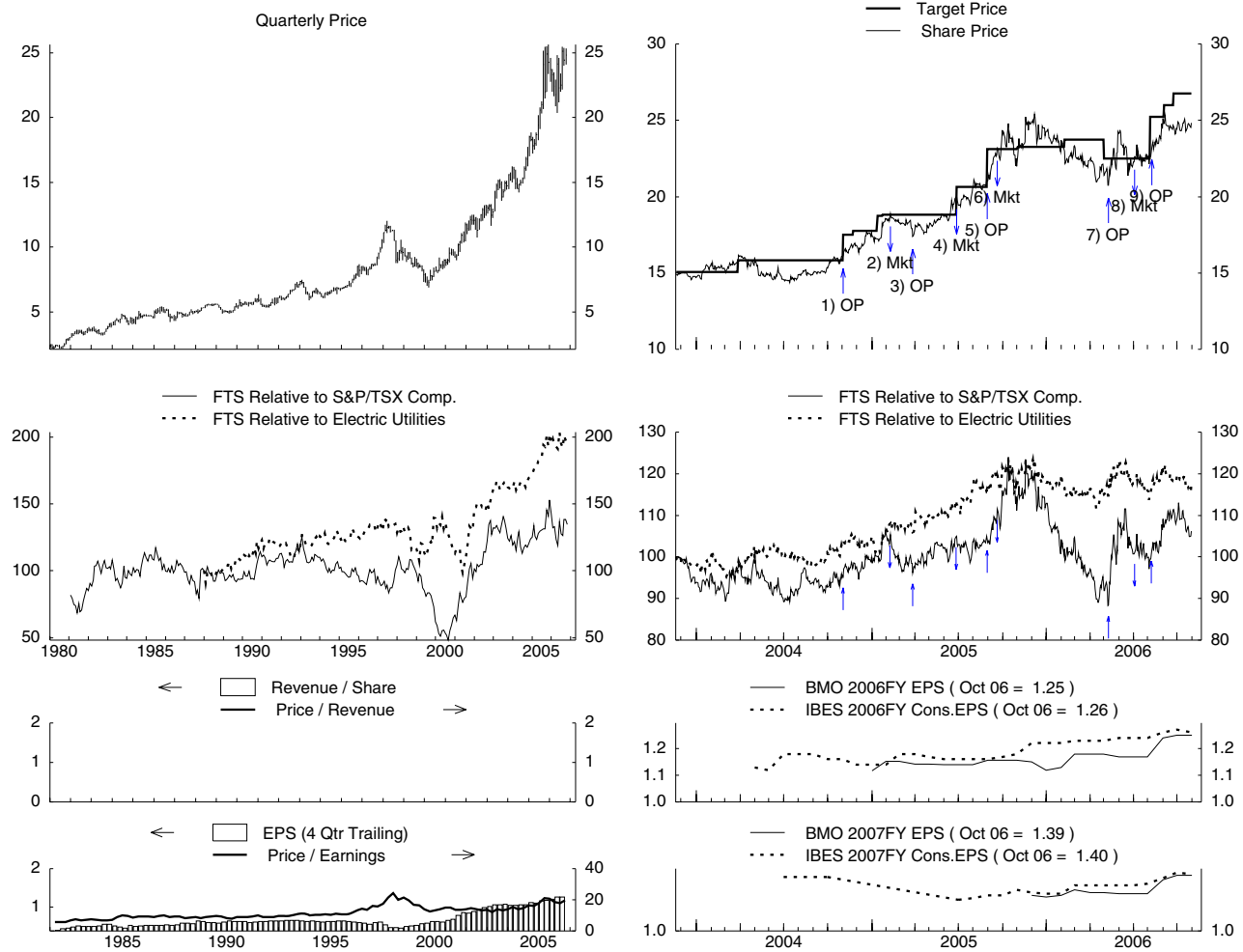
Positive

Details & Analysis

Fortis Inc. reported Q3/06 EPS of \$0.37 versus our estimate of \$0.31. The variance between actual and estimated performance appears to be attributable to: (i) higher than expected contribution at FortisAlberta, arising from continued customer growth and higher facilities additions; and (ii) higher segment contribution from Fortis Generation due to stronger than anticipated production at the Mollejon and Chalillo generation stations from higher levels of rainfall. Our financial model reflects the completion of and commercial production associated with the Chalillo storage facility. There do not appear to be any material one-time items during the quarter. We continue to review the comprehensive release. We continue to rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.6	51	12.18	2.0	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.0		6.4			11.8		
10 Year:	7.6		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 19-Nov-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: October 30, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

November 1, 2006
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
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 Assoc: Benjamin Pham

FortisAB Drives Q3/06 EPS; Outperform Rating Unchanged

Event

Fortis Inc. reported Q3/06 EPS of \$0.37 versus our estimate of \$0.31 per share. The variance between actual and estimated performance is largely attributable to: (i) higher than expected contribution from FortisAlberta, due to lower than expected income taxes not otherwise contemplated in the utility's negotiated settlement agreement approved by the Alberta Energy and Utilities Board on June 29 for 2006/07 distribution tariffs; and (ii) higher segment contribution from Fortis Generation due to stronger than anticipated production at the Mollejon and Chalillo generation stations.

Impact

Slightly positive.

Forecasts

We have revised our 2006 diluted EPS estimates to reflect: (i) estimated annual electricity production of 155 GWh from the hydroelectric assets in Belize versus our previous assumption of 147 GWh; and (ii) reduced the cash taxes payable by FortisAlberta to a net credit of approximately \$6.5 million, the bulk of which accrues to shareholders in 2006. We do not assume that taxation benefits are recurring in 2007. Our diluted 2006E EPS increases to \$1.28 versus \$1.25 previously and our diluted 2007 EPS estimate increases marginally to \$1.40 versus \$1.39 previously.

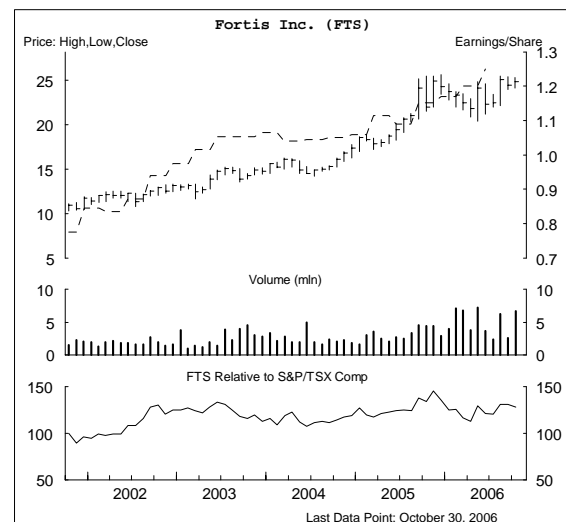
Valuation

Our target price of \$26.75 reflects a weighted valuation approach: 17x 2007E EPs of \$1.40 (12.5%), 2.0x 2007E BV of \$13.13 (12.5%), and a target yield of 2.85% (75%), assuming 2007 dividends per share of \$0.78.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (30-Oct) \$24.85 **52-Week High** \$25.64
Target Price \$26.75 **52-Week Low** \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.28↑	\$1.40↑
P/E			19.4x	17.8x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			8.1x	7.5x
Div.	\$0.54	\$0.61	\$0.67	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,683	\$5,885
EBITDA (\$mm)	\$380	\$507	\$577	\$633
EV/EBITDA	10.1x	9.6x	9.8x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.37a	\$0.24↓
Dividend	\$0.76			3.1%
Book Value	\$12.36			2.0x
Shares O/S (mm)	103.8			Mkt. Cap (\$mm) \$2,579
Float O/S (mm)	103.8			Float Cap (\$mm) \$2,579
Wkly Vol (000s)	1,074			Wkly \$ Vol (mm) \$24.9
Net Debt (\$mm)	\$2,552.9			Next Rep. Date 31-Jan (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.26; 2007E: \$1.40

Changes

Annual EPS
 2006E \$1.25 to \$1.28
 2007E \$1.39 to \$1.40

Quarterly EPS
 Q4/06E \$0.26 to \$0.24

Details & Analysis

Fortis Inc. reported Q3/06 EPS of \$0.37 versus our estimate of \$0.31 per share. The variance between actual and estimated performance is largely attributable to: (i) higher than expected contribution from FortisAlberta, due to lower than expected income taxes not otherwise contemplated in the utility's negotiated settlement agreement approved by the Alberta Energy and Utilities Board on June 29 for 2006/07 distribution tariffs; and (ii) higher segment contribution from Fortis Generation due to stronger than anticipated production at the Mollejon and Chalillo generation stations.

As illustrated in Table 1, segment quarterly performance has been normalized for one-time items, including taxation benefits arising from lower taxation rates and non-cash foreign exchange gains and losses. With the exception of the lower than expected effective taxation rate at FortisAlberta, as set out below, there were no material one-time items or adjustments in Q3/06 results.

Table 1: Quarterly and Annual Segment Performance

Contribution by Segment	(Millions)													
	2003	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005A	Q1/06	Q2/06	Q3/06	Q4/06E	2006E	2007E
Newfoundland Power	29.5	3.3	31.1	13.0	10.1	3.4	2.9	29.4	10.7	8.0	2.6	9.6	30.9	32.0
Maritime Electric	7.2	1.8	8.2	2.1	2.3	3.0	1.7	9.1	2.1	2.2	3.1	2.9	10.3	11.6
Fortis Ontario	6.5	0.9	4.3	1.1	0.9	0.5	0.2	2.7	1.0	0.5	1.6	0.5	3.6	6.2
FortisAlberta	0.0	7.5	18.6	7.8	7.8	7.5	7.2	30.3	9.5	11.3	12.3	2.2	35.3	34.0
FortisBC	0.0	11.7	17.7	8.9	5.4	4.8	5.6	24.6	11.8	3.4	5.7	5.1	26.0	28.4
Belize Electricity	6.7	1.7	7.2	1.0	1.9	3.2	2.0	8.1	1.5	2.3	3.8	1.3	8.9	9.4
Caribbean Utilities	10.5	(5.8)	0.8	2.5	2.0	3.0	2.8	10.3	1.6	2.1	3.2	3.3	10.2	9.8
Turks & Caicos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.6	2.3	6.9
Fortis Generation	10.9	4.7	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	7.8	6.1	25.3	26.7
Fortis Properties	11.0	2.8	11.8	1.5	4.8	4.9	2.9	14.1	1.5	5.0	6.3	2.6	15.4	18.8
Corporate	(8.6)	(7.2)	(23.4)	(8.7)	(9.6)	(3.9)	(8.6)	(30.9)	(8.5)	(6.7)	(8.3)	(10.3)	(33.8)	(34.5)
Earnings Before Non-Recurring items	73.6	21.1	89.1	31.3	28.7	34.2	25.2	119.3	36.6	34.1	38.8	24.8	134.3	149.3
Average Shares	69.2	95.6	84.7	98.0	102.9	103.0	103.0	101.8	103.3	103.4	103.6	103.4	103.4	103.9
Net Earnings to Common (Basic)	\$1.06	\$0.22	\$1.05	\$0.32	\$0.28	\$0.33	\$0.24	\$1.17	\$0.35	\$0.33	\$0.37	\$0.24	\$1.30	\$1.44
Net Earnings to Common (Diluted)	\$1.03		\$0.99					\$1.10					\$1.28	\$1.40

Source: Company Reports, BMO Capital Markets

We believe that the following points are relevant about quarterly performance:

- The contribution from Newfoundland Power continues to reflect the timing issues associated with the transition to recording revenue on the accrual basis in 2006. In the first half of 2006, earnings were reduced by approximately \$5.6 million. In Q3/06, earnings increased by approximately \$0.2 million versus Q3/05. According to the company's Q3/06 release, the adoption of the accrual method for revenue recognition will not have a material impact on annual earnings as Q4/06 earnings are expected to offset the net \$5.4 million year-to-date decrease in earnings.
- The contribution from FortisAlberta is much higher than expected, reflecting year-to-date taxation recoveries of \$5.7 million and recoveries of \$1.2 million in Q3/06. Lower than expected cash taxes payable arises from timing issues associated with the accrual of flow through costs and the use of tax deductions in addition to those contemplated in the Negotiated Settlement Agreement that substantially reduced cash taxes payable in 2006 and 2007 and thus reduced the associated revenue requirements in those years. We do not expect that a majority of these further tax deductions will be

sustainable beyond 2006 and have not factored such credits into our estimated contribution from FortisAlberta in 2007.

- As highlighted in Table 2, a return to normal hydrological conditions in Belize resulted in a substantial increase in hydroelectric energy production from the 25 MW Mollejon and the 7.3 MW Chalillo hydroelectric facilities. We have increased the assumed production from the combined facilities over the forecast period. We now assume annual production of approximately 155 GWh versus 147 GWh previously. We note that the storage reservoir constructed in conjunction with Chalillo represents approximately 45 GWh of production when the reservoir is at full supply level.

Table 2: FortisGeneration – Actual Fiscal and Quarterly Performance

Fortis Generation	Millions													
	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06
Operating Revenue	57.1	16.7	17.0	15.5	20.0	69.2	17.0	19.2	21.7	26.0	83.9	19.3	19.3	19.3
Energy Supply Costs	2.6	1.6	1.2	1.3	1.7	5.8	1.9	1.8	0.9	1.6	6.2	1.9	1.4	1.4
Operating Expenses	13.9	4.2	3.8	4.4	3.6	16.0	4.8	4.4	2.5	6.1	17.8	4.0	3.9	3.2
Depreciation	7.7	2.5	2.5	2.6	2.7	10.3	2.6	2.5	2.6	2.6	10.3	2.7	2.6	2.6
Operating Income	32.9	8.4	9.5	7.2	12.0	37.1	7.7	10.5	15.7	15.7	49.6	10.7	11.4	12.1
Interest Expense	13.3	3.8	3.8	4.0	3.8	15.4	3.9	4.0	3.5	2.7	14.1	2.7	2.6	2.5
Income Taxes	8.5	1.9	2.1	1.2	1.7	6.9	1.4	2.4	4.4	3.5	11.7	2.2	2.3	1.6
Non-controlling Interest	0.3	-0.2	0.4	0.0	1.7	1.9	0.3	0.9	0.0	1.0	2.2	0.4	0.5	0.2
Net Earnings	10.9	2.9	3.2	2.0	4.7	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	7.8
Energy Sales (GWh)	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06
Central Newfoundland	17	19	41	29	63	152	35	48	26	50	159	38	39	32
Ontario	705	165	166	174	184	721	184	176	166	182	708	187	177	172
Belize	61	15	11	16	21	63	7	7	18	36	68	27	33	65
British Columbia	0	0	6	9	8	23	5	11	15	8	39	3	13	9
Upper New York State	87	15	22	10	23	70	17	16	7	35	75	29	28	10
Total	870	214	246	238	299	1,029	248	258	232	311	1,049	284	290	288
Fortis Generation	\$/MWh													
	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06
Operating Revenue	65.6	78.0	69.1	65.1	67.0	67.3	68.5	74.4	93.5	83.6	80.0	68.0	66.6	67.0
Energy Supply Costs	2.9	7.5	4.9	5.5	5.7	5.6	7.7	7.0	3.9	5.1	5.9	6.7	4.8	4.9
Operating Expenses	16.0	19.6	15.4	18.5	12.2	15.6	19.4	17.1	10.8	19.6	17.0	14.1	13.4	11.1
Depreciation	8.8	11.7	10.2	10.9	9.0	10.0	10.5	9.7	11.2	8.4	9.8	9.5	9.0	9.0
Operating Income	37.9	39.3	38.6	30.3	40.2	36.1	31.0	40.7	67.7	50.5	47.3	37.7	39.3	42.0
Interest Expense	15.3	17.8	15.4	16.8	12.8	15.0	15.7	15.5	15.1	8.7	13.4	9.5	9.0	8.7
Income Taxes	9.8	8.9	8.5	5.0	5.8	6.7	5.6	9.3	19.0	11.3	11.2	7.7	7.9	5.6
Non-controlling Interest	0.3	-0.9	1.6	0.0	5.8	1.9	1.2	3.5	0.0	3.2	2.1	1.4	1.7	0.7
Net Earnings	12.5	13.6	13.0	8.4	15.7	12.4	8.5	12.4	33.6	27.3	20.6	19.0	20.7	27.1

Source: BMO Capital Markets

Estimates

We have revised our 2006 diluted EPS estimates to reflect: (i) estimated annual electricity production of 155 GWh from the hydroelectric assets in Belize versus our previous assumption of 147 GWh; and (ii) reduced the cash taxes payable by FortisAlberta to a net credit of approximately \$6.5 million, the bulk of which accrues to shareholders in 2006. We do not assume that taxation benefits are recurring in 2007. Our diluted 2006E EPS increases to \$1.28

versus \$1.25 previously and our diluted 2007 EPS estimate increases marginally to \$1.40 versus \$1.39 previously.

Valuation

Our target price of \$26.75 reflects a weighted valuation approach: 17x 2007E EPs of \$1.40 (12.5%), 2.0x 2007E BV of \$13.13 (12.5%), and a target yield of 2.85% (75%), assuming 2007 dividends per share of \$0.78.

Recommendation

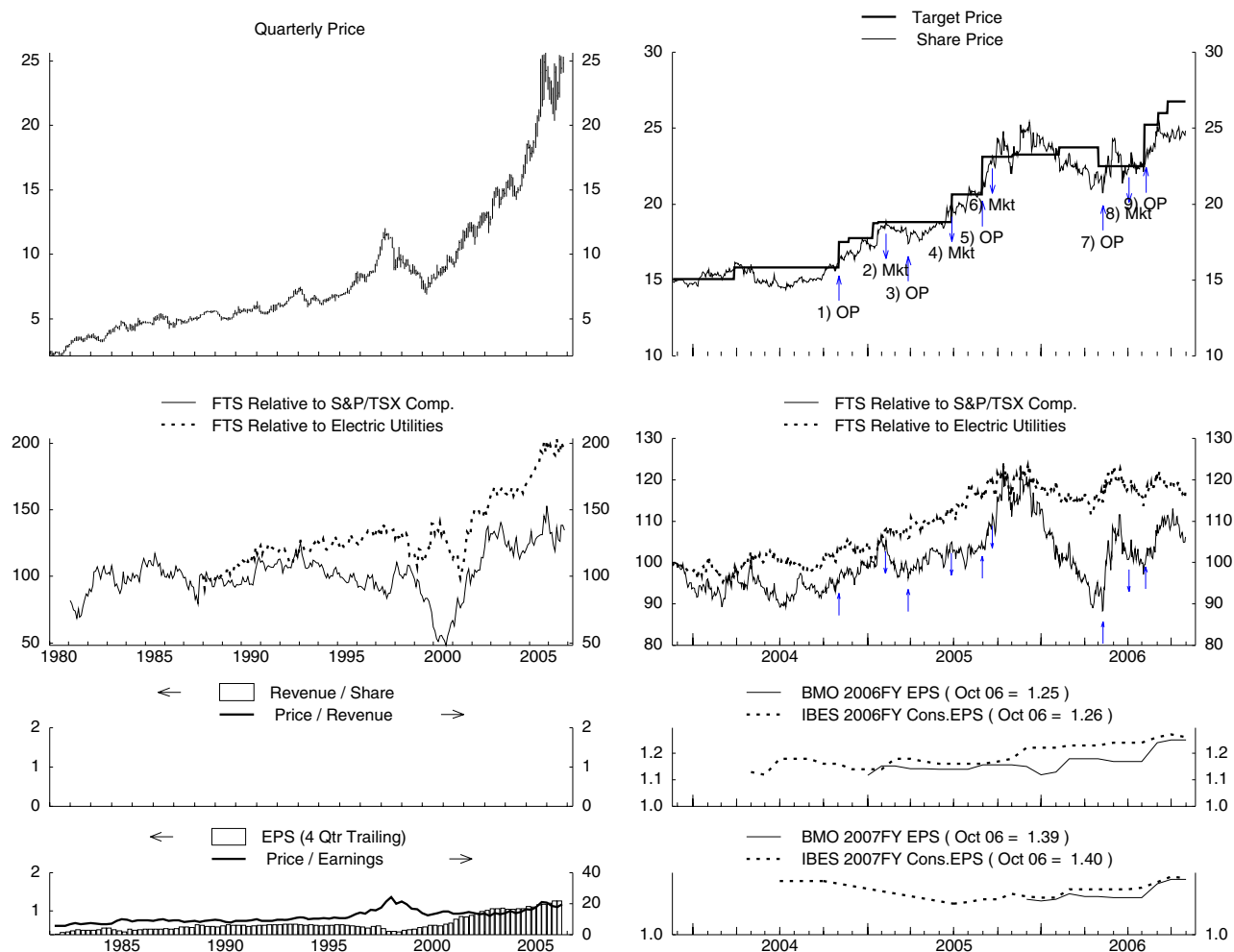
We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 3: Consolidated Summary Sheet

31-Oct-06								Karen J. Taylor
Current Price:	\$25.65	BMO Capital Markets						
12-Month Target Price:	\$26.75							
ROR:	6.9%	Recommendation:					Outperform	
	Year Ending December 31							
	2000	2001	2002	2003	2004	2005	2006E	2007E
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.30	\$1.44
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.28	\$1.40
Segmented EPS								
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.31
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.18
Fortis Trust/ Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26
Belize,BECOL,CUP/ Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.25
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.59	\$0.60
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.33)
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	51.6%	54.3%
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	103.9
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.43	13.13
Market Valuation								
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-
Price: Current	-	-	-	-	-	-	\$25.65	-
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.8	17.9
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.06	1.95
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-
Yield: Current	-	-	-	-	-	-	2.61%	3.04%
Balance Sheet (\$mm)								
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	317.9	510.3
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2197.9	2209.4
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	444.5	444.5
Convertible Debentures	0.0	0.0	15.8	24.5	22.9	25.0	24.0	22.2
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1288.5</u>	<u>1366.7</u>
	1270.3	1442.1	1731.2	2250.9	3533.6	3997.8	4503.4	4783.8
Balance Sheet (%)								
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	7.1%	10.7%
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	48.8%	46.2%
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.3%	4.1%
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	9.9%	9.3%
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.6%	0.6%	0.5%	0.5%
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.6%</u>	<u>28.6%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	134.3	149.3
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	322.7	351.5

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.25	20	0.64	2.6	51	12.18	2.0	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.0		6.4			11.8		
10 Year:	7.6		4.1			7.3		
20 Year:	4.6		3.9			6.4		

* Current EPS is the 4 Quarter Trailing to Q2/2006.

FTS - Rating as of 19-Nov-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: October 30, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the **past 12 months**.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

November 7, 2006
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Fortis Acquires an Additional Interest in Caribbean Utilities; Outperform Rating Unchanged

Event

Fortis Inc. and Caribbean Utilities have jointly announced that Fortis Inc. has acquired from International Power Holdings Ltd., and four other vendors associated with International Power, an additional 4.113116 million Class A common shares of Caribbean Utilities for US\$11.89 per share or approximately US\$48.9 million or C\$54.8 million. Fortis' interest in Caribbean Utilities is now approximately 54% versus approximately 38% previously. International Power Holdings has no remaining interest in Caribbean Utilities. Fortis also announced that it has issued US\$40 million of convertible debentures, bearing an interest rate of 5.5% and maturing November 7, 2016, to finance the acquisition of shares.

Impact

Slightly Positive. The acquisition of International Power Holdings' interest in Caribbean Utilities is in line with expectations. Over time, we expect that Fortis may acquire the remaining issued and outstanding Class A shares of Caribbean Utilities, via a public market tender process. We do not believe that this is likely to occur prior to the renewal of Caribbean Utilities' current operating licence, which expires in January 2011 and is currently subject to ongoing negotiations with the government to renew prior to expiry.

Forecasts

Our 2006 diluted EPS estimate of \$1.28 is unchanged; however, our diluted 2007 EPS estimate increases by \$0.02 per share to \$1.42.

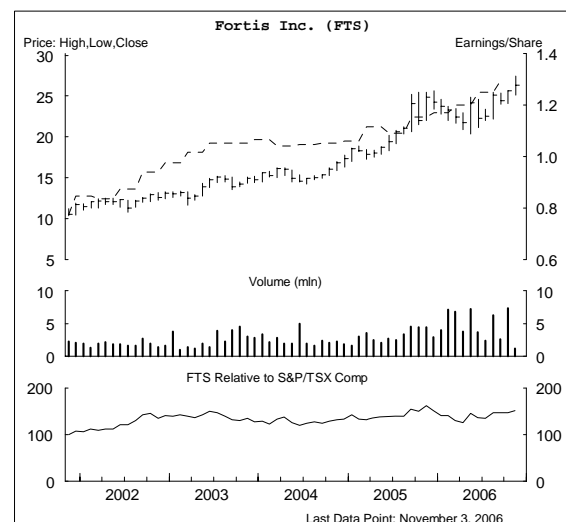
Valuation

Our target price of \$27.00 reflects a weighted valuation approach: 17x diluted 2007E EPS of \$1.42 (12.5%), 2.0x 2007E BV of \$13.15 (12.5%), and a target yield of 2.85% (75%), assuming 2007 dividends per share of \$0.78.

Recommendation

We believe that the shares of Fortis Inc. are attractively valued. Our rating is Outperform.

Price (6-Nov) \$25.86
Target Price \$27.00↑
52-Week High \$27.50
52-Week Low \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.28	\$1.42↑
P/E			20.2x	18.2x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			8.4x	7.8x
Div.	\$0.54	\$0.61	\$0.67	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,683	\$5,885
EBITDA (\$mm)	\$380	\$507	\$577	\$633
EV/EBITDA	10.1x	9.6x	9.8x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.37a	\$0.24
Dividend	\$0.76			2.9%
Book Value	\$12.36			Price/Book 2.1x
Shares O/S (mm)	103.8			Mkt. Cap (\$mm) \$2,684
Float O/S (mm)	103.8			Float Cap (\$mm) \$2,684
Wkly Vol (000s)	1,126			Wkly \$ Vol (mm) \$26.3
Net Debt (\$mm)	\$2,552.9			Next Rep. Date 31-Jan (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2006E: \$1.26; 2007E: \$1.40

Changes

Annual EPS
 2007E \$1.40 to \$1.42

Target
 \$26.75 to \$27.00

Table 1. Consolidated Summary Sheet

7-Nov-06

Current Price: \$26.70

12-Month Target Price: \$27.00

ROR: 3.6%

Karen J. Taylor

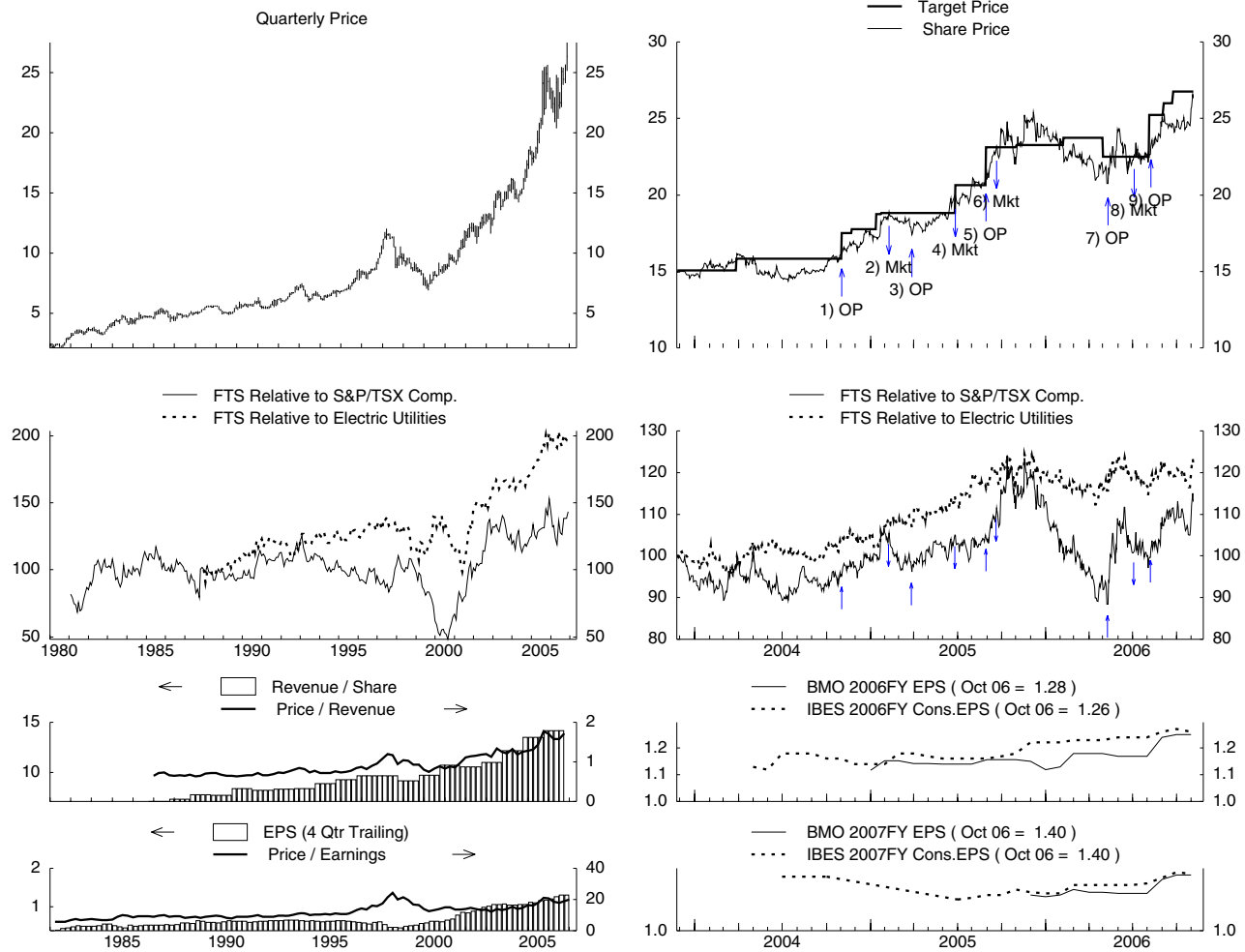
BMO Capital Markets

Recommendation: Outperform

	2000	2001	Year Ending December 31				2005	2006E	2007E
	2002	2003	2004	2005	2006E	2007E			
Total Earnings Per Share	\$0.59	\$0.84	\$0.97	\$1.06	\$1.05	\$1.17	\$1.30	\$1.46	
Total Diluted Earnings Per Share	\$0.59	\$0.84	\$0.96	\$1.03	\$0.99	\$1.10	\$1.28	\$1.42	
Segmented EPS									
Newfoundland Power	\$0.49	\$0.48	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.31	
Maritime Electric	(\$0.01)	\$0.10	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	
CNP/Cornwall Elec/Fortis Ontario	\$0.10	\$0.09	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	
Fortis Properties	\$0.05	\$0.10	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.18	
Fortis Trust/Fortis Generation	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	
Belize,BECOL,CUP/Fortis Caribbean	\$0.17	\$0.29	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.29	
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.43	\$0.54	\$0.59	\$0.60	
Other/Corporate	(\$0.21)	(\$0.23)	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.36)	
Dividends	\$0.46	\$0.47	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78	
Payout Ratio	78.0%	56.1%	49.9%	48.9%	51.4%	52.3%	51.5%	53.6%	
Average Shares (mm)	54.1	59.5	65.1	69.2	84.7	101.8	103.4	103.9	
Net Book Value	6.99	7.43	8.72	8.98	10.47	11.76	12.43	13.15	
Market Valuation									
Price: High	\$9.13	\$11.74	\$13.28	\$15.20	\$17.68	\$25.40	-	-	
Price: Low	\$7.00	\$8.65	\$10.76	\$12.25	\$14.38	\$17.01	-	-	
Price: Current	-	-	-	-	-	-	\$26.70	-	
P/E Ratio: High	15.5	14.0	13.7	14.3	16.8	21.7	-	-	
P/E Ratio: Low	11.9	10.3	11.1	11.5	13.7	14.5	-	-	
P/E Ratio: Current	-	-	-	-	-	-	20.5	18.3	
Price/Book Value: High	1.31	1.58	1.52	1.69	1.69	2.16	-	-	
Price/Book Value: Low	1.00	1.16	1.23	1.36	1.37	1.45	-	-	
Price/Book Value: Current	-	-	-	-	-	-	2.15	2.03	
Yield: High Price	5.04%	4.01%	3.65%	3.42%	3.06%	2.41%	-	-	
Yield: Low Price	6.57%	5.44%	4.51%	4.24%	3.76%	3.60%	-	-	
Yield: Current	-	-	-	-	-	-	2.51%	2.92%	
Balance Sheet (\$mm)									
Debt (S-T)	148.6	259.0	446.1	421.9	231.3	218.2	269.6	463.7	
Debt (L-T)	498.4	558.5	583.8	910.7	1855.8	1990.2	2245.9	2253.8	
Deposits Due	47.4	52.1	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	82.2	48.8	61.5	107.5	64.6	195.8	195.0	195.0	
Minority Interest	31.5	29.6	40.0	36.8	37.5	35.7	35.7	35.7	
Preferred Shares	50.0	50.0	0.0	125.0	321.5	319.5	444.5	444.5	
Convertible Debentures	0.0	0.0	15.8	24.9	23.2	25.0	72.0	66.6	
Shareholders' Equity	<u>412.1</u>	<u>444.0</u>	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1288.8</u>	<u>1368.9</u>	
	1270.3	1442.1	1731.2	2251.3	3534.0	3997.8	4551.4	4828.2	
Balance Sheet (%)									
Debt (S-T)	11.7%	18.0%	25.8%	18.7%	6.5%	5.5%	5.9%	9.6%	
Debt (L-T)	39.2%	38.7%	33.7%	40.5%	52.5%	49.8%	49.3%	46.7%	
Deposits Due	3.7%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	6.5%	3.4%	3.6%	4.8%	1.8%	4.9%	4.3%	4.0%	
Minority Interest	2.5%	2.1%	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%	
Preferred Shares	3.9%	3.5%	0.0%	5.6%	9.1%	8.0%	9.8%	9.2%	
Convertible Debentures	0.0%	0.0%	0.9%	1.1%	0.7%	0.6%	1.6%	1.4%	
Shareholders' Equity	<u>32.4%</u>	<u>30.8%</u>	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.3%</u>	<u>28.4%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement									
Net Profit to Common	31.9	49.9	63.3	73.6	89.0	119.3	134.6	151.2	
Cash Flow from Operations	97.5	94.2	134.4	160.7	283.7	320.0	323.0	353.4	

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Fortis Inc. (FTS)



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1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	20	0.64	2.5	49	12.36	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.8		6.4			12.1		
10 Year:	7.9		4.1			7.4		
20 Year:	4.7		3.9			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 25-Nov-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: November 3, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

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I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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OP = Outperform - Forecast to outperform the market;

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(S) = speculative investment;

NR = No rating at this time;

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Fortis Inc.

November 7, 2006
Brief Research Note

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Fortis Inc. Increases Its investment in Caribbean Utilities

Impact

Neutral

Details & Analysis

Fortis Inc. today announced it has become the controlling shareholder in Grand Cayman Island-based Caribbean Utilities Company Ltd. Fortis increased its stake in the utility to 54% from 38%. The announcement is not surprising given Fortis had indicated its wish to grow its investments in the Caribbean region. The impact of the increased shareholding on Fortis' credit quality is neutral, with the US\$48.9 million acquisition small in relation to Fortis' financial position. Further, the acquisition is consistent with the risk profile of the company's existing scope of operations, and is merely an extension of the company's existing investment in, and influence on, Caribbean Utilities. Fortis also announced today that it has issued US\$40 million unsecured subordinated convertible debentures. The increased ownership of Caribbean Utilities follows Fortis' recently announced acquisition of hotels in British Columbia for \$51.6 million, and the US\$90 million acquisition of utilities in Turks & Caicos, which we also viewed as credit neutral. We do not expect today's announcements to impact Fortis's spreads or credit ratings. However, given Fortis' majority ownership and increased control of Caribbean Utilities as a result of the investment, it may have a negative impact on the rating of Caribbean Utilities by Standard & Poor (A/Negative). The current Standard & Poor's rating on Caribbean Utilities is based on the utility's stand-alone creditworthiness but may in the future be linked to its new, but lower rated controlling shareholder.

Senior Unsecured Debt Ratings

DBRS
BBB (High)
Stable

S&P
BBB
Stable

Moody's
Not Rated

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

November 10, 2006

Research Comment
 Toronto, Ontario

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 Assoc: Benjamin Pham

2007 ROE at Newfoundland Power; Outperform Rating Unchanged

Event

Newfoundland Power (100% - Fortis Inc.) has announced that its allowed return on equity for 2007 is expected to be 8.60% versus 9.24% in 2006. In 2003, the Board of Commissioners of Public Utilities authorized the use of an automatic adjustment mechanism for a three-year period ending 2007. Pursuant to the formula, a return on rate base range is established and the allowed rate of equity return changes only if the return on rate base calculated for the prospective year is outside of the previously approved range. In 2006, the Board approved a rate of return on rate base of 8.68% in a range of 8.50% to 8.86%, and authorized the continued use of the customer rates approved for 2005 (including a return on equity of 9.24%). The filed rate of return on rate base for 2007 is 8.47%, outside of the previously approved range. The 2007 return on rate base reflects a return on equity of 8.60%.

Impact

Neutral. 2007 allowed ROE across utility jurisdictions are expected to decline in 2007 versus 2006. 2007 Allowed ROEs are expected to be released over the next three weeks, by the various federal and provincial regulators.

Forecasts

Our 2006 diluted EPS estimate of \$1.28 is unchanged. Our 2007 diluted EPS estimate declines marginally to \$1.41 from \$1.42.

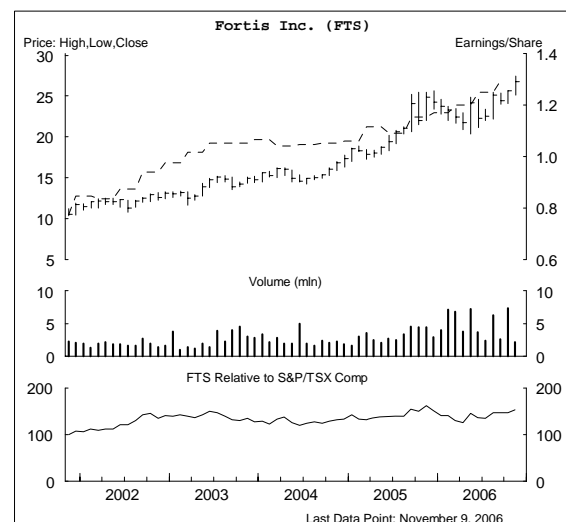
Valuation

Our target price reflects a weighted valuation approach: 17x diluted 2008 EPS of \$1.50 (12.5%), 2.0x 2008E BV of \$13.80 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.90.

Recommendation

We believe that the shares are attractively priced at current levels. Our rating is Outperform.

Price (9-Nov) \$26.80 **52-Week High** \$27.50
Target Price \$29.25 **52-Week Low** \$20.36



(FY-Dec.)	2004A	2005A	2006E	2007E
EPS	\$0.99	\$1.10	\$1.28	\$1.41↓
P/E			20.9x	19.0x
CFPS	\$3.35	\$3.15	\$3.08	\$3.31
P/CFPS			8.7x	8.1x
Div.	\$0.54	\$0.61	\$0.67	\$0.78
EV (\$mm)	\$3,846	\$4,863	\$5,683	\$5,885
EBITDA (\$mm)	\$380	\$507	\$577	\$633
EV/EBITDA	10.1x	9.6x	9.8x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2004A	\$0.27	\$0.31	\$0.27	\$0.22
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.37a	\$0.24
Dividend	\$0.76			2.8%
Book Value	\$12.36			Price/Book
Shares O/S (mm)	103.8			2.2x
Float O/S (mm)	103.8			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,126			\$2,782
Net Debt (\$mm)	\$2,552.9			Float Cap (\$mm)
				\$2,782
				Wkly \$ Vol (mm)
				\$26.3
				Next Rep. Date
				31-Jan (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.32; 2007E: \$1.44

Changes

Annual EPS
 2007E \$1.42 to \$1.41

Target
 \$27.00 to \$29.25

Table 1. Consolidated Summary Sheet

10-Nov-06

Current Price: \$26.57

12-Month Target Price: \$29.25

ROR: 13.0%

Karen J. Taylor
BMO Capital Markets

Recommendation: Outperform

	2002	2003	2004	2005	2006E	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.30	\$1.43	\$1.54
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.28	\$1.41	\$1.50
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.29	\$0.30
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	\$0.11
CNP/Cornwall Elec	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	\$0.07
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.18	\$0.19
Fortis Trust	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.25
Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.25
Belize, BECOL, CUI	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.29	\$0.32
Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.29	\$0.32
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.59	\$0.60	\$0.67
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.36)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78	\$0.90
Payout Ratio	49.9%	48.9%	51.4%	52.3%	51.5%	54.4%	58.6%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.4	103.9	104.3
Net Book Value	8.72	8.98	10.47	11.76	12.43	13.13	13.80
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	-	-	-
Price: Current	-	-	-	-	\$26.57	-	-
P/E Ratio: High	13.7	14.3	16.8	21.7	-	-	-
P/E Ratio: Low	11.1	11.5	13.7	14.5	-	-	-
P/E Ratio: Current	-	-	-	-	20.4	18.5	17.3
Price/Book Value: High	1.52	1.69	1.69	2.16	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	-	-	-
Price/Book Value: Current	-	-	-	-	2.14	2.02	1.93
Yield: High Price	3.65%	3.42%	3.06%	2.41%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	-	-	-
Yield: Current	-	-	-	-	2.52%	2.94%	3.39%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	269.6	465.9	657.1
Debt (L-T)	583.8	910.7	1855.8	1990.2	2245.9	2253.8	2244.4
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	195.0	195.0	195.0
Minority Interest	40.0	36.8	37.5	35.7	35.7	35.7	35.7
Preferred Shares	0.0	125.0	321.5	319.5	444.5	444.5	444.5
Convertible Debentures	15.8	24.9	23.2	25.0	72.0	66.6	66.6
Shareholders' Equity	584.2	624.6	1000.1	1213.4	1288.8	1366.7	1443.2
	1731.2	2251.3	3534.0	3997.8	4551.4	4828.2	5086.4
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	5.9%	9.6%	12.9%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	49.3%	46.7%	44.1%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	4.3%	4.0%	3.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%	0.7%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	9.8%	9.2%	8.7%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.6%	1.4%	1.3%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	28.3%	28.3%	28.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	134.6	149.0	160.3
Cash Flow from Operations	134.4	160.7	283.7	320.0	323.0	351.2	383.7

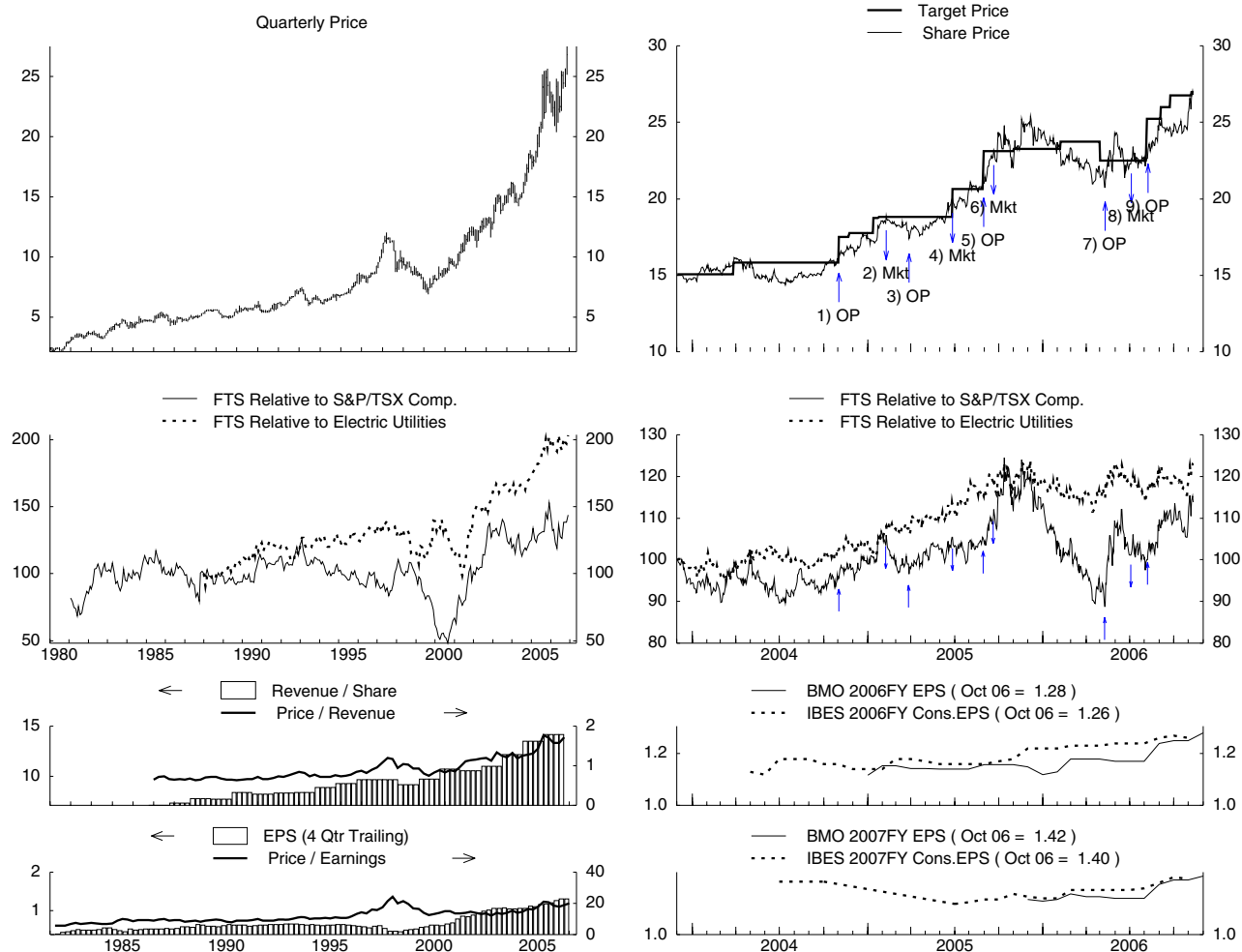
Source: BMO Capital Markets

Table 2. Quarterly and Annual Performance by Segment

Contribution by Segment	(Millions)									
	2003	2004	2005	Q1/06	Q2/06	Q3/06	Q4/06E	2006E	2007E	2008E
Newfoundland Power	29.5	31.1	29.4	10.7	8.0	2.6	9.6	30.9	29.8	31.0
Maritime Electric	7.2	8.2	9.1	2.1	2.2	3.1	2.9	10.3	11.6	11.9
Fortis Ontario	6.5	4.3	2.7	1.0	0.5	1.6	0.5	3.6	6.2	7.0
FortisAlberta	0.0	18.6	30.3	9.5	11.3	12.3	2.2	35.3	34.0	38.1
FortisBC	0.0	17.7	24.6	11.8	3.4	5.7	5.1	26.0	28.4	31.4
Belize Electricity	6.7	7.2	8.1	1.5	2.3	3.8	1.3	8.9	9.4	10.4
Caribbean Utilities	10.5	0.8	10.3	1.6	2.1	3.2	4.1	11.0	14.2	14.8
Turks & Caicos	0.0	0.0	0.0	0.0	0.0	0.7	1.6	2.3	6.9	7.8
Fortis Generation	10.9	12.8	21.6	5.4	6.0	7.8	6.1	25.3	26.7	25.9
Fortis Properties	11.0	11.8	14.1	1.5	5.0	6.3	2.6	15.4	18.8	19.8
Corporate	(8.6)	(23.4)	(30.9)	(8.5)	(6.7)	(8.3)	(10.8)	(34.3)	(36.9)	(37.9)
Earnings Before Non-Recurring items	73.6	89.1	119.3	36.6	34.1	38.8	25.1	134.6	149.0	160.3
Average Shares	69.2	84.7	101.8	103.3	103.4	103.6	103.4	103.4	103.9	104.3
Net Earnings to Common (Basic)	\$1.06	\$1.05	\$1.17	\$0.35	\$0.33	\$0.37	\$0.24	\$1.30	\$1.43	\$1.54
Net Earnings to Common (Diluted)	\$1.03	\$0.99	\$1.10					\$1.29	\$1.41	\$1.50

Source: Company Reports, BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	20	0.64	2.5	49	12.36	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.8		6.4			12.1		
10 Year:	7.9		4.1			7.4		
20 Year:	4.7		3.9			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 1-Dec-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24

Last Daily Data Point: November 9, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform ↓
Industry Rating: Market Perform

November 27, 2006

Research Comment
 Toronto, Ontario

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 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

BCUC Releases 2007 ROE; Rating Lowered to Market Perform

Event

On November 23, the British Columbia Utilities Commission (BCUC) released its return on common equity for a low-risk benchmark utility for the year 2007. The low-risk return is 8.37% for 2007 versus 8.80% in 2006. The operations of FortisBC earn the benchmark return of 8.37% plus a 0.40% premium, or 8.77% in 2007 versus 9.20% in 2006. We note that the operations of FortisAlberta are subject to a similar automatic adjustment mechanism, and we expect the Alberta Energy and Utilities Board to release its 2007 return on equity the week of November 27.

Impact

Neutral. While we believe that the return on equity determined by the automatic adjustment mechanism currently used by the BCUC likely violates the fair return standard and is confiscatory, it is in line with expectations and is therefore neutral to our outlook.

Forecasts

Our 2007 and 2008 diluted EPS estimates decline by \$0.01 to \$1.40 and \$1.49, respectively.

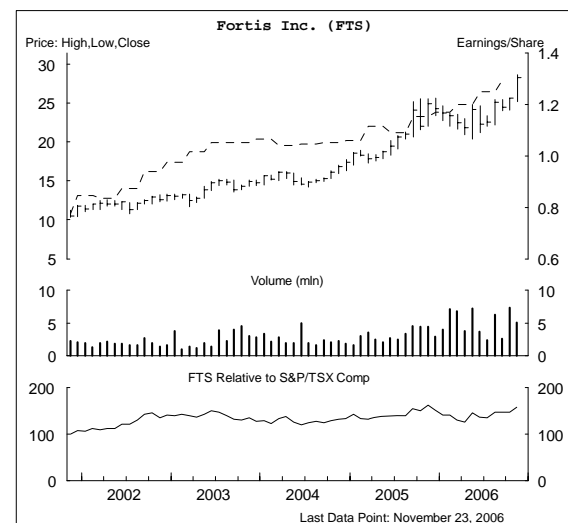
Valuation

Our target price reflects a weighted valuation approach: 17x diluted 2008E EPS of \$1.49 (12.5%), 2x 2008E BV per share of \$13.77 (12.5%), and a target yield of 3% (75%), assuming 2008E dividends per share of \$0.90.

Recommendation

We believe that the shares are reasonably valued at current levels. Our rating is Market Perform.

Price (23-Nov) \$28.22
Target Price \$29.25
52-Week High \$28.58
52-Week Low \$20.36



(FY-Dec.)	2005A	2006E	2007E	2008E
EPS	\$1.10	\$1.28	\$1.40↓	\$1.49↓
P/E		22.0x	20.2x	18.9x
CFPS	\$3.15	\$3.12	\$3.38	\$3.68
P/CFPS		9.0x	8.3x	7.7x
Div.	\$0.61	\$0.67	\$0.78	\$0.90
EV (\$mm)	\$4,863	\$6,179	\$6,390	\$6,585
EBITDA (\$mm)	\$507	\$583	\$638	\$695
EV/EBITDA	9.6x	10.6x	10.0x	9.5x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.37a	\$0.24
2007E	\$0.38↓	\$0.36	\$0.38↓	\$0.30
Dividend	\$0.76	Yield		2.7%
Book Value	\$12.36	Price/Book		2.3x
Shares O/S (mm)	103.8	Mkt. Cap (\$mm)		\$2,929
Float O/S (mm)	103.8	Float Cap (\$mm)		\$2,929
Wkly Vol (000s)	1,144	Wkly \$ Vol (mm)		\$26.9
Net Debt (\$mm)	\$3,032.0	Next Rep. Date		07-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.32; 2007E: \$1.43; 2008E: \$1.50

Changes

Annual EPS
 2007E \$1.41 to \$1.40
 2008E \$1.50 to \$1.49

Quarterly EPS
 Q1/07E \$0.39 to \$0.38
 Q3/07E \$0.39 to \$0.38

Rating
 OP to Mkt

Table 1. Consolidated Summary Sheet

24-Nov-06

Current Price: \$28.20

12-Month Target Price: \$29.25

ROR: 6.5%

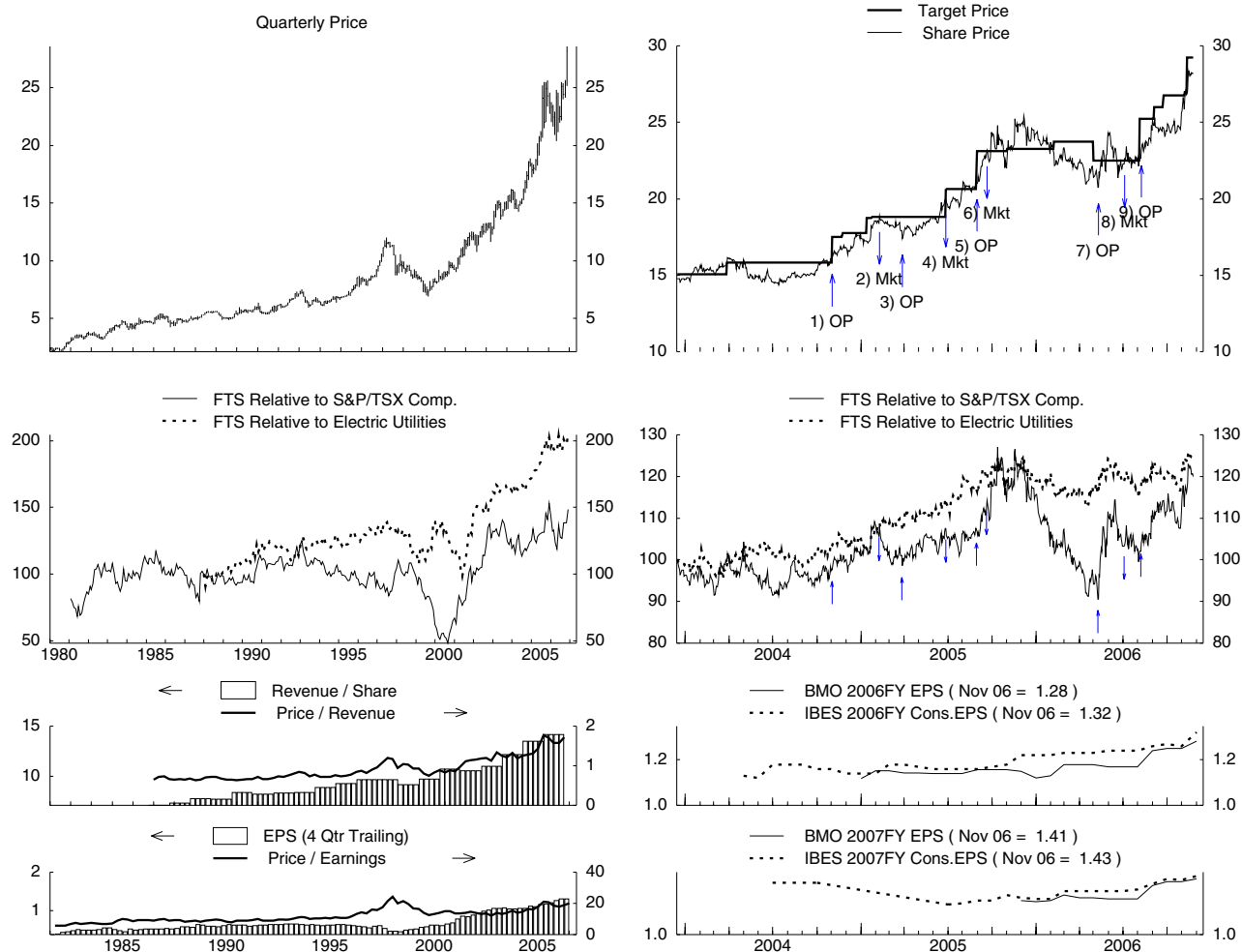
Karen J. Taylor
BMO Capital Markets

Recommendation: Market Perform

	2002	2003	2004	2005	2006E	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.30	\$1.42	\$1.52
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.28	\$1.40	\$1.49
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.29	\$0.30
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	\$0.07
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.18	\$0.19
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.25
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.29	\$0.32
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.59	\$0.59	\$0.65
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.36)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78	\$0.90
Payout Ratio	49.9%	48.9%	51.4%	52.3%	51.5%	54.9%	59.1%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.4	103.9	104.3
Net Book Value	8.72	8.98	10.47	11.76	12.43	13.11	13.77
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	-	-	-
Price: Current	-	-	-	-	\$28.20	-	-
P/E Ratio: High	13.7	14.3	16.8	21.7	-	-	-
P/E Ratio: Low	11.1	11.5	13.7	14.5	-	-	-
P/E Ratio: Current	-	-	-	-	21.7	19.8	18.5
Price/Book Value: High	1.52	1.69	1.69	2.16	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	-	-	-
Price/Book Value: Current	-	-	-	-	2.27	2.15	2.05
Yield: High Price	3.65%	3.42%	3.06%	2.41%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	-	-	-
Yield: Current	-	-	-	-	2.38%	2.77%	3.19%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	269.6	467.2	659.9
Debt (L-T)	583.8	910.7	1855.8	1990.2	2245.9	2253.8	2244.4
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	195.0	195.0	195.0
Minority Interest	40.0	36.8	37.5	35.7	35.7	35.7	35.7
Preferred Shares	0.0	125.0	321.5	319.5	444.5	444.5	444.5
Convertible Debentures	15.8	24.9	23.2	25.0	72.0	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1288.8</u>	<u>1365.4</u>	<u>1440.4</u>
	1731.2	2251.3	3534.0	3997.8	4551.4	4828.2	5086.4
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	5.9%	9.7%	13.0%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	49.3%	46.7%	44.1%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	4.3%	4.0%	3.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%	0.7%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	9.8%	9.2%	8.7%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.6%	1.4%	1.3%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.3%</u>	<u>28.3%</u>	<u>28.3%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	134.6	147.7	158.9
Cash Flow from Operations	134.4	160.7	283.7	320.0	323.0	349.9	382.2

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	20	0.64	2.5	49	12.36	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.8		6.4			12.1		
10 Year:	7.9		4.1			7.4		
20 Year:	4.7		3.9			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 15-Dec-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24

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Dissemination of Research

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Market Perform

November 28, 2006

Research Comment
 Toronto, Ontario

Karen Taylor, CFA

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Assoc: Benjamin Pham

AEUB Sets 2007 ROE and BCUC Approves 2007/08 Capital Budget; Market Perform Rating Maintained

Event

On November 27, the Alberta Energy and Utilities Board issued its determination of the 2007 return on equity for utilities subject to the Board's purview. The allowed return on equity for 2007 is 8.51% versus 8.93% in 2006. Also on November 27, the British Columbia Utilities Commission approved FortisBC's 2007-2008 capital plan. The utility has received approval to spend approximately \$128.6 million and \$111.6 million in 2008. Approved capital expenditures are presently reflected in our financial model.

Impact

Neutral. While we believe that the return on equity determined by the Alberta Energy and Utilities Board pursuant to the formula set out in the Generic Cost of Capital decision dated July 2, 2004, likely violates the fair return standard and is confiscatory, it is in line with our expectations and is therefore neutral to our outlook.

Forecasts

Our diluted 2006 EPS estimate of \$1.28 is unchanged. Our diluted 2007 and 2008 EPS estimates decline by \$0.01 to \$1.39 and \$1.48, respectively.

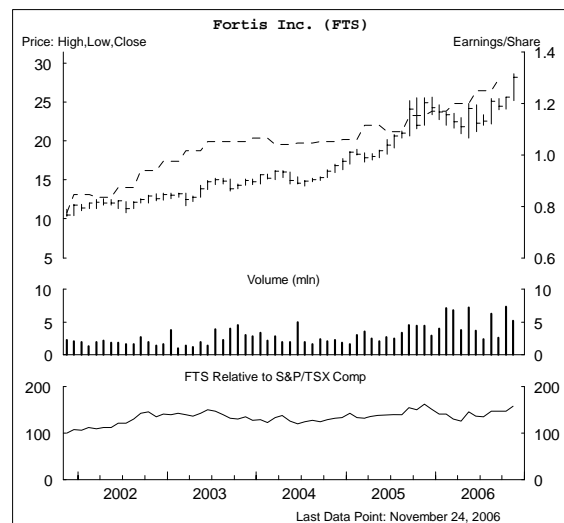
Valuation

Our target price of \$29.25 reflects a weighted valuation approach: 17x diluted 2008E EPS of \$1.48 (12.5%), 2.0x 2008E book value of \$13.74 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.90.

Recommendation

We believe the shares are reasonably valued at present levels. Our rating is Market Perform.

Price (24-Nov) \$28.20
Target Price \$29.25
52-Week High \$28.58
52-Week Low \$20.36



(FY-Dec.)	2005A	2006E	2007E	2008E
EPS	\$1.10	\$1.28	\$1.39↓	\$1.48↓
P/E		22.0x	20.3x	19.1x
CFPS	\$3.15	\$3.12	\$3.38	\$3.68
P/CFPS		9.0x	8.3x	7.7x
Div.	\$0.61	\$0.67	\$0.78	\$0.90
EV (\$mm)	\$4,863	\$6,179	\$6,390	\$6,585
EBITDA (\$mm)	\$507	\$583	\$638	\$695
EV/EBITDA	9.6x	10.6x	10.0x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.37a	\$0.24
2007E	\$0.38	\$0.35↓	\$0.38	\$0.30
Dividend	\$0.76			Yield 2.7%
Book Value	\$12.36			Price/Book 2.3x
Shares O/S (mm)	103.8			Mkt. Cap (\$mm) \$2,927
Float O/S (mm)	103.8			Float Cap (\$mm) \$2,927
Wkly Vol (000s)	1,152			Wkly \$ Vol (mm) \$27.2
Net Debt (\$mm)	\$3,032.0			Next Rep. Date 07-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2006E: \$1.32; 2007E: \$1.43; 2008E: \$1.50

Changes

Annual EPS
 2007E \$1.40 to \$1.39
 2008E \$1.49 to \$1.48

Quarterly EPS
 Q2/07E \$0.36 to \$0.35

Table 1. Consolidated Summary Sheet

27-Nov-06

Current Price: \$28.42

12-Month Target Price: \$29.25

ROR: 5.7%

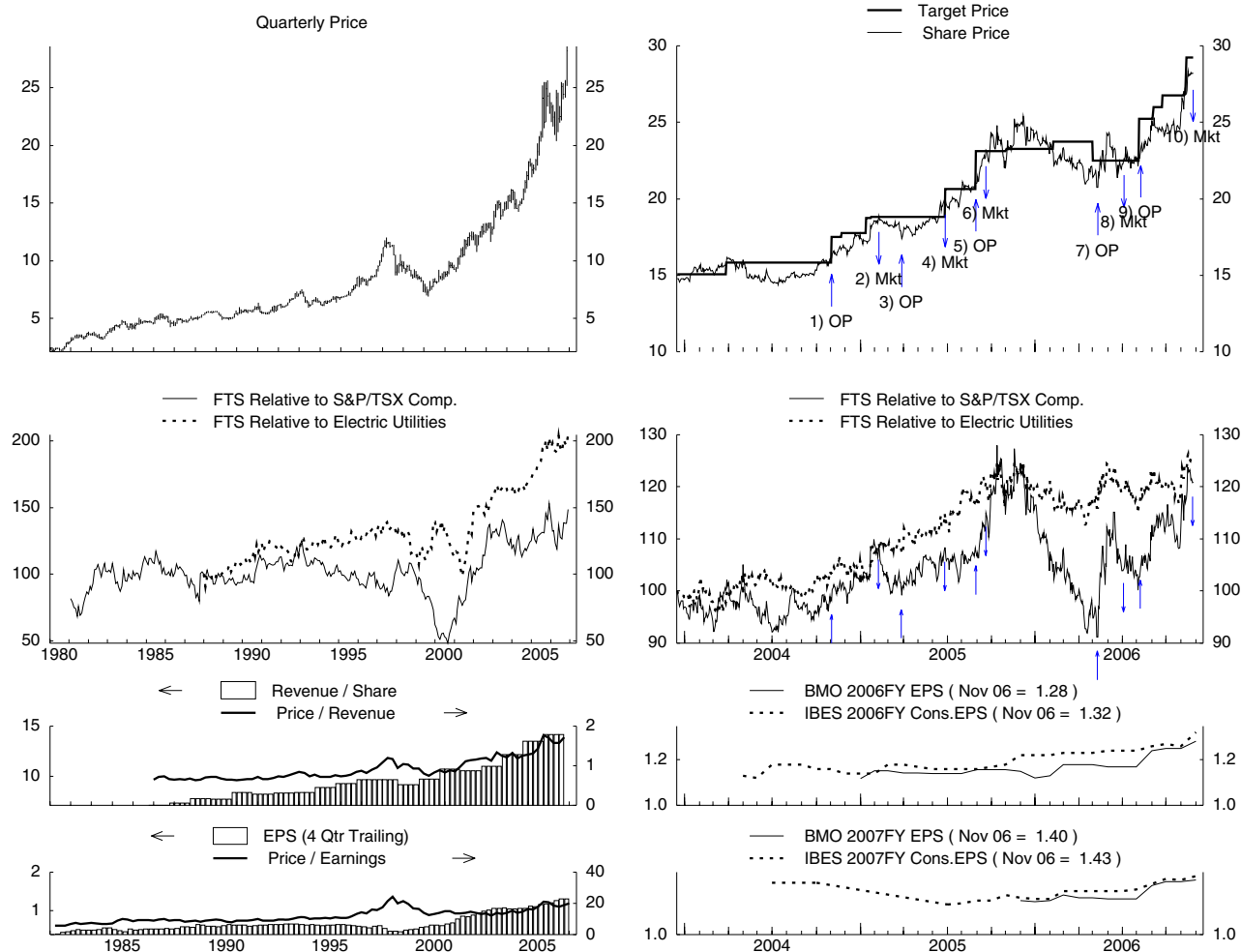
Karen J. Taylor
BMO Capital Markets

Recommendation: Market Perform

	2002	2003	2004	2005	2006E	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.30	\$1.41	\$1.51
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.28	\$1.39	\$1.48
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.29	\$0.30
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	\$0.11
CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	\$0.07
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.18	\$0.19
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.25
Belize, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.29	\$0.32
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.59	\$0.57	\$0.63
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.36)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78	\$0.90
Payout Ratio	49.9%	48.9%	51.4%	52.3%	51.5%	55.5%	59.8%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.4	103.9	104.3
Net Book Value	8.72	8.98	10.47	11.76	12.43	13.10	13.74
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	-	-	-
Price: Current	-	-	-	-	\$28.42	-	-
P/E Ratio: High	13.7	14.3	16.8	21.7	-	-	-
P/E Ratio: Low	11.1	11.5	13.7	14.5	-	-	-
P/E Ratio: Current	-	-	-	-	21.8	20.2	18.9
Price/Book Value: High	1.52	1.69	1.69	2.16	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	-	-	-
Price/Book Value: Current	-	-	-	-	2.29	2.17	2.07
Yield: High Price	3.65%	3.42%	3.06%	2.41%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	-	-	-
Yield: Current	-	-	-	-	2.36%	2.74%	3.17%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	269.6	468.8	663.3
Debt (L-T)	583.8	910.7	1855.8	1990.2	2245.9	2253.8	2244.4
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	195.0	195.0	195.0
Minority Interest	40.0	36.8	37.5	35.7	35.7	35.7	35.7
Preferred Shares	0.0	125.0	321.5	319.5	444.5	444.5	444.5
Convertible Debentures	15.8	24.9	23.2	25.0	72.0	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1288.8</u>	<u>1363.8</u>	<u>1437.0</u>
	1731.2	2251.3	3534.0	3997.8	4551.4	4828.2	5086.4
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	5.9%	9.7%	13.0%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	49.3%	46.7%	44.1%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	4.3%	4.0%	3.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%	0.7%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	9.8%	9.2%	8.7%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.6%	1.4%	1.3%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.3%</u>	<u>28.2%</u>	<u>28.3%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	134.6	146.1	157.1
Cash Flow from Operations	134.4	160.7	283.7	320.0	323.0	348.3	380.4
Key Statistics							
Newfoundland Light & Power							
Average Utility Rate Base (\$mm)	602.0	640.8	720.5	744.1	744.0	785.3	802.1
Growth Rate	9.6%	6.4%	12.4%	3.3%	0.0%	5.6%	2.1%
2005 - 2008 CAGR							3.6%
Allowed Return on Equity	9.05%	9.75%	9.75%	9.24%	8.77%	8.60%	8.60%
Deemed Equity	45.00%	45.00%	45.00%	45.00%	45.00%	44.13%	45.00%

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	20	0.64	2.5	49	12.36	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.8		6.4			12.1		
10 Year:	7.9		4.1			7.4		
20 Year:	4.7		3.9			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 16-Dec-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20

Last Daily Data Point: November 24, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance is dependent upon the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The Company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

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Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the **past 12 months**.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%
Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.



Fortis Inc

(FTS-TSX)

Stock Rating: Market Perform
Stock Price: \$28.20
Target Price: \$29.25

November 29, 2006

Brief Research Note
Gas & Electrical

Karen Taylor, CFA

(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

2007 Capital Budget of \$240 Million

Impact

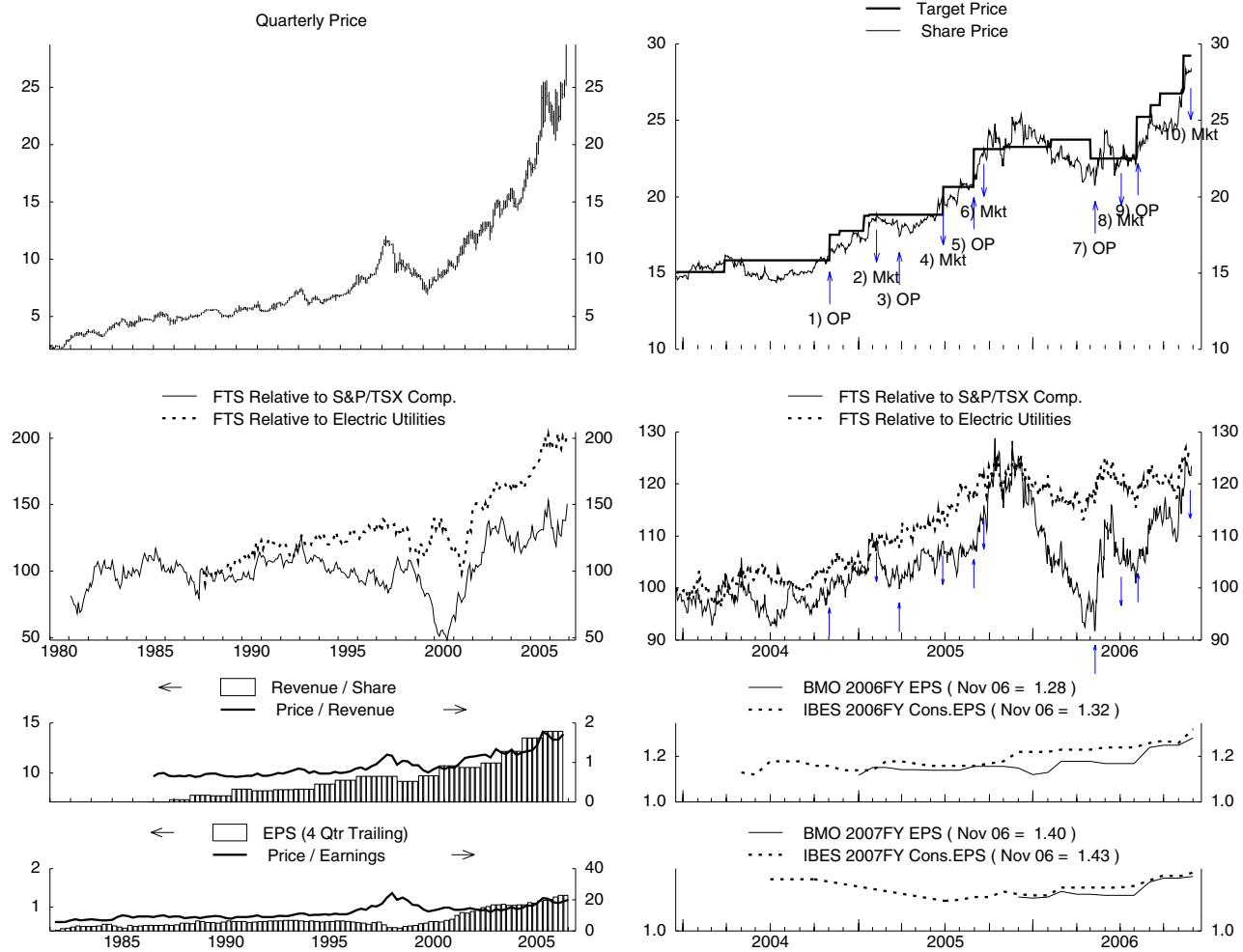
Neutral

Details & Analysis

FortisAlberta (100% - Fortis Inc.) has announced that its board of directors has approved a 2007 capital budget of \$240 million, which is net of customer contributions totalling some \$33 million. The current capital budget for 2006 is \$217 million, net of customer contributions of \$33 million. The 2006/07 Negotiated Settlement Agreement between the utility and its customers contemplates 2007 capital expenditures of \$177 million, which was net of customer contributions of \$24 million. The increase in planned capital expenditures is due to higher-than-expected electricity demand and customer growth in the residential, commercial, and oil and gas customer segments. The capital plan for 2006 and 2007 is consistent with the rate base additions in our financial model. No change in view. We believe that the shares of Fortis Inc. are reasonably valued at current levels. Our rating is Market Perform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered/qualified as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	20	0.64	2.5	49	12.36	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.8		6.4			12.1		
10 Year:	7.9		4.1			7.4		
20 Year:	4.7		3.9			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

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6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20

Last Daily Data Point: November 27, 2006



Company Risk Disclosure

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	49%

Hold	Market Perform	53%	47%	45%
Sell	Underperform	9%	6%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

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Fortis

(FTS-TSX)

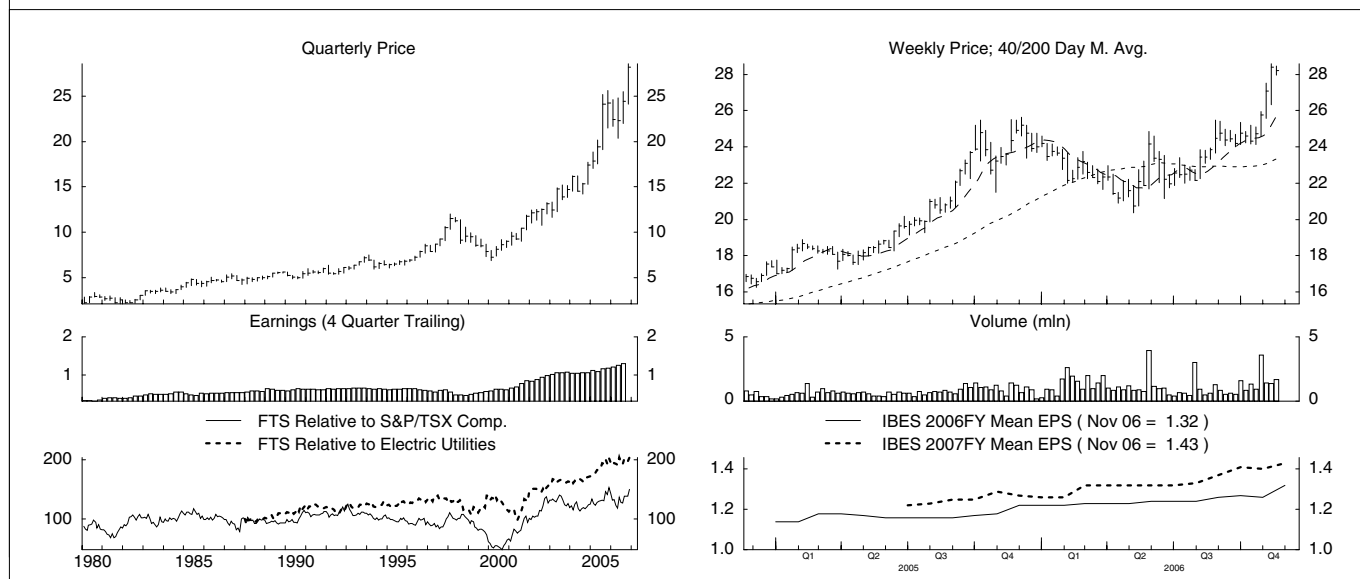
November 22, 2006
Research Fact Sheet
Gas & Electrical

Stock Rating: Outperform
Industry Rating: Market Perform

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

				(FY-Dec.)	2005A	2006E	2007E	2008E	
Price (22-Nov)	\$28.19	52-Week High	\$28.58	EPS	\$1.10	\$1.28	\$1.41	\$1.50	
Target Price	\$29.25	52-Week Low	\$20.36	P/E		22.0x	20.0x	18.8x	
Dividend	\$0.76	Book Value	\$12.36	CFPS	\$3.15	\$3.12	\$3.38	\$3.68	
Yield	2.7%	Price/Book	2.3x	P/CFPS		9.0x	8.3x	7.7x	
Shares O/S (mm)	103.8	Mkt. Cap (\$mm)	\$2,926	Div.	\$0.61	\$0.67	\$0.78	\$0.90	
Float O/S (mm)	103.8	Float Cap (\$mm)	\$2,926	EV (\$mm)	\$4,863	\$6,179	\$6,390	\$6,585	
Wkly Vol (000s)	1,144	Wkly \$ Vol (mm)	\$27.2	EBITDA (\$mm)	\$507	\$583	\$638	\$695	
Net Debt (\$mm)	\$3,032	Next Rep. Date	7-Feb (E)	EV/EBITDA	9.6x	10.6x	10.0x	9.5x	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	9.8%	10.4%	10.8%	11.0%
2005A	\$0.32	\$0.28	\$0.33	\$0.24	Book Value (\$)	\$11.76	\$12.43	\$13.11	\$13.77
2006E	\$0.35 a	\$0.33 a	\$0.37 a	\$0.24	D/Tot. Cap. (%)	63.9%	66.6%	66.9%	67.1%
2007E	\$0.39	\$0.36	\$0.39	\$0.30	Reg. ROE (%)	9.2%	8.8%	8.6%	8.6%

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with three key businesses: electric utility operations, non-regulated electric power generation, and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (54%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta)

and FortisBC (100%, British Columbia). *Website:* fortisinc.com

Recent Results – Fortis Inc. reported Q3/06 EPS of \$0.37 versus our estimate of \$0.31 per share. The variance between actual and estimated performance is largely attributable to: (i) higher than expected contribution from FortisAlberta, due to lower than expected income taxes not otherwise contemplated in the utility's negotiated settlement agreement approved by the Alberta Energy and Utilities

Board on June 29 for 2006/07 distribution tariffs; and (ii) higher segment contribution from Fortis Generation due to stronger than anticipated production at the Mollejon and Chalillo generation stations.

Corporate Developments – On November 7, Fortis Inc. and Caribbean Utilities jointly announced that Fortis Inc. has acquired from International Power Holdings Ltd., and four other vendors associated with International Power, an additional 4.113116 million Class A common shares of Caribbean Utilities for US\$11.89 per share or approximately US\$48.9 million or C\$54.8 million. Fortis' interest in Caribbean Utilities is now approximately 54% versus approximately 38% previously. International Power Holdings has no remaining interest in Caribbean Utilities.

On November 1, Fortis Properties (100% - Fortis Inc.) announced that it has agreed to acquire four internationally

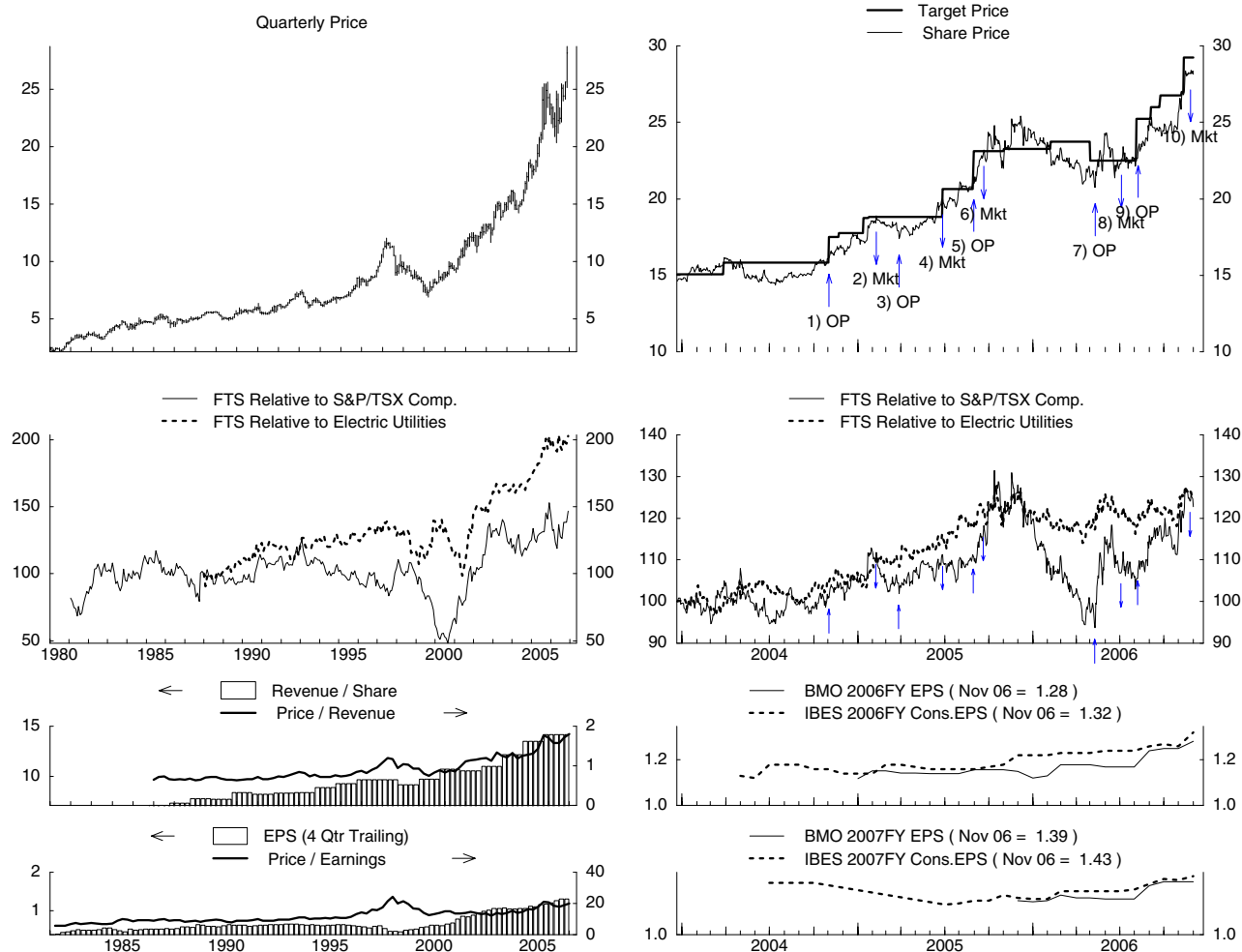
branded hotel properties in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for \$51.6 million, including \$16 million of assumed debt. The transaction reflects a cap rate of approximately 10x and is consistent with the average cap rate of 9.8x observed on 49 sales transactions year to date for hotel properties of similar quality and size.

Forecasts – Our diluted 2006, 2007, and 2008 EPS are \$1.28, \$1.41, and \$1.50, respectively.

Valuation – Our target price reflects a weighted valuation approach: 17x diluted 2008 EPS of \$1.50 (12.5%), 2.0x 2008E BV of \$13.80 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.90.

Recommendation – We believe the shares are attractively valued. Our rating is Outperform

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	20	0.64	2.5	49	12.36	2.1	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	10.8		6.4			12.1		
10 Year:	7.9		4.1			7.4		
20 Year:	4.7		3.9			6.5		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 22-Dec-03 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20

Last Daily Data Point: November 30, 2006

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	First Call Universe **
Buy	Outperform	40%	49%	48%
Hold	Market Perform	50%	47%	45%

Sell Underperform 10% 4% 7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Market Perform
Industry Rating: Market Perform

January 4, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

\$150 Million Equity Issue; Market Perform Rating Unchanged

Event

Fortis has announced that it has entered into an agreement with underwriters to sell 5.170 million shares to the public at a price of \$29.00 per share. Total gross proceeds from the transaction are expected to be \$149.930 million. Net proceeds from the transaction are expected to be used by the company to repay indebtedness, support a robust capital expenditure program at its wholly owned utilities and for general corporate purposes.

Impact

Slightly negative. The announced equity issue was somewhat unexpected and may be opportunistic, reflecting the relatively high market valuations in the pipeline and energy utility sectors generally.

Forecasts

Our diluted 2007 and 2008 EPS estimates decline to \$1.35 and \$1.42, respectively, from \$1.39 and \$1.48. Average diluted shares in 2007 and 2008 are expected to be 122.9 million and 124.5 million, respectively.

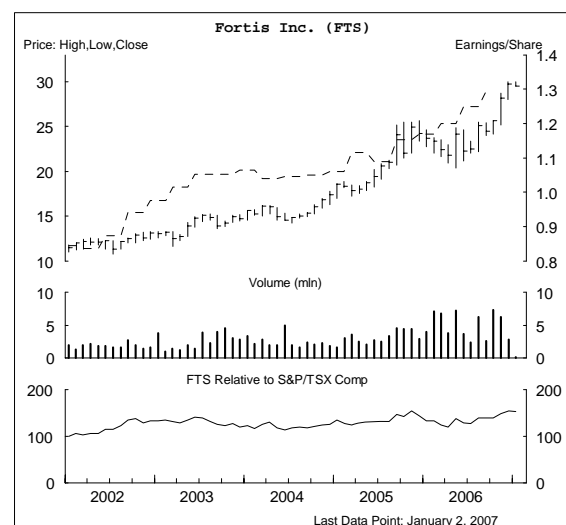
Valuation

Our target price reflects a weighted average valuation approach: 17x diluted 2008E EPS of \$1.42 (12.5%), 2.0x 2008E BV of \$14.43 (12.5%), and a target yield of 3.0% (75%), assuming 2008 dividends per share of \$0.90.

Recommendation

We believe that the shares are reasonably valued at current levels. Our rating is Market Perform.

Price (2-Jan) \$29.55 **52-Week High** \$30.00
Target Price \$29.25 **52-Week Low** \$20.36



(FY-Dec.)	2005A	2006E	2007E	2008E
EPS	\$1.10	\$1.28	\$1.35↓	\$1.42↓
P/E		23.1x	21.9x	20.8x
CFPS	\$3.15	\$3.12	\$3.38	\$3.68
P/CFPS		9.5x	8.7x	8.0x
Div.	\$0.61	\$0.67	\$0.78	\$0.90
EV (\$mm)	\$4,863	\$6,297	\$6,514	\$6,718
EBITDA (\$mm)	\$507	\$585	\$633	\$688
EV/EBITDA	9.6x	10.8x	10.3x	9.8x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006E	\$0.35a	\$0.33a	\$0.37a	\$0.24
2007E	\$0.37↓	\$0.34↓	\$0.37↓	\$0.29↓
Dividend	\$0.76			Yield 2.6%
Book Value	\$12.43			Price/Book 2.4x
Shares O/S (mm)	103.8			Mkt. Cap (\$mm) \$3,067
Float O/S (mm)	103.8			Float Cap (\$mm) \$3,067
Wkly Vol (000s)	1,156			Wkly \$ Vol (mm) \$27.6
Net Debt (\$mm)	\$3,010.2			Next Rep. Date 7-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.32; 2007E: \$1.44; 2008E: \$1.50

Changes

Annual EPS
 2007E \$1.39 to \$1.35
 2008E \$1.48 to \$1.42

Quarterly EPS
 Q1/07E \$0.38 to \$0.37
 Q2/07E \$0.35 to \$0.34
 Q3/07E \$0.38 to \$0.37
 Q4/07E \$0.30 to \$0.29

Table 1. Consolidated Summary Sheet

3-Jan-07

Current Price: \$29.51

12-Month Target Price: \$29.25

ROR: 1.8%

Karen J. Taylor

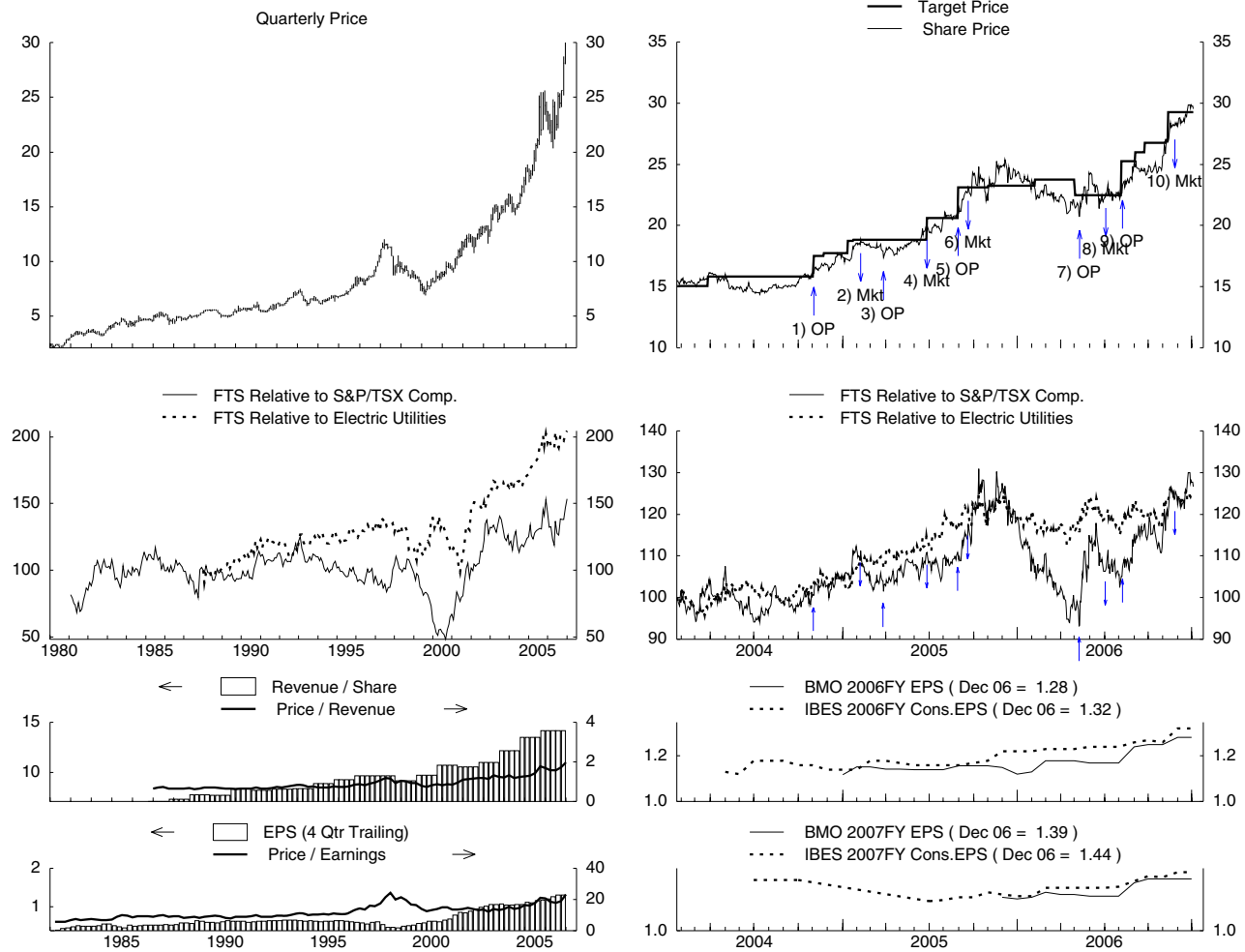
BMO Capital Markets

Recommendation: Market Perform

	2002	2003	2004	2005	2006E	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.30	\$1.36	\$1.44
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.28	\$1.35	\$1.42
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.30	\$0.28	\$0.28
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.10	\$0.11	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.03	\$0.06	\$0.06
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.17	\$0.18
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.24
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.21	\$0.29	\$0.31
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.59	\$0.55	\$0.61
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.34)	(\$0.35)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.78	\$0.90
Payout Ratio	49.9%	48.9%	51.4%	52.3%	51.4%	57.4%	62.4%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.4	107.8	109.4
Net Book Value	8.72	8.98	10.47	11.76	12.43	13.84	14.43
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$29.51	-
P/E Ratio: High	13.7	14.3	16.8	21.7	22.9	-	-
P/E Ratio: Low	11.1	11.5	13.7	14.5	15.9	-	-
P/E Ratio: Current	-	-	-	-	-	21.7	20.5
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	2.13	2.05
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	2.64%	3.05%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	247.8	191.6	395.7
Debt (L-T)	583.8	910.7	1855.8	1990.2	2245.9	2363.8	2354.4
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	195.0	195.0	195.0
Minority Interest	40.0	36.8	37.5	35.7	35.7	35.7	35.7
Preferred Shares	0.0	125.0	321.5	319.5	444.5	444.5	444.5
Convertible Debentures	15.8	24.9	23.2	25.0	72.0	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1288.9</u>	<u>1511.2</u>	<u>1580.5</u>
	1731.2	2251.3	3534.0	3997.8	4529.7	4808.3	5072.3
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	5.5%	4.0%	7.8%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	49.6%	49.2%	46.4%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	4.3%	4.1%	3.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	0.8%	0.7%	0.7%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	9.8%	9.2%	8.8%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.6%	1.4%	1.3%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>28.5%</u>	<u>31.4%</u>	<u>31.2%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	134.7	146.5	157.7
Cash Flow from Operations	134.4	160.7	283.7	320.0	323.1	348.7	379.6

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	23	0.76	2.6	59	12.43	2.4	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	8.9		10.1			10.7		
10 Year:	8.2		5.9			7.2		
20 Year:	4.7		4.8			6.2		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 22-Jan-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20

Last Daily Data Point: January 2, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the **past 12 months**.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	35%	45%	47%
Hold	Market Perform	55%	48%	46%
Sell	Underperform	10%	7%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform ↑
Industry Rating: Market Perform

February 12, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Q4/06 and Fiscal 2006 EPS Higher than Expected; Resuming Coverage with Outperform Rating

Event

Fortis Inc. reported Q4/06 EPS of \$0.33 versus our expectation of \$0.24 for the quarter. The variance between expected and actual performance is largely attributable to: (i) larger contribution from FortisAlberta due to lower than expected income taxes not otherwise contemplated in the utility's negotiated settlement agreement approved by the Alberta Energy and Utilities Board on June 29 for 2006 and 2007 distribution rates; and (ii) marginally higher than expected contributions from FortisBC, Belize Electricity, and FortisGeneration, partially offset by slightly lower than expected performance at Newfoundland Power, Maritime Electric and Caribbean Utilities Limited (54% - Fortis Inc.). Fiscal 2006 diluted EPS of \$1.33, as adjusted, were also slightly higher than our expectation of \$1.28, largely due to the performance of FortisAlberta, as previously noted.

Impact

Positive.

Forecasts

We have updated our financial model to reflect actual 2006 performance. Our diluted 2007 and 2008 EPS estimates increase to \$1.38 and \$1.44 per share, respectively, versus \$1.35 and \$1.42 diluted, previously.

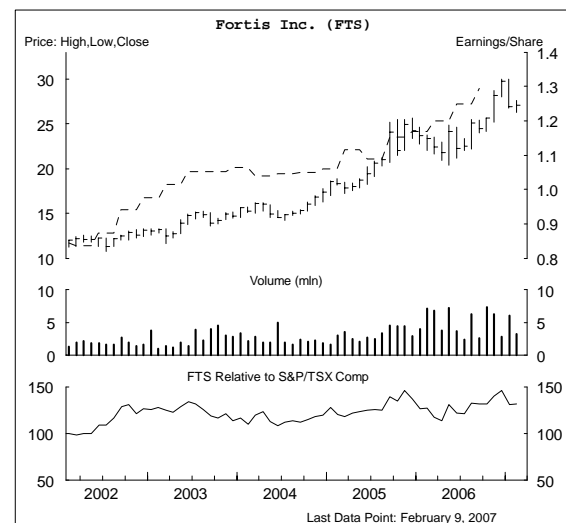
Valuation

Our target price of \$29.50 reflects a weighted valuation approach: 18x diluted 2008E EPS of \$1.44 (12.5%), 2.0x 2008E book value per share of \$14.19 (12.5%), and a target yield of 3% (75%), assuming 2008 dividends of \$0.91.

Recommendation

We believe the shares are attractively valued. We are resuming coverage with an Outperform rating.

Price (9-Feb) \$27.10
Target Price \$29.50↑
52-Week High \$30.00
52-Week Low \$20.36



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.38↑	\$1.44↑
P/E			19.6x	18.8x
CFPS	\$3.15	\$3.12	\$3.38	\$3.68
P/CFPS			8.0x	7.4x
Div.	\$0.61	\$0.67	\$0.82	\$0.91
EV (\$mm)	\$4,669	\$5,522	\$6,036	\$6,272
EBITDA (\$mm)	\$507	\$592	\$629	\$681
EV/EBITDA	9.2x	9.3x	9.6x	9.2x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.37	\$0.33↓	\$0.38↑	\$0.31↑
Dividend	\$0.84			3.1%
Book Value	\$12.19			2.2x
Shares O/S (mm)	104.1			
Float O/S (mm)	104.1			
Wkly Vol (000s)	1,200			
Net Debt (\$mm)	\$3,045.9			
Yield				3.1%
Price/Book				2.2x
Mkt. Cap (\$mm)				\$2,821
Float Cap (\$mm)				\$2,821
Wkly \$ Vol (mm)				\$29.4
Next Rep. Date				10-May (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2006E: \$1.30; 2007E: \$1.38; 2008E: \$1.50

Changes

Annual EPS
 2007E \$1.35 to \$1.38
 2008E \$1.42 to \$1.44

Quarterly EPS

Q2/07E \$0.34 to \$0.33
 Q3/07E \$0.37 to \$0.38
 Q4/07E \$0.29 to \$0.31

Target

\$29.25 to \$29.50
Rating
 Mkt to OP

Details & Analysis

Fortis Inc. reported Q4/06 EPS of \$0.33 versus our expectation of \$0.24 for the quarter. The variance between expected and actual performance is largely attributable to: (i) larger contribution from FortisAlberta due to lower than expected income taxes not otherwise contemplated in the utility's negotiated settlement agreement approved by the Alberta Energy and Utilities Board on June 29 for 2006 and 2007 distribution rates; and (ii) marginally higher than expected contributions from FortisBC, Belize Electricity, and FortisGeneration, partially offset by slightly lower than expected performance at Newfoundland Power, Maritime Electric and Caribbean Utilities Limited (54% - Fortis Inc.). Fiscal 2006 diluted EPS of \$1.33, as adjusted, were also slightly higher than our expectation of \$1.28, largely due to the performance of FortisAlberta, as previously noted.

We believe that the following points are relevant Q4/06 and fiscal 2006 performance:

- We have normalized annual performance for a number of one-time items, including: (i) after-tax insurance gain of \$0.7 million recognized in Q2/06; (ii) gain on the sale of a hotel asset of \$1.6 million after-tax in Q2/06; and (iii) benefit from the reduction of future income tax rates of \$1.5 million after-tax, also recognized in Q2/06.
- Table 1 sets out segment quarterly (basic) and annual estimated earnings per share.

Table 1. Quarterly and Annual Segment Performance

Contribution by Segment	(Millions)										
	2003	2004	2005	Q1/06	Q2/06	Q3/06	Q4/06E	2006	2007E	2008E	
Newfoundland Power	29.5	31.1	29.4	10.7	8.0	2.6	8.8	30.1	29.8	31.0	
Maritime Electric	7.2	8.2	9.1	2.1	2.2	3.1	2.4	9.8	11.7	12.2	
Fortis Ontario	6.5	4.3	2.7	1.0	0.5	1.6	1.0	4.0	4.3	5.1	
FortisAlberta	0.0	18.6	30.3	9.5	11.3	12.3	8.3	41.4	41.9	42.0	
FortisBC	0.0	17.7	24.6	11.8	3.4	5.7	6.4	27.3	27.1	29.9	
Belize Electricity	6.7	7.2	8.1	1.5	2.3	3.8	2.8	10.4	9.4	10.4	
Caribbean Utilities	10.5	0.8	10.3	1.6	2.1	3.2	2.8	9.7	14.4	15.2	
Turks & Caicos	0.0	0.0	0.0	0.0	0.0	0.7	2.8	3.4	9.4	11.5	
Fortis Generation	10.9	12.8	21.6	5.4	6.0	7.8	6.8	26.0	28.9	28.3	
Fortis Properties	11.0	11.8	14.1	1.5	5.0	6.3	2.8	15.6	18.9	19.9	
Corporate	(8.6)	(23.4)	(30.9)	(8.5)	(6.7)	(8.3)	(11.0)	(34.5)	(45.2)	(45.3)	
Earnings Before Non-Recurring items	73.6	89.1	119.3	36.6	34.1	38.7	33.8	143.1	150.6	160.1	
Average Shares	69.2	84.7	101.8	103.3	103.4	103.6	104.0	103.6	108.2	109.8	
Net Earnings to Common (Basic)	\$1.06	\$1.05	\$1.17	\$0.35	\$0.33	\$0.37	\$0.33	\$1.38	\$1.39	\$1.46	
Net Earnings to Common (Diluted)	\$1.03	\$0.99	\$1.10					\$1.33	\$1.38	\$1.44	

Source: BMO Capital Markets, Company Reports

- The contribution from FortisAlberta reflects annual 2006 taxation recoveries of \$4.7 million and taxation costs of \$1.0 million in Q4/06. As noted in our Q3/06 write-up, lower than expected cash taxes payable arises from timing issues associated with the accrual of flow through costs and the use of tax deductions in addition to those contemplated in the Negotiated Settlement Agreement that substantially reduced cash taxes payable in 2006. While we expect this benefit to continue in 2007, we expect that it will be subject to rebasing in 2008 and any residual benefit to accrue to ratepayers rather than to shareholders.
- A return to normal hydrological conditions in Belize and the commissioning of the Chalillo storage facility in late 2005 resulted in a large, year-over-year increase in power production and higher production in Q4/06 versus Q4/05, as set out in Table 2. Lower average price

per MWh in Ontario (\$42.69/MWh in Q4/06 versus \$71.46/MWh in Q4/05) and a 45% reduction in average selling price for power production over 100 GWh pursuant to the power sales agreement reduced average revenue per MWh, as set out in Table 2. Annual operating costs declined by approximately \$1.0 million due to the cessation of operations at the Ranking Generation Station (74.6 MW), pursuant to the execution of the Niagara Exchange Agreement in late 2005. Virtual power production is assumed to expire in April 2009.

Estimates

We have updated our financial model to reflect actual 2006 performance. Our diluted 2007 and 2008 EPS estimates increase to \$1.38 and \$1.44 per share, respectively, versus \$1.35 and \$1.42 diluted, previously. Our estimates fully reflect the announced, applied-for and approved capital plans for FortisAlberta and FortisBC, and the ROEs allowed by the respective regulators at Newfoundland Power, Maritime Electric, FortisAlberta and FortisBC. Our estimates also reflect the \$150 million equity issue announced by the company on January 3 that closed on January 18. We believe that the issuance of equity by the company was largely opportunistic, and that barring any unanticipated acquisitions, we do not believe that further common equity issues are likely over the forecast period.

There is considerable discussion in the financial market with respect to the potential divestiture of Terasen Gas Inc. by Kinder Morgan Inc. once the plan to take that company private is completed in mid-2007. Although we believe that the acquisition of a natural gas distribution utility is the next logical step-out for Fortis in its strategic evolution, we remain cautious about this potential opportunity for a number of reasons:

- Terasen Gas Inc., exclusive of Terasen Gas Vancouver Island, is a slower growth utility than the assets acquired by Fortis from Aquila in Alberta and British Columbia. In the latter case, these utility's were largely deprived of necessary capital in the period prior to sale by Aquila, and the growth rate experienced by the utilities post acquisition by Fortis has exceeded expectations, making a dilutive transaction accretive earlier than expected.
- Terasen Gas is more highly levered than Fortis Inc. with deemed equity of 35%, and an allowed return on equity in F2007 of 8.37%, one of the lowest in Canada. Kinder Morgan paid approximately 23x diluted 2007 earnings to acquire the utility, a multiple that would likely be dilutive to most buyers, including Fortis Inc. We believe that any purchase price premium that would be paid for the utility operations of Terasen Gas could not be recovered in utility rates, consistent with the Aquila Alberta and AquilaBC transactions.
- The operations of Terasen Gas Vancouver Island are subject to a number of regulatory risks and the franchise is not robust.
- We do not believe that Fortis is likely to acquire any asset, Terasen Gas Inc. or otherwise, unless the planned acquisition is immediately accretive.

Valuation

Our target price of \$29.50 reflects a weighted valuation approach: 18x diluted 2008E EPS of \$1.44 (12.5%), 2.0x 2008E book value per share of \$14.19 (12.5%), and a target yield of 3% (75%), assuming 2008 dividends of \$0.91.

Recommendation

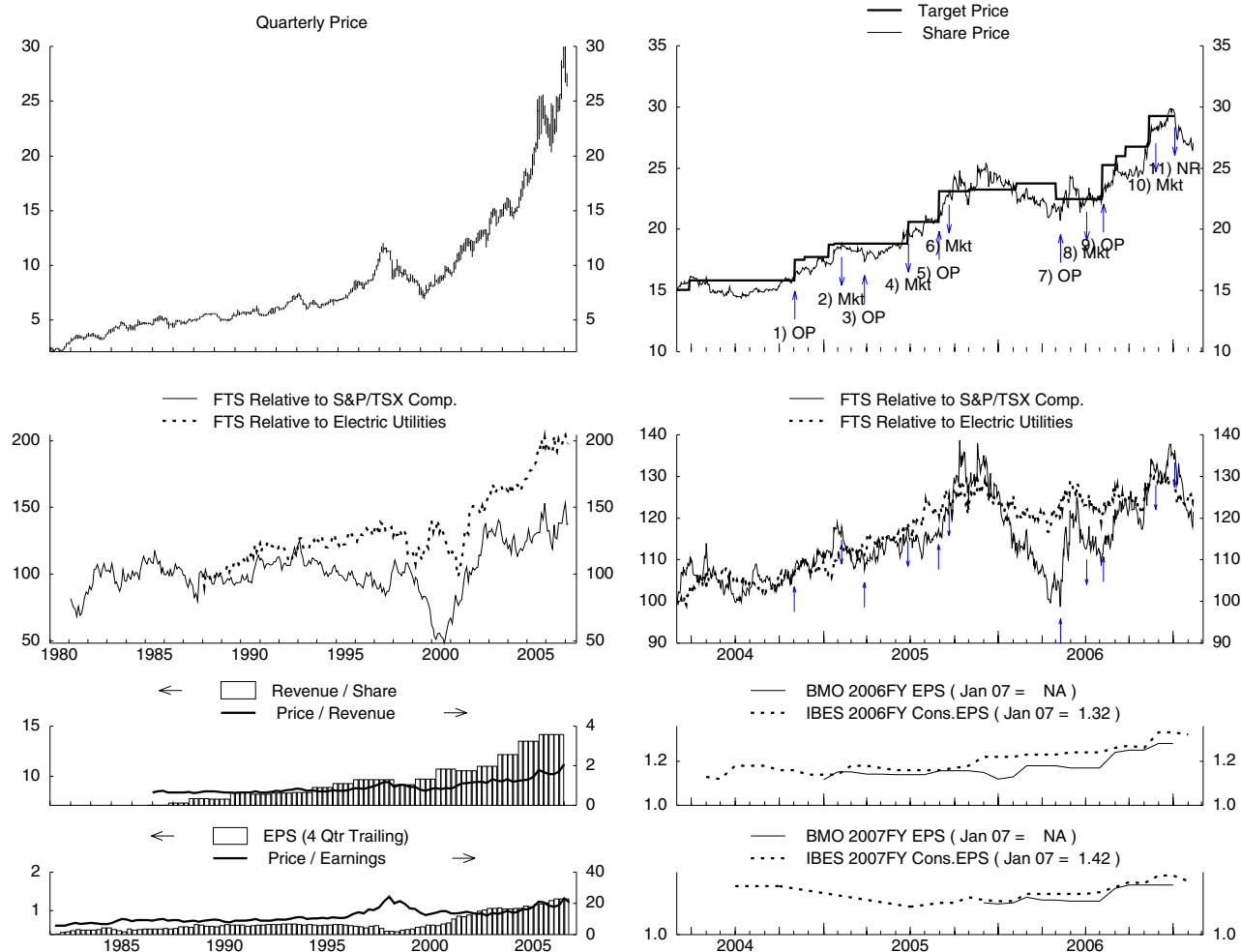
We believe the shares are attractively valued. We are resuming coverage with an Outperform rating.

Table 3. Consolidated Summary Sheet

11-Feb-07							
Current Price:	\$27.10						Karen J. Taylor
12-Month Target Price:	\$29.50						BMO Capital Markets
ROR:	11.9%					Recommendation:	Outperform
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.39	\$1.46
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.38	\$1.44
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.28	\$0.28
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.11	\$0.11
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.04	\$0.05
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.17	\$0.18
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.27	\$0.26
Belize, BECOL, CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.31	\$0.34
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.64	\$0.66
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.42)	(\$0.41)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.91
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	58.9%	62.2%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	108.2	109.8
Net Book Value	8.72	8.98	10.47	11.76	12.19	13.60	14.19
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$27.10	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	19.5	18.6
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.99	1.91
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.03%	3.35%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	606.1	562.1	785.6
Debt (L-T)	583.8	910.7	1855.8	1990.2	2247.9	2366.4	2357.6
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	440.6	440.6
Convertible Debentures	15.8	24.9	23.2	25.0	72.0	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1268.5</u>	<u>1490.3</u>	<u>1560.7</u>
	1731.2	2251.3	3534.0	3997.8	5241.4	5531.5	5816.6
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	11.6%	10.2%	13.5%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	42.9%	42.8%	40.5%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.1%	8.6%	8.2%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	2.4%	2.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.4%	8.0%	7.6%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.4%	1.2%	1.1%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.2%</u>	<u>26.9%</u>	<u>26.8%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	150.6	160.1
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	352.7	381.9
Key Statistics							
Newfoundland Light & Power							
Average Utility Rate Base (\$mm)	602.0	640.8	720.5	744.1	744.0	785.3	802.1
Growth Rate	9.6%	6.4%	12.4%	3.3%	0.0%	5.6%	2.1%
2005 - 2008 CAGR							3.6%
Allowed Return on Equity	9.05%	9.75%	9.75%	9.24%	8.77%	8.60%	8.60%
Deemed Equity	45.00%	45.00%	45.00%	45.00%	45.00%	44.13%	45.00%

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
Current*	1.29	21	0.76	2.8	59	12.43	2.2	10
Average:		13		5.3	64		1.4	11.3
Growth(%):								
5 Year:	8.9		10.1			10.7		
10 Year:	8.2		5.9			7.2		
20 Year:	4.7		4.8			6.2		

* Current EPS is the 4 Quarter Trailing to Q3/2006.

FTS - Rating as of 2-Mar-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51

Last Daily Data Point: February 9, 2007

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	35%	45%	47%
Hold	Market Perform	55%	48%	46%
Sell	Underperform	10%	7%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis

(FTS-TSX)

March 1, 2007

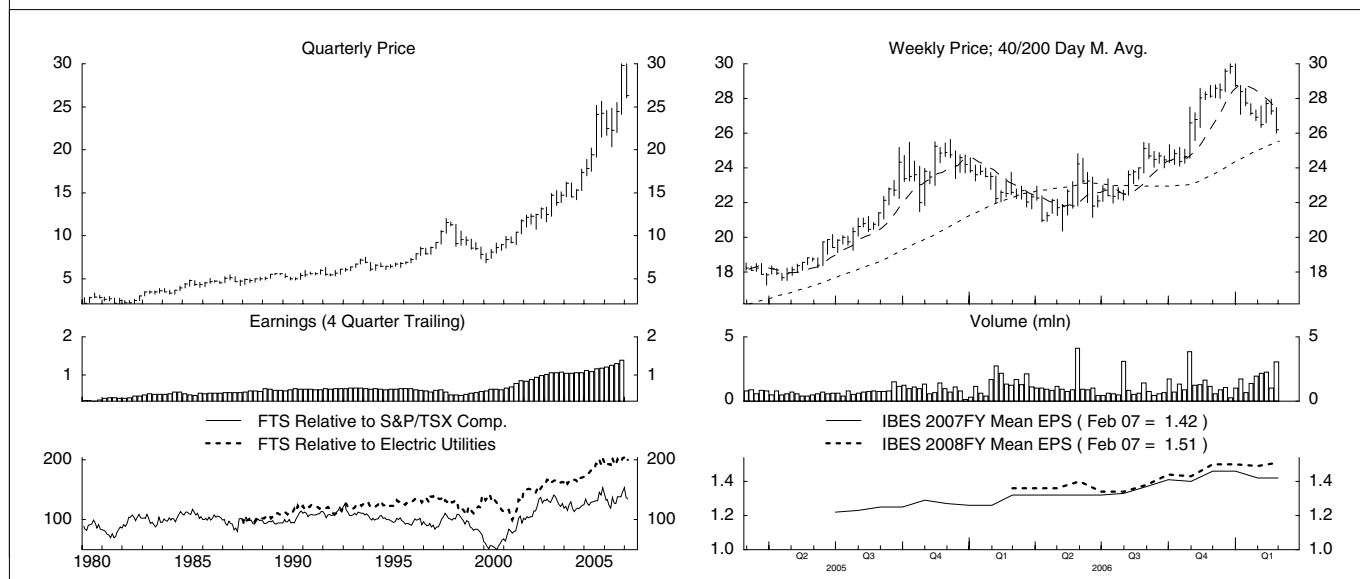
Research Fact Sheet
Gas & Electrical

Stock Rating: Restricted
Industry Rating: Market Perform

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

				(FY-Dec.)	2005A	2006A	2007E	2008E	
Price (1-Mar)	\$26.21	52-Week High	\$30.00	EPS	\$1.10	\$1.33	na	na	
Target Price	na	52-Week Low	\$20.36	P/E			na	na	
Dividend	\$0.82	Book Value	\$12.19	CFPS	\$3.15	\$2.70	na	na	
Yield	3.1%	Price/Book	2.2x	P/CFPS			na	na	
Shares O/S (mm)	109.3	Mkt. Cap (\$mm)	\$2,864	Div.	\$0.61	\$0.67	na	na	
Float O/S (mm)	109.3	Float Cap (\$mm)	\$2,865	EV (\$mm)	\$4,669	\$5,882	na	na	
Wkly Vol (000s)	1,189	Wkly \$ Vol (mm)	\$30.6	EBITDA (\$mm)	\$507	\$531	na	na	
Net Debt (\$mm)	\$3,566	Next Rep. Date	3-May (E)	EV/EBITDA	9.2x	11.1x	na	na	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	9.8%	11.3%	na	na
2005A	\$0.32	\$0.28	\$0.33	\$0.24	Book Value (\$)	\$11.76	\$12.19	na	na
2006A	\$0.35	\$0.33	\$0.37	\$0.33	D/Tot. Cap. (%)	63.9%	64.2%	na	na
2007E	na	na	na	na	Req. ROE (%)	9.2%	8.8%	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC

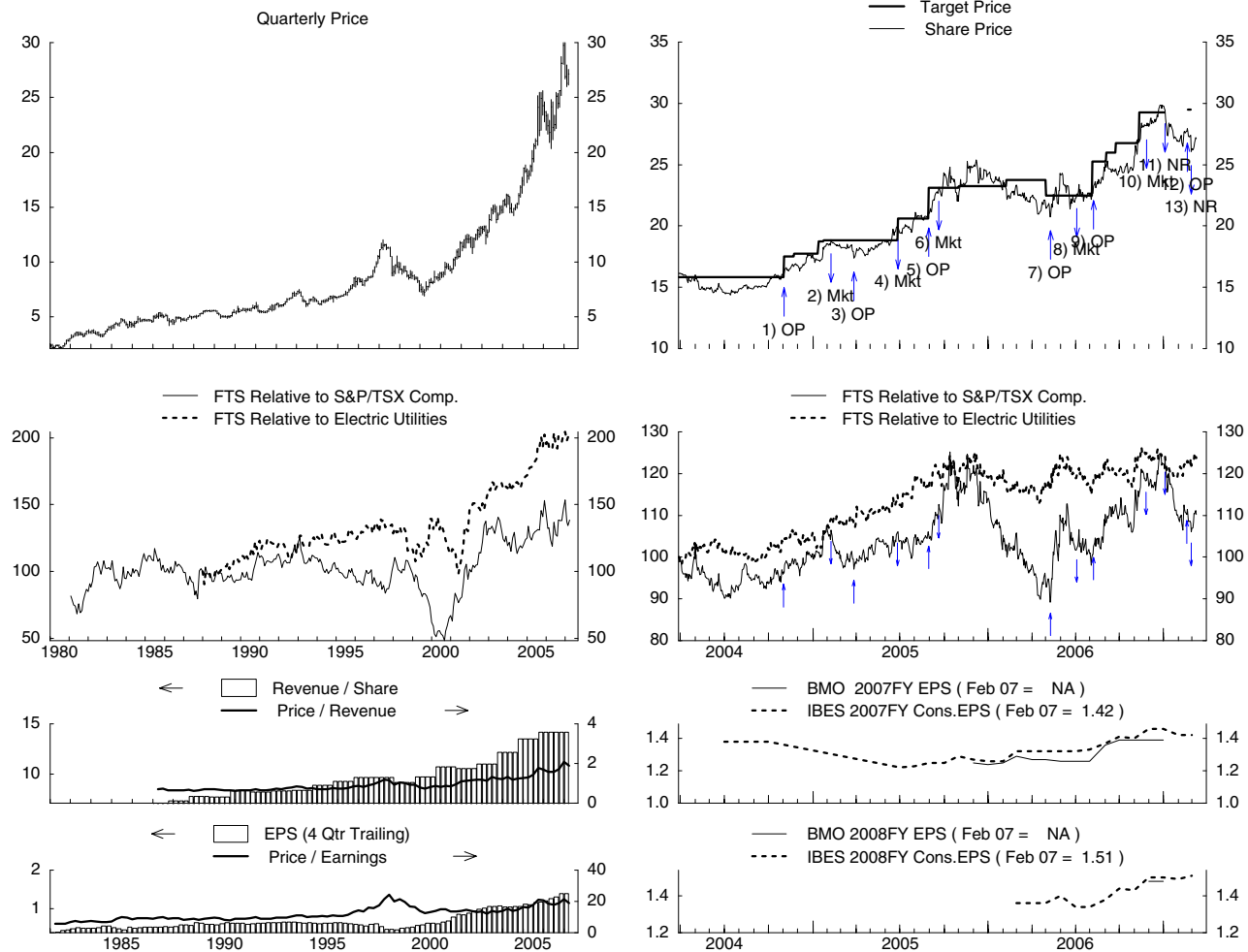


Company Description – Fortis is a publicly listed holding company with three key businesses: electric utility operations, non-regulated electric power generation, and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean

Utilities (54%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website:* fortisinc.com

Recommendation – We are currently restricted on Fortis Inc.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
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2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	11.74	2.5	11
Current*	1.38	19	0.76	2.9	55	12.19	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.4		10.1			10.2		
10 Year:	8.9		5.6			7.0		
20 Year:	5.1		4.6			6.1		

* Current EPS is the 4 Quarter Trailing to Q4/2006.

FTS - Rating as of 29-Mar-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94
13 27-Feb-07	OP to NR	\$26.10

Last Daily Data Point: March 8, 2007

Company Risk Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	First Call Universe **
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%

Sell Underperform 9% 7% 8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

March 15, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Fortis, You've Come a Long Way; Resuming Coverage with Outperform Rating

Event

We are resuming coverage of the shares of Fortis Inc. with an Outperform rating pursuant to the close of the \$1.0 billion treasury offering of subscription receipts announced on February 26, 2007. The subscription receipts were issued in conjunction with the February 26 announcement that the company has entered into an agreement to acquire all of the outstanding shares of Terasen Inc. from Kinder Morgan Inc. for a total purchase price of \$3.7 billion, including assumed debt of \$2.350 billion.

Impact

Positive. As we highlighted in our February 12 research note, we believe that the acquisition of Terasen Inc. is the next logical step-out for the company. As set out herein, we believe that the acquisition multiple of approximately 16.57x 2008E earnings of Terasen Inc. is likely to be immediately accretive, consistent with our understanding of management's acquisition guidelines.

Forecasts

We have updated our financial model to reflect the planned acquisition of Terasen Inc. from Kinder Morgan Inc., and the foregoing issuance of subscription receipts. We have assumed that both transactions close mid-2007. Our diluted 2007 and 2008 EPS estimates increase to \$1.43 and \$1.54, respectively, from \$1.38 and \$1.44.

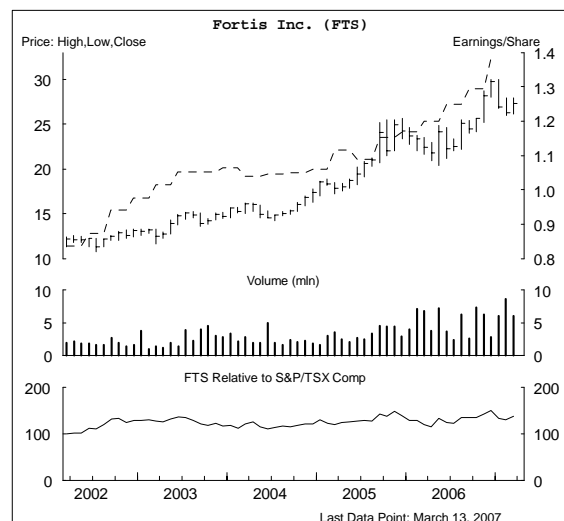
Valuation

Our target price of \$31.00 reflects a weighted average valuation approach: 18x diluted 2008 EPS of \$1.54 (12.5%), 2.0x 2008E BV of \$17.96 (12.5%), and a target yield of 3.0% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. We are resuming coverage with an Outperform rating.

Price (14-Mar) \$27.10
Target Price \$31.00↑
52-Week High \$30.00
52-Week Low \$20.36



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.43↑	\$1.54↑
P/E			19.0x	17.6x
CFPS	\$3.15	\$2.70	\$3.26	\$3.48
P/CFPS			8.3x	7.8x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,669	\$5,882	\$6,587	\$6,845
EBITDA (\$mm)	\$507	\$531	\$654	\$703
EV/EBITDA	9.2x	11.1x	10.1x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.39↑	\$0.35↑	\$0.40↑	\$0.33↑
Dividend	\$0.82	Yield		3.0%
Book Value	\$12.19	Price/Book		2.2x
Shares O/S (mm)	129.0	Mkt. Cap (\$mm)		\$3,496
Float O/S (mm)	129.0	Float Cap (\$mm)		\$3,496
Wkly Vol (000s)	1,280	Wkly \$ Vol (mm)		\$32.1
Net Debt (\$mm)	\$3,566.3	Next Rep. Date		03-May (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2006E: \$1.32; 2007E: \$1.44; 2008E: \$1.50

Changes

Annual EPS
 2007E \$1.38 to \$1.43
 2008E \$1.44 to \$1.54

Quarterly EPS

Q1/07E \$0.37 to \$0.39
 Q2/07E \$0.33 to \$0.35
 Q3/07E \$0.38 to \$0.40
 Q4/07E \$0.31 to \$0.33

Target

\$29.50 to \$31.00

Details and Analysis

We are resuming coverage of the shares of Fortis Inc. with an Outperform rating pursuant to the close of the \$1.0 billion treasury offering of subscription receipts announced on February 26, 2007. The subscription receipts were issued in conjunction with the February 26 announcement that the company has entered into an agreement to acquire all of the outstanding shares of Terasen Inc. from Kinder Morgan Inc. for a total purchase price of \$3.7 billion, including assumed debt of \$2.350 billion.

We believe that the following points are relevant about the acquisition of Terasen Inc.:

- The purchase does not include the petroleum transportation assets of Kinder Morgan Canada (formerly known as Terasen Pipelines). Prior to the close of the transaction, Kinder Morgan will cause Terasen Inc. to divest itself of its petroleum transportation assets, including Trans Mountain, Terasen Pipeline (Corridor) Inc., Express and Platte Pipeline Systems and Kinder Morgan Canada Inc., leaving in Terasen Inc. only the business interests related to the natural gas distribution business of that company. We note that, on March 5, 2007, Inter Pipeline Fund (IPL.UN, TSX) agreed to acquire Terasen Pipelines (Corridor) Inc. from Kinder Morgan Inc. for \$760 million and \$300 million of debt associated with the planned expansion of the Corridor Pipeline.
- The transaction is subject to a number of regulatory approvals, including the British Columbia Utilities Commission and a ruling pursuant to the *Competition Act*. We do not believe that these approvals are likely to be unreasonably withheld and we expect the transaction to close by mid-2007. On March 1, Fortis applied to the British Columbia Utilities Commission (BCUC) for an Order approving the acquisition of all of the issued and outstanding shares of Terasen Inc. On March 2, the Commission issued an Order outlining the regulatory process to consider the proposed acquisition: (i) Commission information requests are due on March 14, 2007, while written submissions by Fortis are due on March 19, 2007; (ii) a procedural conference will be held on March 29, 2007, to discuss the regulatory timetable and application process; (iii) intervenor written submissions are due on April 2, 2007, and written responses from Fortis by April 5, 2007.
- The transaction is not unexpected; we believed that Kinder Morgan was likely to put the natural gas assets of Terasen Inc. up for sale in 2007. However, we expected the transaction to occur after the plan to take Kinder Morgan private closed in mid-2007. Our primary concern with the acquisition of Terasen Inc. by Fortis (or any other buyer for that matter) was price. Kinder Morgan paid approximately 24.6x 2006E EPS for Terasen Inc. in November 2005. We believe that this transaction, assuming pro forma 2008 earnings for Terasen Inc. of \$108.6 million (prior to the cost of \$450 million of holdco debt at Terasen Inc.) and a net purchase price of \$1.8 billion (the total announced price of \$3.7 billion net of assumed utility debt of \$1.9 billion), is approximately 16.57x 2008E earnings. We believe that the transaction is priced at the midpoint of the range of comparable transactions.

- We believe that the \$3.7 billion transaction is likely to be financed as follows:
 - \$1.9 billion of assumed utility debt.
 - \$450 million of Terasen Inc. holdco debt that will be assumed.
 - \$1 billion subscription receipt offering that closed March 15, 2006. 38.5 million subscription receipts were issued at a price of \$26.00 per receipt. Each receipt represents the right to receive, for no additional consideration, one common share of Fortis Inc.
 - \$150 million of shares pursuant to an underwriter's over-allotment option that we assume will be exercised, such that the total shares ultimately issued will total approximately 44.269 million.
 - Issuance of \$200 million of preferred shares. We have assumed, for estimation purposes, that Fortis Inc. issues perpetual preferred shares with a coupon of approximately 4.70%.
- As set out in the Estimates section, we believe that the transaction is immediately accretive: \$0.05 per diluted share in 2007 and approximately \$0.10 per share on a full-year basis in 2008, such that our diluted 2007 and 2008 EPS estimates increase to \$1.43 and \$1.54 from \$1.38 and \$1.44 in 2007 and 2008, respectively.

The Assets to Be Acquired

Terasen Inc. is a holding company headquartered in Vancouver, BC, whose subsidiaries operate two lines of business: (a) natural gas distribution; and (b) petroleum transportation. The natural gas distribution business of Terasen consists of: Terasen Gas Inc. (TGI), Terasen Gas Vancouver Island (TGVI), Terasen Gas Whistler (TGW) and Terasen Energy Services Inc. (TES). Figure 1 highlights these businesses. Kinder Morgan will retain the petroleum transportation business of Terasen Inc. The natural gas distribution segments of Terasen Inc. are regulated by BCUC and are outlined below. Chart 1, below, highlights the company's natural gas service areas on Vancouver Island and the British Columbia mainland.

Terasen Gas Inc. – TGI

TGI provides service to more than 100 communities in British Columbia. Its service territory extends from Vancouver to the Fraser Valley and the interior of British Columbia, and has an estimated population of approximately four million. As at September 30, 2006, TGI and its subsidiaries transported and distributed natural gas to approximately 734,000 residential and 82,000 commercial and industrial customers, representing approximately 87% of the natural gas users in British Columbia. The rate base of TGI as at September 30, 2006, was approximately \$2,474 million. TGI has approximately 1,100 employees.

Terasen Gas (Vancouver Island) – TGVI

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island, and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia. TGVI serves approximately 85,000 residential, commercial and industrial customers along the Sunshine Coast and in various

communities on Vancouver Island, including Victoria and surrounding areas. Among TGVI's largest customers are the Vancouver Island Gas Joint Venture, representing six large pulp and paper mills on Vancouver Island and the Sunshine Coast, and BC Hydro's contracted gas-fired electricity cogeneration facility at Elk Falls, Vancouver Island. The average rate base of TGVI approved by the Commission for 2007 is approximately \$482 million. TGVI has approximately 105 employees.

Terasen Gas Whistler- TGW

TGW has owned and operated the propane distribution system at Whistler since 1987. It provides service to approximately 2,350 residential and commercial customers in the Whistler area of British Columbia. The average rate base of TGW for 2006 was approximately \$16.5 million. The propane distribution system in Whistler has grown far beyond the original expectations and beyond the size and scale of other similar propane distribution systems in British Columbia and Canada. On June 28, 2006, TGVI and TGW received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGW by the construction of a 50-kilometre pipeline lateral from Squamish to Whistler and TGW will convert its current piped propane system to natural gas. The pipeline is scheduled for completion in 2008.

Terasen Energy Services - TES

TES was established in 2006 and owns and/or operates geo-exchange, natural gas and propane distribution systems in communities across British Columbia. TES is also in the business of developing alternative energy systems.

Regulation

There have been several important regulatory developments at Terasen Inc. since its acquisition by Kinder Morgan Inc. on November 30, 2005, as set out below for each entity.

Terasen Gas

- On January 29, 2007, the BCUC issued an Order to consider an extension of the 2004–2007 Multi-Year Performance-Based Rate Plan for 2008-2009 for Terasen Gas. The Order established a written public hearing process and set out a regulatory timetable. In accordance with the regulatory timetable, stakeholders, intervenors, and interested party comments were due to be filed with the Commission by February 9, 2007, and Terasen Gas' reply comments were due on February 16, 2007. The BCUC has not yet issued a decision regarding the extension of the Multi-Year Performance-Based Rate.
- On December 18, 2006, the BCUC approved the Advance Annual Review materials in accordance with the 2004-2007 Multi-Year Performance-Based Rate Settlement filed by Terasen Gas on October 16, 2006. The advance annual review addresses the 2006 actual results, the 2007 forecasts and the 2006 earnings sharing that are used in setting 2007 rates. The key metrics included in this decision include:
 - TGI and Terasen Squamish (TGS) are to be amalgamated beginning January 1, 2007. The BCUC noted that Commission approval is not required for the amalgamation.

- The appropriate common equity component allowed in the capital structure of the amalgamated TGI and TGS is 35.01% in 2007 versus the approved rate of 35% in 2006. The approved return on common equity of the amalgamated TGI and TGS is 8.37% in 2007 versus the approved rate of 8.80% in 2006.
- Mid-year rate base of \$2.506 billion in 2006 and \$2.474 billion in 2007.
- Revenue Requirements of \$1.646 billion in 2006 and \$1.461 billion in 2007.
- Capital Expenditures of \$130.248 million in 2006 and \$137.854 million in 2007.
- Depreciation of \$83.894 million in 2006 and \$84.701 million in 2007.
- The Commission approved the \$0.021/GJ decrease in the Rate Stabilization Adjustment Mechanism (RSAM) rider from the currently approved level of \$0.16/GJ to \$0.145/GJ, effective January 1, 2007. The RSAM is a weather normalization account that enables TGI to defer margin variances arising from residential and commercial customer natural gas consumption that is more or less than forecasted. TGI forecasts \$7.99 million (net-of-tax) of RSAM additions at the end of 2006. The balance at the end of 2006 for the RSAM is projected to be \$34.58 million on a net-of-tax basis, which is being amortized over three years.
- TGI is projecting an actual 2006 return on equity of 10.098%. Under the earnings sharing mechanism (ESM), differences between actual utility earnings and the authorized level of earnings is shared 50/50 between TGI and its customers. The customer's portion of the 2006 earnings surplus is \$8.23 million and the total earnings surplus to be distributed in 2007 is \$12.74 million. Therefore, the approved ESM rider, effective January 1, 2007, will range from (\$0.108)/GJ to (\$0.018)/GJ, depending on the Rate Schedule applicable to each respective customer.
- Terasen Gas expects that it will file an application with the BCUC in the first or second quarter of 2009 regarding its 2010 Revenue Requirement.
- Terasen Gas has indicated that a potential amalgamation of the separate utility entities (TGI, TGVI and TGW) is being considered for as soon as 2010, which would require, in the view of the company, an application relating to the amalgamation to be filed in early 2009.

Terasen Gas Vancouver Island

- On January 29, 2007, the BCUC issued an Order to consider an extension of the 2006–2007 Negotiated Settlement for 2008–2009 for Terasen Gas Vancouver Island. The Order established a written public hearing process and set out a regulatory timetable. On January 22, 2007, TGVI provided copies of the application to all stakeholders, intervenors and interested parties concurrent with the submission of its application to the Commission. In accordance with the regulatory timetable, Commission and intervenor information submissions were due to be filed by February 9, 2007. Stakeholders, intervenors and interested party comments and TGVI reply comments were to be filed February 21, 2007, and February 26, 2007, respectively. The BCUC has not yet issued a decision.

- On December 14, 2006, the BCUC approved the 2006 Settlement Update in accordance with the 2006–2007 Negotiated Settlement Agreement filed by TGVI on October 23, 2006. The 2006 Settlement Update requested approval of 2007 Rates, 2007 Cost of Service and the Revenue Deficiency Deferral Account balance as at December 31, 2005. The key results of the decision include:
 - Mid-year rate base of \$469.683 million in 2006 and \$481.996 million in 2007 versus \$452.605 million in 2005.
 - Revenue Requirements of \$195.459 million in 2006 and \$207.972 million in 2007 versus \$193.301 million in 2005.
 - Capital Expenditures of \$35.338 million in 2006 and \$67.443 million in 2007.
 - Depreciation expenses of \$15.459 million in 2006 and \$16.339 million in 2007 versus \$14.984 million in 2005.
 - Deemed equity of 40% in 2006 and 2007 versus 35% in 2005. The allowed return on equity is 9.50% in 2006 and 9.07% in 2007 versus 9.53% in 2005.
 - A Revenue Deficiency Deferral Account (RDDA) balance as at December 31, 2005, of \$48.731 million (versus a reported balance of \$35.2 million). The company projects the Deferral Account balance to be \$41.842 million in 2006 and \$29.9 million at the end of 2007.
 - Terasen Gas Vancouver Island expects that it will file an application with the BCUC in the first or second quarter of 2009 regarding its 2010 Revenue Requirements.

BCUC Revises Benchmark ROE and Formula

On March 2, 2006, the BCUC issued a decision in response to an application submitted jointly by Terasen Gas and Terasen Gas Vancouver Island, dated June 30, 2005, to determine the appropriate return on equity and capital structure and to review and revise the automatic adjustment mechanism. The key terms of the decision include:

- The appropriate common equity component allowed in the capital structure of TGI is 35%. TGI had applied for a 38% equity structure in its application.
- The appropriate common equity component allowed in the capital structure of TGVI is 40%. TGVI had applied for a 40% equity structure in its application.
- The approved return on equity for the benchmark low-risk utility is 9.145%, assuming a 30-year long Canada bond yield of 5.25%. For 2006, this results in an approved return on equity for TGI of 8.80%. TGI had applied for an allowed return on equity of 10.5% for rate-making purposes in its application.
- The approved return on equity for TGVI is 70 basis points greater than the benchmark low-risk utility return, or 9.50% for 2006. TGVI had applied for an allowed return on equity of 11.25%, a 75 basis point premium to that of TGI in its application.

- The Commission gave weight to both the equity risk premium and the discounted cash flow approach in establishing a fair rate of return. The Commission did not give any weight to the comparable earnings of low-risk Canadian industrials in the proceeding, although it believes that this approach may play a role in future hearings.
- The Commission also concluded that a revision to the automatic adjustment mechanism is appropriate, such that the return on equity will be adjusted by 75 percent of the change in forecast long Canada bond yields, effective January 1, 2006. The new automatic adjustment mechanism will be subject to a review period of five years and should the mechanisms result in a ROE for the benchmark low-risk utility that is less than 8% or greater than 12%, the Commission will canvass the views of the parties on whether the mechanism should be reviewed. The sliding scale was 80% previously.
- TGI did not seek changes to its deferral accounts. TGI maintains two significant commodity deferral accounts: the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA). These commodity deferral accounts collect the difference between the actual incurred gas costs and recoveries from rates. TGI's non-commodity deferral accounts defer elements of gross margin and of costs. The most significant non-commodity deferral account for TGI is the RSAM.
- TGVI also did not seek changes to its deferral accounts. TGVI maintains a commodity deferral account called the Gas Cost Variance Account, which captures the difference between actual and approved cost of gas. Deferral account balances at the end of the year are either refunded to or recovered from customers via an application to the BCUC. TGVI's most significant non-commodity deferral account is the RDDA, which has been operating for 15 years.

We have reflected the appropriate return on equity and capital structure in our outlook.

Estimates

We have updated our financial model to reflect the planned acquisition of Terasen Inc. from Kinder Morgan Inc., and the foregoing issuance of subscription receipts. We have assumed that both transactions close mid-2007. Our diluted 2007 and 2008 EPS estimates increase to \$1.43 and \$1.54, respectively, from \$1.38 and \$1.44.

Fortis Inc. has substantial experience in the acquisition, ownership and operation of regulated electric utilities. Although there are strong parallels between the natural gas distribution and electric utility businesses (i.e., among other things the businesses are natural monopoly, network operations), the natural gas distribution business of Terasen Inc. is subject to a number of risks:

- **Competitiveness of Natural Gas in British Columbia:** Prior to 2000, natural gas consistently had a substantial competitive advantage compared with electricity throughout the Lower Mainland, Inland, and Columbia regions. However, with the increasing price of natural gas, the price of electricity for residential customers in British Columbia is now only marginally higher than the comparable price for natural gas. There is no assurance that natural gas will continue to maintain a competitive price advantage in the future. If natural

gas pricing becomes uncompetitive with electricity pricing, Terasen Gas' ability to add new customers could be impaired, and existing customers could reduce their consumption of natural gas or eliminate its usage altogether.

- **Regulatory Risk:** The regulated operations of Terasen are subject to the normal uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates, which permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair rate of return on rate base. Upgrades of existing facilities and the addition of new facilities require the approval of the BCUC. Capital cost overruns relative to approvals granted might not be recoverable in customer rates. The ability of Terasen to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process.
- **Growth Dependent on Housing Market:** Terasen is essentially a mature business with very low growth prospects in British Columbia. Over the last few years, growth has mainly come from housing starts in British Columbia, which is currently trending above long-term averages. Housing starts have been favourably impacted by a number of economic factors, including low interest rates, consumer confidence, increased fiscal stimulus by the provincial and federal governments, and the 2010 Olympics. Although these economic factors still continue to be robust, there is a significant risk that they will not be sustained at current levels.
- **Alternative Energy Sources:** The residential heating market today in British Columbia included alternatives, such as ground source and air source heat pumps, that are much more economical than gas. Customer environmental awareness and recent negative perceptions regarding gas coupled with increased headline news on the Kyoto Accord are also influencing energy choices. There is an increased risk compared to prior years that Terasen will lose a number of projects to non-gas/non-traditional heating systems.

There are a number of risks specific to Terasen Gas Vancouver Island:

- **Relatively small greenfield utility:** TGVI is still a franchise under development, that has been built from the ground up over the last 15 years. The company continues to have difficulty developing markets in its service area in the face of relatively high natural gas prices, low population density in its service area and very competitive electricity rates.
- **Elimination of provincial royalty revenues:** To assist with competitive rates during franchise development, the provincial government provided and continues to provide royalty revenues that currently cover approximately 20% of the cost of service. The royalty revenues are expected to expire at the end of 2011, after which TGVI's customers will absorb the full commodity cost of gas. The company expects that annual royalty payments will grow to \$60 million by 2012. A request to the BCUC for a \$60 million revenue requirement in 2012 would result in a 35 to 40 per cent increase in rates across all customer classes.
- **Recovery of the Revenue Deficiency Deferral Account (RDDA):** Since 2003, TGVI's rates were set at a discount to competing fuels that were too low to recover TGVI's cost of service, which resulted in accumulations to the RDDA. Under the approved 2006–2007

negotiated settlement agreement, the RDDA balance is expected to be reduced by approximately \$17.4 from a total of \$52 million as of December 31, 2005, or to roughly \$29.9 million by the end of 2007. Even though the company has an opportunity to recover the remainder of the RDDA, there is no assurance that it will be able to do so before the elimination of the provincial royalty payments at the end of 2011.

- High dependence on industrial loads: Over 65 per cent of throughput is delivered to industrial customers, two-thirds of which is contracted on a year-to-year basis with no long-term commitments. A loss of industrial customers may increase the cost of service for residential and commercial customers, thereby decreasing the competitiveness of rates.
- Supply risk: TGVI is dependant on a single pipeline system that traverses rugged terrain, with underwater and marine crossings. Operational problems at the undersea high pressure transmission facilities may reduce or stop the supply of gas from the BC mainland to the island.
- Future repayment of senior government debt: The company is liable for a \$75 million non-interest bearing senior government debt, currently sitting as a credit to rate base. Repayment of the debt will increase TGVI's rate base and contribute to a higher cost of service.

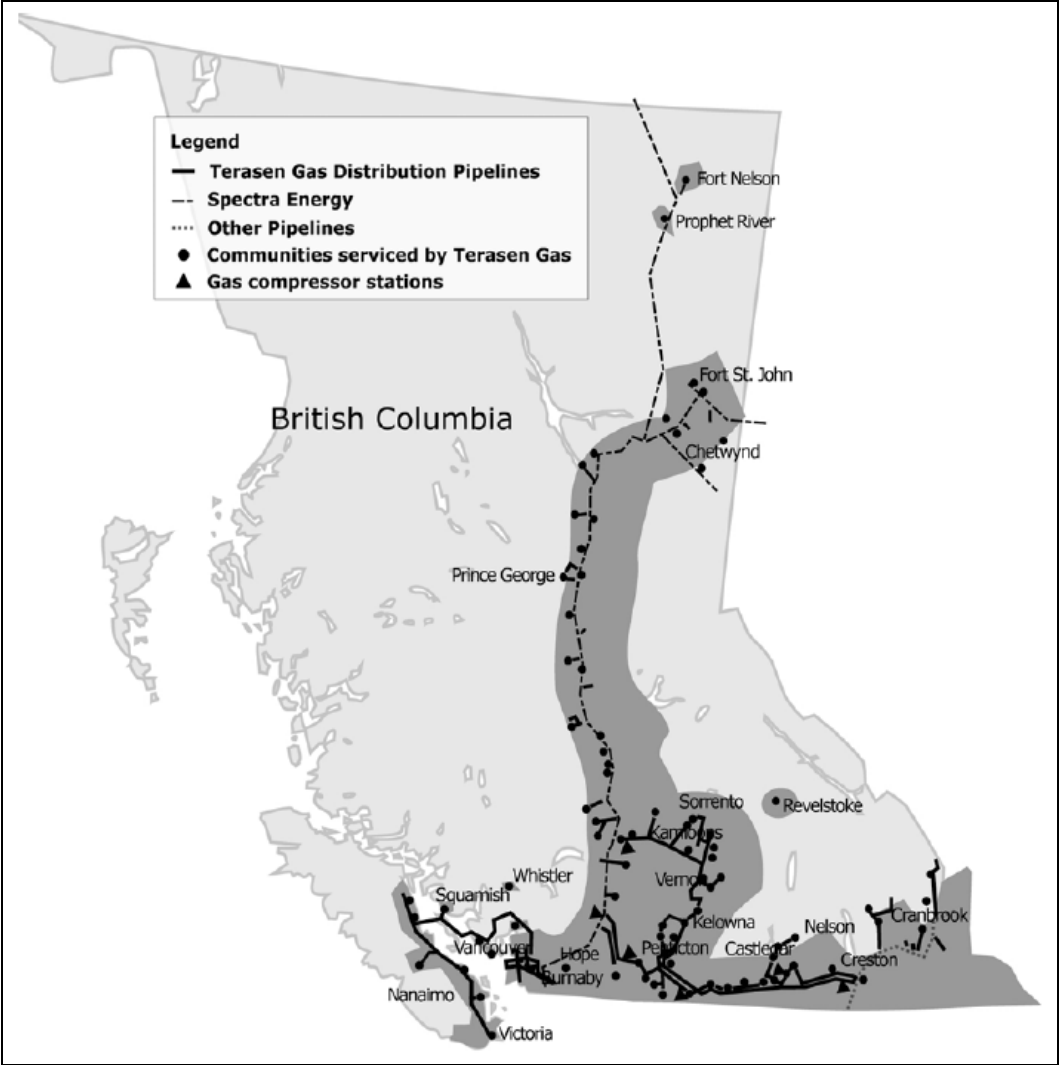
Valuation

Our target price of \$31.00 reflects a weighted average valuation approach: 18x diluted 2008 EPS of \$1.54 (12.5%), 2.0x 2008E BV of \$17.96 (12.5%), and a target yield of 3.0% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares of Fortis Inc. are attractively valued at current levels. We are resuming coverage with an Outperform rating.

Chart 1. Map of Terasen Gas Inc. and Terasen Gas (Vancouver Island) Service Areas



Source: Company Reports

Table 1. Consolidated Summary Sheet

14-Mar-07

Current Price:

\$27.10

12-Month Target Price:

\$31.00

ROR:

17.4%

Karen J. Taylor

BMO Capital Markets

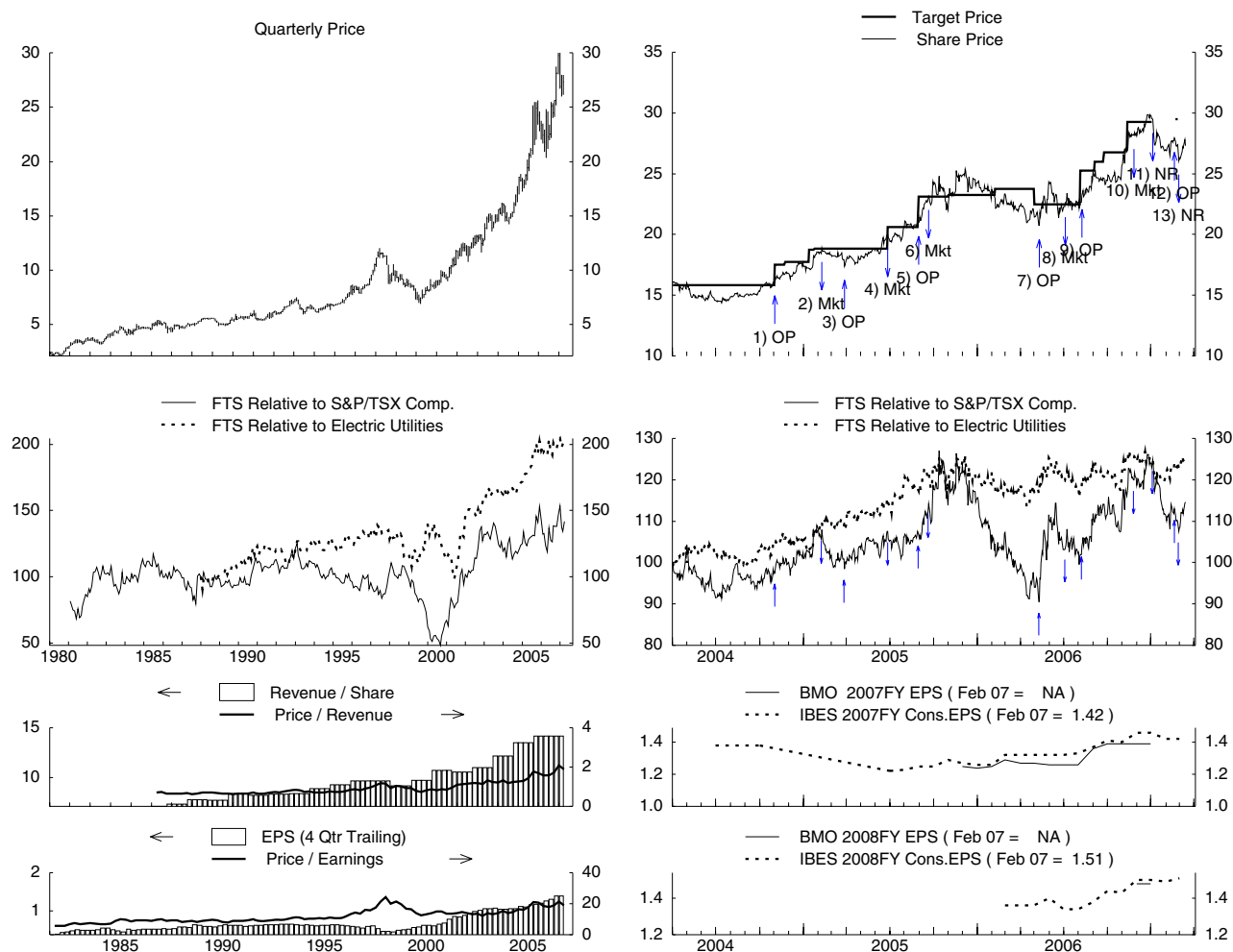
Recommendation:

Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.43	\$1.54
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.20
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
Fortis Alberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	55.9%	58.4%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.29	17.96
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$27.10	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	18.5	17.3
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.57	1.51
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.03%	3.38%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	606.1	636.9	840.8
Debt (L-T)	583.8	910.7	1855.8	1990.2	2247.9	4716.4	4707.6
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	25.0	72.0	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1000.1</u>	<u>1213.4</u>	<u>1268.5</u>	<u>2661.9</u>	<u>2772.2</u>
	1731.2	2251.3	3534.0	3997.8	5241.4	9328.0	9633.4
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	11.6%	6.8%	8.7%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	42.9%	50.6%	48.9%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.1%	5.1%	4.9%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.4%	1.4%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.4%	6.9%	6.6%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.4%	0.7%	0.7%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.2%</u>	<u>28.5%</u>	<u>28.8%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	189.3	241.4
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	500.0	582.3

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	11.74	2.5	11
Current*	1.38	19	0.76	2.9	55	12.19	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.4		10.1			10.2		
10 Year:	8.9		5.6			7.0		
20 Year:	5.1		4.6			6.1		

* Current EPS is the 4 Quarter Trailing to Q4/2006.

FTS - Rating as of 1-Apr-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94
13 27-Feb-07	OP to NR	\$26.10

Last Daily Data Point: March 13, 2007

Company Risk Disclosure

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

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(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.85
Target Price: \$31.00

March 22, 2007
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Terasen Acquisition Receives Competition Act Clearance

Impact

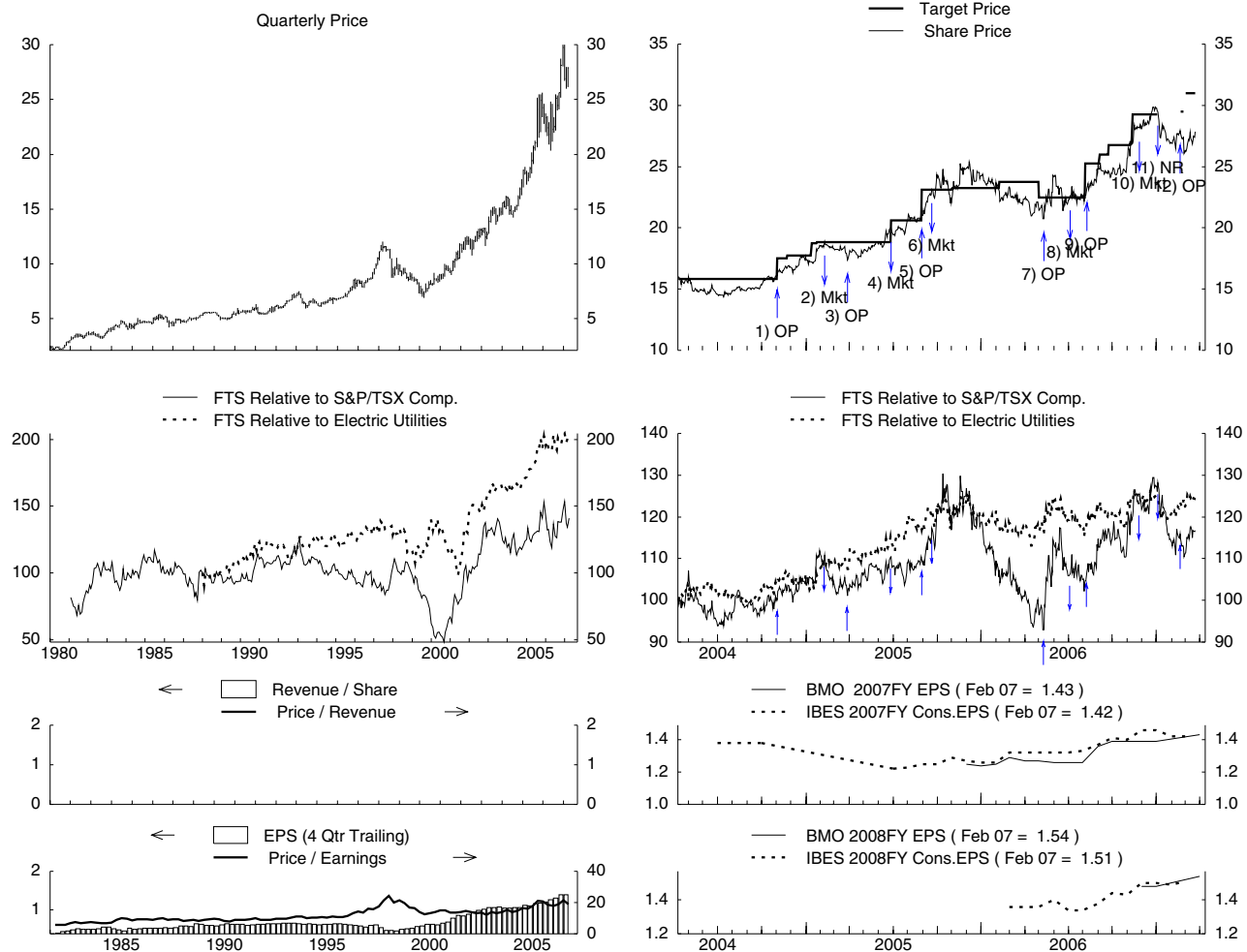
Neutral

Details & Analysis

Fortis Inc. has announced that it has received a no-action letter from the Competition Bureau of Canada regarding the previously announced agreement to acquire all of the shares of Terasen Inc. from Kinder Morgan Canada. The “no-action” letter from the Bureau is in line with expectations. Approval of the planned transaction by the British Columbia Utilities Commission is still outstanding and a schedule has been established to consider the application filed by Fortis to acquire the shares. The application is to be examined by a written public hearing process, scheduled to begin on March 14, with final company responses filed by April 5. A decision by the Commission is expected to follow thereafter. We do not believe that the Commission is likely to unreasonably withhold approval of the application. Kinder Morgan must also complete a number of conditions precedent, including: (i) sale of Corridor Pipeline to Inter Pipeline Fund; and (ii) transfer of the Trans Mountain and Express Pipeline systems. We continue to expect that the transaction is likely to close prior to the end of H1/07. We rate the shares of Fortis Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.38	19	0.76	2.9	55	12.19	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.4		10.1			10.2		
10 Year:	8.9		5.6			7.0		
20 Year:	5.1		4.6			6.1		

* Current EPS is the 4 Quarter Trailing to Q4/2006.

FTS - Rating as of 9-Apr-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: March 21, 2007

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.20
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

March 28, 2007
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

BCUC Approves Two-Year Extension of Rate Settlements [Headline Here](#)

Impact

Neutral

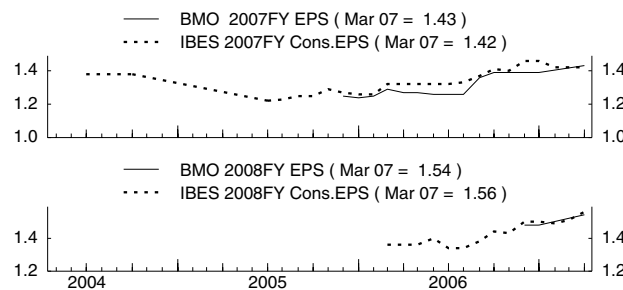
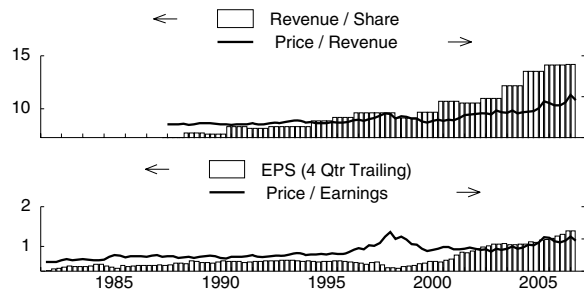
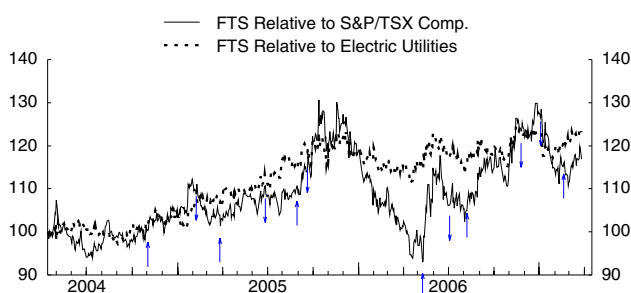
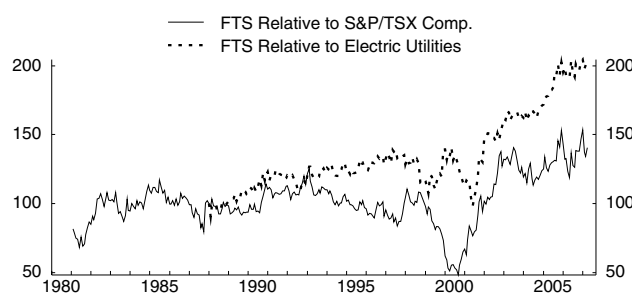
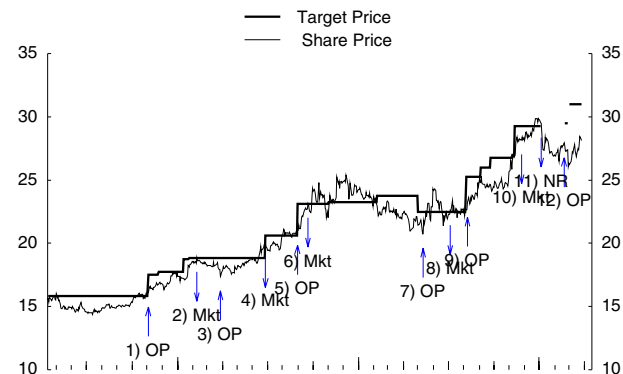
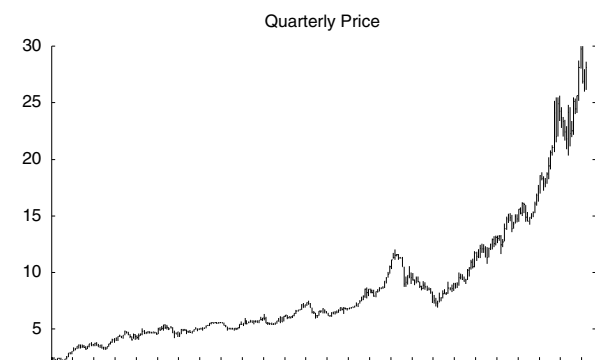
Details & Analysis

The British Columbia Utilities Commission has announced that it has approved a two-year extension of the 2004-2007 Multi-Year Performance-Based Rate Plan currently in place for Terasen Gas Inc. (100% - Terasen Inc.) and a similar extension of the 2006-2007 Negotiated Settlement Agreement currently in place for Terasen Gas (Vancouver Island) Inc. (100% - Terasen Inc.). The extensions approved by the commission apply in 2007 and 2008, inclusively. Approval by the Commission is in line with expectations and the terms of the extensions are fully reflected in our outlook for the regulated gas distribution operations of Terasen Inc. We note that the Commission has yet to issue its determination regarding the planned acquisition of Terasen Inc. by Fortis Inc. The established regulatory process to consider the acquisition is expected to conclude on April 5 and a decision from the Commission is expected thereafter. We continue to believe that approval by the Commission will not be unreasonably withheld and that the transaction is likely to close mid-2007. The Competition Bureau of Canada issued a “no action” letter regarding the transaction on March 21 and Kinder Morgan must also resolve certain conditions precedent. We continue to rate the shares of Fortis Inc. Outperform.

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Growth(%):								
5 Year:	10.4		10.1			10.2		
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Dissemination of Research

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.24
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

May 1, 2007

Brief Research Note
Gas & Electrical

Karen Taylor, CFA

(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

BCUC Approves Acquisition of Terasen Inc.

Impact

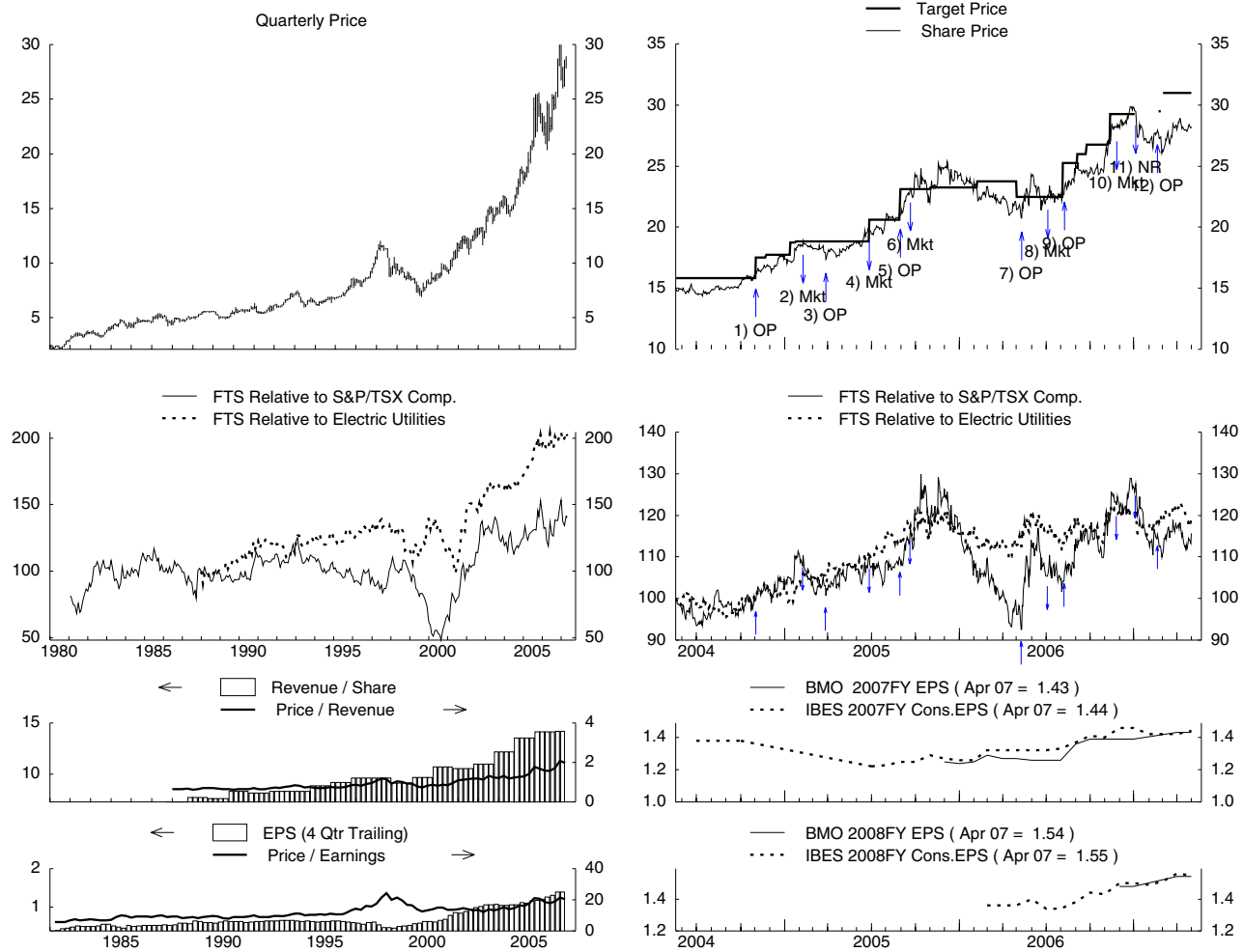
Neutral

Details & Analysis

The British Columbia Utilities Commission (BCUC) issued an Order and Reasons for Decision on April 30, 2007, approving the acquisition of 100% of Terasen Inc. by Fortis Inc. The planned acquisition of the natural gas distribution businesses of Terasen Inc. by Fortis was announced on February 26, 2007. The BCUC approved the transaction subject to: (i) ring-fencing conditions - the continued application of the five ring-fencing conditions implemented by the Commission at the time Terasen was acquired by Kinder Morgan Inc.; (ii) governance – existing governance policies are to be maintained, including continued independence of Directors of Terasen Inc.; (iii) location of functions and data – geographic location of any existing functions or data currently in the service area cannot change without the prior approval of the Commission; and (iv) data and server Providers – the location of data and servers providing service to the Terasen utilities is to be restricted to Canada and that any proposal to locate data and servers outside Canada will require the Commission's approval. These conditions, plus assurances made by Fortis that have not been made conditions of approval, are not likely to create hardship for Fortis, as they are consistent with the company's current, decentralized management practices. The five ring-fencing conditions previously implemented are: (1) requirement to maintain actual equity at a level at least equal to the deemed equity allowed by the Commission; (2) prohibition against the payment of dividends if doing so would violate (1) above; (3) prohibition against the financial support of affiliates of the utilities and requirement to maintain separate banking and cash management arrangements and a prohibition against tax sharing agreements; (4) no affiliate transactions that are not compliant with Commission guidelines and without Commission approval in certain circumstances; and (5) prohibition against the provision of financial support to or to guarantee non-regulated activities by the Terasen utilities. We believe that the transaction is likely to close by the end of Q2/07, once Kinder Morgan has completed the separation of its petroleum transportation operations from Terasen Inc. No change in view. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.38	20	0.76	2.7	55	12.19	2.3	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.6		10.1			10.2		
10 Year:	9.2		5.6			7.0		
20 Year:	5.0		4.6			6.1		

* Current EPS is the 4 Quarter Trailing to Q4/2006.

FTS - Rating as of 19-May-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 30, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

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Stock Price: \$28.24

Target Price: \$31.00

Member of: Top 15 Income Stock Selections

May 1, 2007

Brief Research Note
Gas & Electrical

Karen Taylor, CFA

(416) 359-4304

Karen.Taylor@bmo.com

Assoc: Benjamin Pham

KMP Completes Purchase of Trans Mountain

Impact

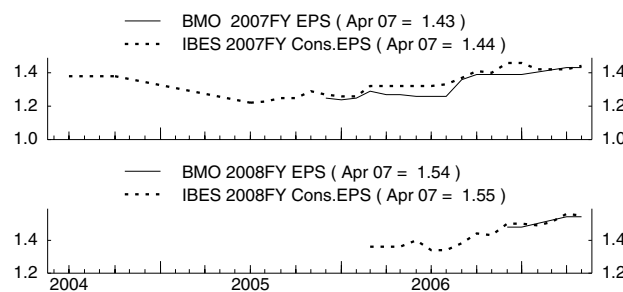
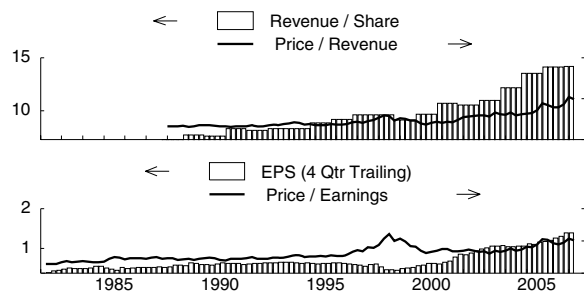
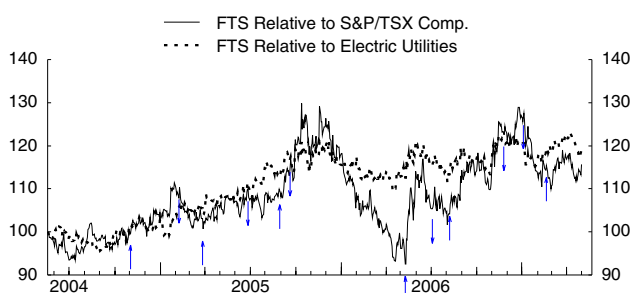
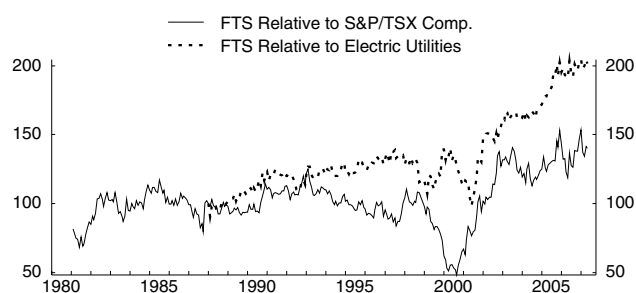
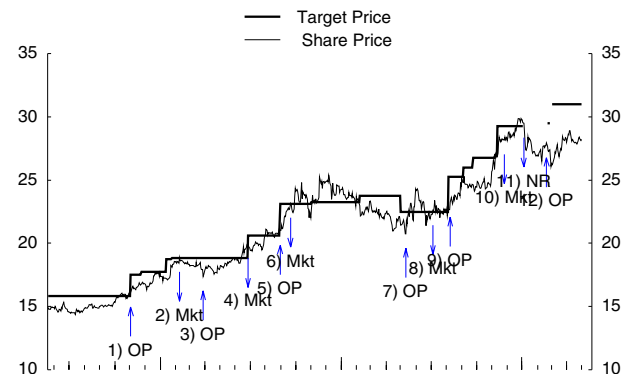
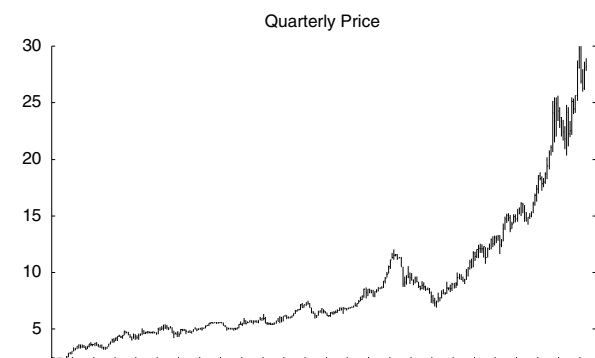
Neutral

Details & Analysis

Kinder Morgan Energy Partners has announced that it has completed the purchase of the Trans Mountain Pipeline System from Kinder Morgan Inc. for US\$550 million plus US\$450 million of debt associated with the planned TMX1 - Anchor Loop expansion that is expected to increase capacity on the Trans Mountain Pipeline to 300,000 bbls/d from 260,000 bbls/d presently by November 2008. We estimate that the transaction was priced at approximately 10.0x EV/EBITDA (US\$1 billion over discounted 2010E EBITDA of US\$123 million. Kinder Morgan must also close the sale of the Corridor Pipeline System to Inter Pipeline Fund in mid-May (this transaction was announced on March 5, 2007) and must also transfer its 33.3% interest in the Express Pipeline System from Terasen Inc., if this has not already occurred. We continue to expect that the planned acquisition of Terasen Inc. by Fortis Inc. closes no later than June 30. No change in view. We rate the shares of Fortis Inc. Outperform.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.02
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

May 3, 2007

Brief Research Note
Gas & Electrical

Karen Taylor, CFA

(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Q1/07 EPS Slightly Higher than Expected

Impact

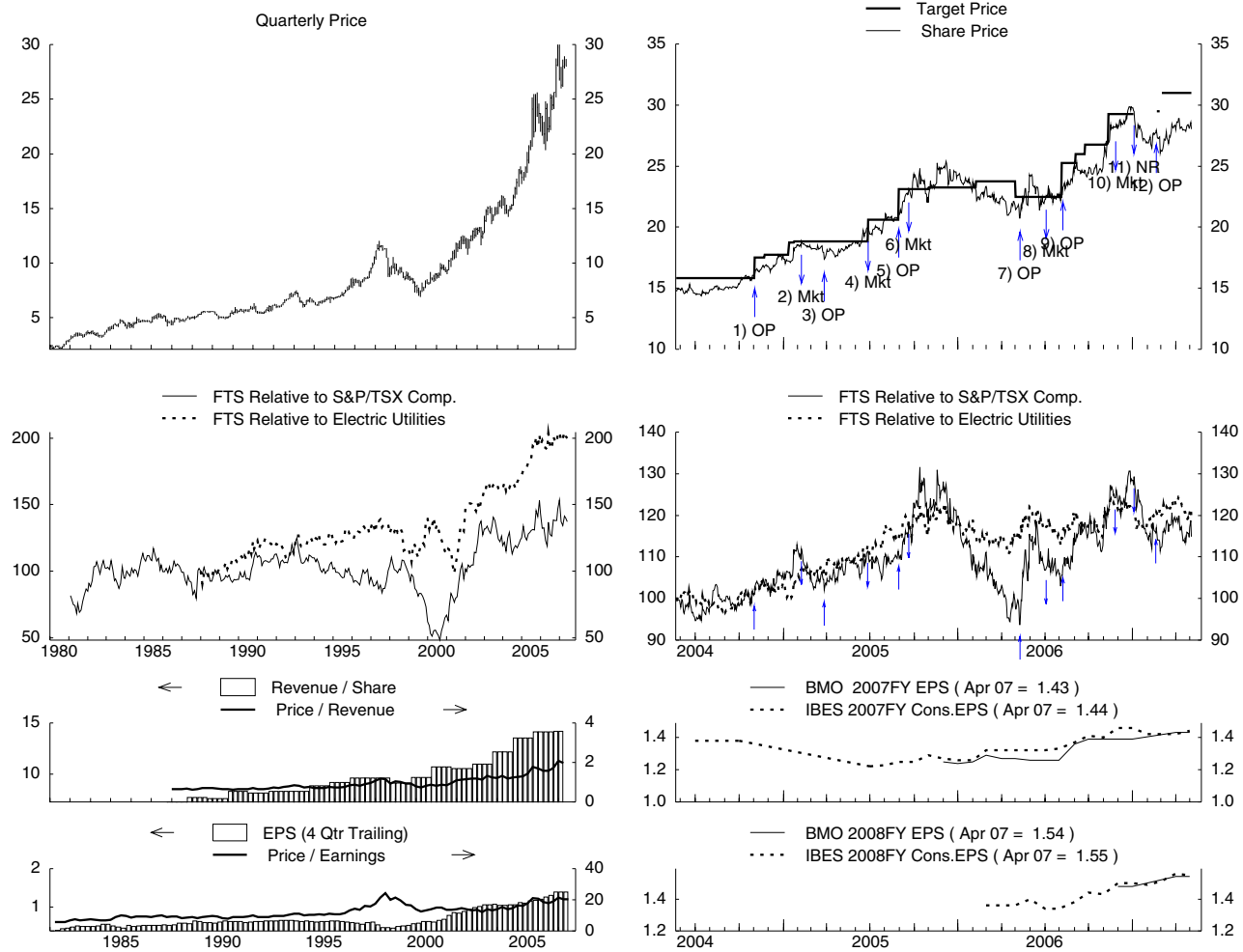
Neutral

Details & Analysis

Fortis Inc. reported Q1/07 EPS of \$0.38. After adjusting for a \$2.4 million after-tax impairment charge incurred by Caribbean Utilities in that company's Q3/07 (period ending January 31, 2007) and highlighted in our comment dated March 5, reported Q1/07 EPS were \$0.40 per share, slightly higher than our expectation of \$0.39 per share. Stronger quarter over quarter was observed in all key business segments, notably Fortis Generation (non-regulated hydro-electric generation), largely due to increased hydroelectric production in Belize and higher average wholesale energy prices in Ontario. The recently acquired utilities in the Turks and Caicos contributed approximately \$1.8 million after-tax in the quarter. We continue to review the release. We rate the shares of Fortis Outperform.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.38	20	0.76	2.7	55	12.19	2.3	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.6		10.1			10.2		
10 Year:	9.2		5.6			7.0		
20 Year:	5.0		4.6			6.1		

* Current EPS is the 4 Quarter Trailing to Q4/2006.

FTS - Rating as of 21-May-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: May 2, 2007



Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

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Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%

Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

May 4, 2007
Research Comment
Corporate Debt – Utilities

Laurie Conheady
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Credit Metrics Remain Low But Relatively Stable

Event

Fortis Inc. (Fortis) releases Q1/07 results.

Impact

Neutral.

Key Points

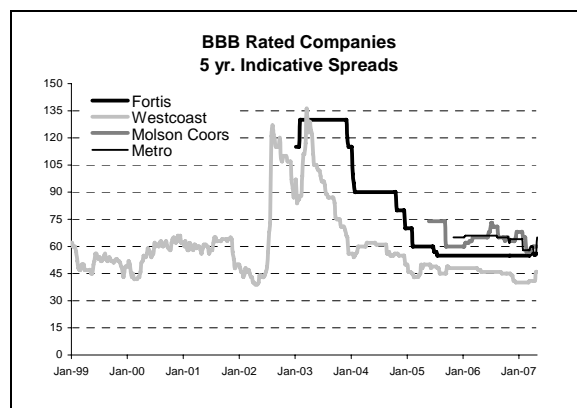
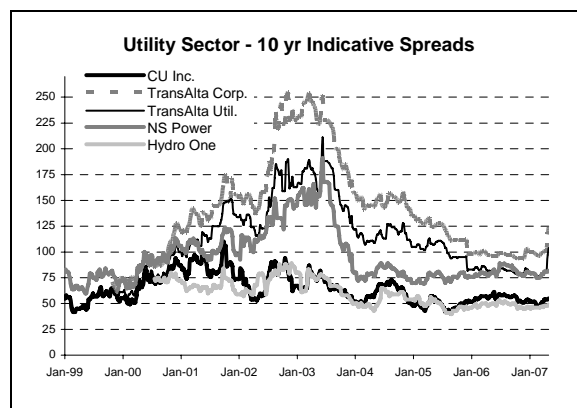
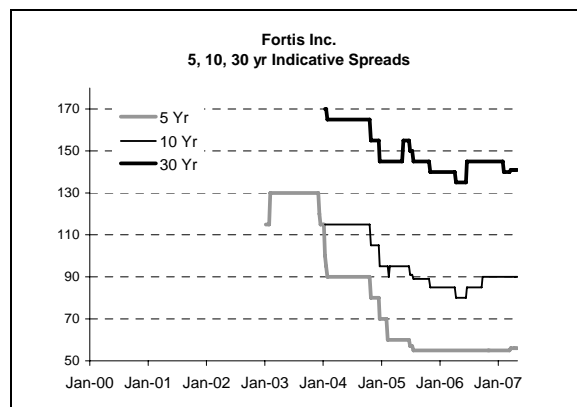
Fortis' earnings for Q1/07 were up 13.4% on Q1/06. The higher returns primarily stemmed from increased earnings from FortisAlberta, increased non-regulated power generation earnings due to higher hydroelectric generation at Belize Electricity and higher wholesale pool prices in Ontario, and contributions from its Fortis Turks and Caicos electric utility acquired in August 2006. The higher earnings translated to higher cash flows compared to Q1/06, however ongoing high capital outlays led to negative free cash flow. Cash flow credit metrics remain weak but adequate. A \$93.4 million drop in debt in Q1/07 coupled with higher shareholders' equity following an issue of common shares, led to a modest drop in leverage, and access to liquidity remains adequate.

Recommendation

Fortis has limited capital market issues outstanding at the holding company level, and what debt there is, is infrequently traded. Nevertheless, we believe the credit profile of Fortis continues to strengthen and will improve further with the increased diversity of regulated cash flows to flow from the Terasen Inc. acquisition. Further, for those investors with exposure to the holding company debt we believe there is a real potential for a ratings upgrade from Standard & Poor's. The benefit of the improving credit profile is not restricted to Fortis' direct debt holders. An improving credit profile for Fortis augurs well for the Fortis subsidiaries, such as FortisAlberta and FortisBC, as the company will be in a better position to assist these utility businesses in funding their significant capital expenditure programs.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
BBB (High)	BBB	Not Rated
Stable	CW-Pos	



Details & Analysis

Earnings and Cash Flow

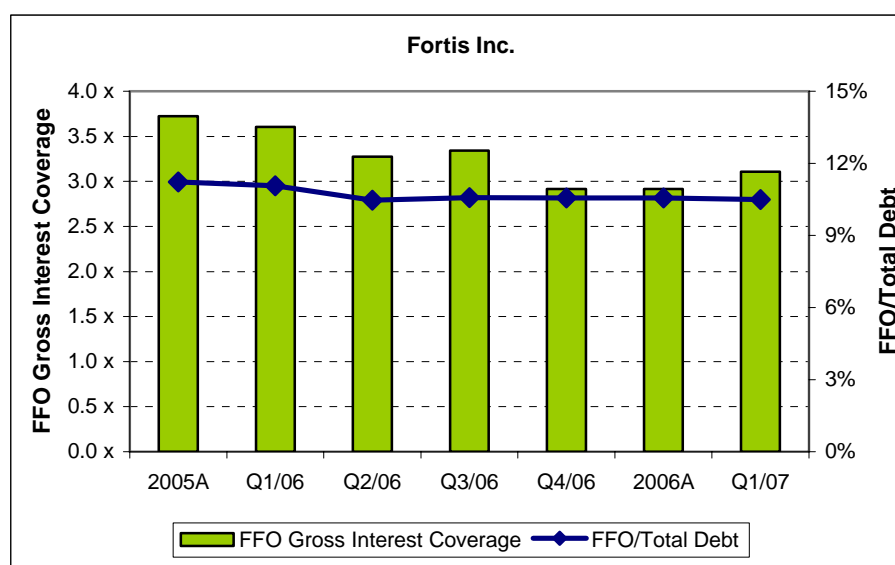
Fortis' earnings for the first quarter of 2007 were up 13.4% on the corresponding period in 2006. Excluding a \$2.4 million net charge at its Caribbean Utilities subsidiary in the quarter, earnings would have been close to 20% higher. The higher returns primarily stemmed from:

- increased earnings from its expanding FortisAlberta subsidiary;
- higher non-regulated power generation earnings due to higher hydroelectric production at Belize Electricity, and higher average wholesale prices in Ontario; and
- contributions from its Fortis Turks and Caicos electric utility acquired in August 2006.

On an EPS basis, Fortis' reported EPS in the quarter of \$0.38. After adjusting for an after-tax impairment charge incurred by Caribbean Utilities Q1/07 EPS were \$0.40 per share, slightly higher than BMO Capital Market's equity research expectation of \$0.39 per share.

The higher earnings translated to an increase in cash flows compared to Q1/06; however ongoing high capital outlays resulted in negative free cash flow (funds from operations less capital expenditure net of contributions and distributions). Funds from operations (FFO) of \$85.7 million, up from \$76.9 million in Q1/06 was insufficient to meet \$112.7 million of net capital expenditure commitments and \$28.6 million in dividends. The cash flow shortfall was essentially met through proceeds from a common share issue of \$147.6 million in the quarter. Fortis' large capital expenditure program will dominate cash flows outlays and financing activities for the next few years at least, with negative free cash flow expected to be the norm. In the next five years, gross consolidated electric utility expenditure of about \$2.8 billion is expected, with about \$631 million to be undertaken in 2007. Of the 2007 program, about 66% is to be undertaken at its western Canadian subsidiaries, FortisAlberta and FortisBC. If the Terasen Gas acquisition closes as planned, an additional \$1 billion of consolidated gas utility capital expenditure is expected in the next five years.

The company's relative cash flow credit metrics remain weak but adequate (Chart 1). Unadjusted FFO gross interest coverage based on a 12-month rolling basis to March 31, 2007 was 2.8x, consistent with year end 2006, but slightly lower than the 3.0x in fiscal 2005. Not surprising given its partially debt financed expansion of its electricity network asset bases and the delay in receipt of regulated cash flows from the asset constructed, FFO-to-debt remained on the weak side at 11.7% for the 12-months to March 31, 2007, up from 10.9% at year end 2006, but down from 14% in fiscal 2005. We note, however, that the fiscal 2006 FFO-to-debt ratio was adversely affected by the consolidation of Caribbean Utilities' debt at year-end after taking a majority shareholding in the company in November 2006.

Chart 1: Fortis Inc. Cash Flow Credit Metrics on a Rolling 12-month Basis

Source: BMO Capital Markets

Recent Developments

The company's announced acquisition of Terasen Inc. on Feb. 26, 2007 moved a step closer to fruition with the provincial regulator, the British Columbia Utilities Commission, approving the proposed acquisition on April 30, 2007. This most recent step follows the receipt of a no-action letter from the Competition Bureau of Canada on March 20, 2007. What is left to complete the sale process is Kinder Morgan meeting a closing condition, which involves the requirement for it to separate its petroleum operations from Terasen, leaving just the natural gas distribution business operated by Terasen Gas. The condition precedent and financial close of the transaction is expected to be completed in Q2/07.

Capital Structure and Liquidity

A \$93.4 million drop in debt outstanding in Q1/07 coupled with higher shareholders' equity supported by an issue of common shares of \$147.6 million, led to a modest drop in Fortis' leverage at March 31, 2007. A significant portion of the proceeds from the equity issue was used to repay existing indebtedness at Fortis, fund a portion of acquisitions undertaken in 2006, and support capital expenditure programs. Leverage, as measured by total debt-to-total capital and treating the preference shares as equity at the end of Q1/07 was 56.9%, down from 59.7% at year end 2006. Total consolidated debt at quarter end was \$2.65 billion. The lower debt in the quarter versus year end 2006 reflects a combination of the reclassification of deferred charges and other assets as long-term debt (\$21.2 million) due to the adoption of a new accounting standard, in addition to net debt repayments on long-term credit facilities at Fortis, FortisAlberta and FortisBC. The reduction in debt was partly offset by FortisAlberta's \$110 million debenture offering, which closed Jan. 3, 2007.

The vast majority of Fortis' consolidated debt, about 90%, resides at the company's various subsidiaries. Debt at the holding company level comprises \$100 million of senior unsecured debentures maturing 2010, US\$150 million senior unsecured notes maturing 2014, and about US\$59 million in unsecured subordinated convertible debentures due between 2012 and 2016, after US\$1.1 million of the company's 2012 subordinated debentures were converted to common shares on March 21, 2007. The proportion of holding company debt in the consolidated capital structure will be significantly reduced with the addition of Terasen Inc.'s \$2.3 billion of debt on the close of the acquisition transaction. The company's leverage is expected to remain about its target level of 60%, and with the successful issuance of \$1.15 billion of subscription receipts in the quarter to fund its \$3.7 billion Terasen Inc. acquisition, this should remain the case.

Fortis' maintains adequate access to liquidity. Unused capacity under the company's \$963.5 million of consolidated lines of credit was \$722.8 million at the end of Q1/07 after draw downs and outstanding letters of credit, up from \$546.7 million at Dec. 31. 2006. The available capacity is sufficient to meet operating and capital requirements and refinancing needs. At the end of the quarter Fortis also had consolidated cash and cash equivalents of \$43.2 million. Further, in Q1/07 the company established \$1.425 billion non-revolving term credit facilities to fund the Terasen acquisition, of which advances of about \$300 million are expected to be drawn to complete the transaction. Maturing debt commitments and amortising debt repayments are manageable with less than \$100 million of existing long-term debt due in the next 12 months and under \$300 million in the next three years. We note, however, that if the Terasen Inc. acquisition closes as expected in Q2/07, the company's consolidated debt maturities in 2007 will also include \$250 million of maturing debt at Terasen Gas Inc. in October 2007.

Credit Ratings

As a result of its proposed acquisition of Terasen Inc., Fortis's corporate credit rating and senior unsecured debt issue rating face potential positive rating action.

Standard & Poor's places its ratings on Fortis on CreditWatch with Positive Implications on Feb. 26, 2007, following its announced acquisition of Terasen Inc. Of significance, the agency advised that it was opening the door to a possible modest rating separation between Fortis and some of its regulated subsidiaries. The open door suggests the agency's approach to analyzing Fortis may deviate from its current consolidated rating methodology to include a review of the credit profile from a deconsolidated point of view. If this approach is followed we see an upgrade of Fortis' corporate and senior debt issue ratings as a distinct possibility. In the event the corporate credit rating is affirmed under the agency's consolidated rating approach, we also believe an opportunity exists for the senior unsecured rating to be upgraded. The basis for the upgrade would be the added diversity the Terasen acquisition provides to the Fortis group with the agency's structural subordinated criteria providing the opportunity for the debt at the holding company level to be rated the same as the corporate credit rating based on sufficient business and/or geographic diversity of the subsidiaries. Fortis' senior debt rating is currently notched off from its corporate credit rating to reflect the debt's structurally subordinated position relative to the debt of its operating companies.

DBRS confirmed its ratings on Fortis on Feb. 26, 2007 following its announced intention to acquire 100% of the common shares of Terasen Inc. DBRS believes the transaction will have a positive impact on Fortis's overall business risk profile as a result of the acquisition of stable, low-risk gas distribution assets. From a financial risk perspective, DBRS expects a modest decline in consolidated interest coverage metrics, given the existing levels of debt at the acquired entities; however, it anticipates a modest improvement in non-consolidated credit metrics, given that the transaction is predominantly equity financed, coupled with the historical strength of Terasen Gas Inc.'s dividends. Overall, DBRS views the predominantly equity-financed acquisition of regulated assets as a good strategic fit for Fortis and views the proposed transaction as credit neutral to slightly credit positive.

Recommendation

Fortis has limited capital market issues outstanding at the holding company level, and what debt there is, is infrequently traded. Nevertheless, we believe the credit profile of Fortis continues to strengthen and will improve further with the increased diversity of regulated cash flows to flow from the Terasen Inc. acquisition. Further, for those investors with exposure to the holding company debt we believe there is a real potential for a ratings upgrade from Standard & Poor's. The benefit of the improving credit profile is not restricted to Fortis' direct debt holders. An improving credit profile for Fortis augurs well for the Fortis subsidiaries, such as FortisAlberta and FortisBC, as the company will be in a better position to assist these utility businesses in funding their significant capital expenditure programs.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding (\$mm)
Newfoundland Power	11.88%	16-Dec-07	\$40	First Mortgage	16-Dec-87	145.0 bps	Make Whole (+ 75.0 bps)	651350BC3	\$32
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	1-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$6
Maritime Electric	12.00%	1-May-10	\$15	First Mortgage	1-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
FortisBC Inc.	9.44%	31-Oct-13		WPP Mortgage	NA	NA	NA	NA	\$6
Newfoundland Power	10.55%	1-Aug-14	\$40	First Mortgage	9-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
Fortis Inc.	5.74%	31-Oct-14	US\$150	Senior Notes	28-Oct-04	NA	NA	NA	US\$150
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debenture	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
FortisBC Inc.	8.77%	1-Feb-16	\$25	Unsecured Debenture	1-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	2-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric	11.50%	15-Aug-16	\$12	First Mortgage	1-Jan-91	NA	NA	NA	\$12
Maritime Electric	8.55%	7-Dec-18	\$15	First Mortgage	7-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	1-Oct-20	\$40	First Mortgage	1-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$36
FortisBC Inc.	7.81%	1-Dec-21	\$25	Unsecured Debenture	1-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$35
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DAA7	\$25
Maritime Electric	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	7-May-26	\$40	First Mortgage	7-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$47
Maritime Electric	8.92%	3-Jul-31	\$20	First Mortgage	3-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	1-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$73
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debenture	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	9-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debenture	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100
FortisAlberta	4.99%	3-Jan-47	\$110	Unsecured Debenture	3-Jan-07	97.0 bps	Make Whole (+ 24 bps)	34957ZAA2	\$110

Ownership Structure

Widely Held.

Credit Facilities (\$mm)

Company	Facility Size	Amount Available		Maturity	Type
		Q1 2007	FY 2006		
Fortis Inc.*	\$963.5	\$722.8	\$546.7		Lines of Credit

*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.

Corp. Lease Schedule (\$mm) at 12/31/2006

Year	Capital Lease Payments	Operating Lease Payments	Lease Receipts
2007	2.6	5.6	
2008	2.6	5.1	
2009	2.6	5.1	
2010	2.6	3.8	
2011	2.6	3.8	
Thereafter	55.4	16.3	

*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2006 (\$mm)	FY 2005 (\$mm)	FY 2006 (\$mm)	FY 2005 (\$mm)
Accrued Benefit Obligation	413.4	389.8	125.2	116.5
Plan Assets	390.6	349.9	-	-
Funded Status	(22.8)	(39.8)	(125.2)	(116.5)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	102.0	97.2	63.7	(53.6)
Discount Rate	5-5.25%	6-6.25%	6-6.25%	6-6.25%
Expected Long-term Rate of Return on Assets	6.5-7.5%	7-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.0%	3.5-4.5%	3.5-4.5%	3.5-4.5%

Historical Ratings								
Senior Unsecured Rating - Fortis								
DBRS			S&P			Moody's		
Rating	Trend	Date	Rating	Trend	Date	Rating	Trend	Date
BBB (high)	Stable	5-Nov-03	BBB	Credit Watch Positive	26-Feb-07	Not Rated		
BBB (high)	Under Review - Developing	16-Sep-03	BBB	Stable	7-Dec-05			
BBB (high)	Stable	6-Oct-00	BBB	Negative	7-Jan-04			
			BBB	Credit Watch Negative	22-Sep-03			

Analyst's Certification

I, Laurie Conheady, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

May 4, 2007

Research Comment
 Toronto, Ontario

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Q1/07 Slightly Higher than Expected – Outperform Rating Unchanged

Event

Fortis reported Q1/07 EPS of \$0.38. After adjusting for a \$2.4 million after-tax impairment charge incurred by Caribbean Utilities in that company's Q3/07 (period ending January 31, 2007) and highlighted in our comment dated March 5, 2007, reported Q1/07 EPS were \$0.40 per share, slightly higher than our expectation of \$0.39 per share. Strong quarter over quarter performance was observed in all key business segments, notably Fortis Generation (non-regulated hydroelectric generation), largely due to increased hydroelectric production in Belize and higher average wholesale energy prices in Ontario. The recently acquired utilities in the Turks and Caicos contributed approximately \$1.8 million after-tax in the quarter.

Impact

Neutral.

Forecasts

Unchanged. Our diluted 2007 EPS increases marginally due to rounding and the effect that a slightly higher share price has on the diluted EPS calculation. Our diluted 2007E and 2008E EPS estimates are \$1.44 and \$1.54, respectively. Our outlook fully reflects the successful close of the acquisition of Terasen Inc. from Kinder Morgan by June 30, 2007.

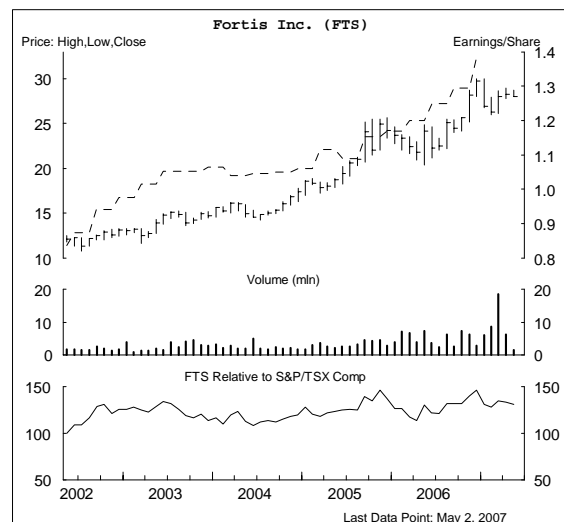
Valuation

Our target price of \$31.00 reflects a weighted approach: 18.0x diluted 2008E EPS of \$1.64 (12.5%), 2.0x 2008E BV of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends of \$0.92.

Recommendation

We believe the shares are attractively valued at current levels. Our rating is Outperform.

Price (2-May) \$28.02 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$20.36



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.54
P/E			19.5x	18.2x
CFPS	\$3.15	\$2.70	\$3.26	\$3.48
P/CFPS			8.6x	8.1x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,787	\$10,721
EBITDA (\$mm)	\$507	\$531	\$909	\$1,132
EV/EBITDA	9.2x	10.9x	10.8x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.36	\$0.32	\$0.37
Dividend	\$0.84			3.0%
Book Value	\$13.08			Price/Book
Shares O/S (mm)	129.0			2.1x
Float O/S (mm)	129.0			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,490			\$3,615
Net Debt (\$mm)	\$6,098.5			Float Cap (\$mm)
				\$3,615
				Wkly \$ Vol (mm)
				\$38.8
				Next Rep. Date
				03-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2007E: \$1.44; 2008E: \$1.55

Details & Analysis

Fortis reported Q1/07 EPS of \$0.38. After adjusting for a \$2.4 million after-tax impairment charge incurred by Caribbean Utilities in that company's Q3/07 (period ending January 31, 2007) and highlighted in our comment dated March 5, 2007, reported Q1/07 EPS were \$0.40 per share, slightly higher than our expectation of \$0.39 per share. Strong quarter over quarter performance was observed in all key business segments, notably Fortis Generation (non-regulated hydroelectric generation), largely due to increased hydroelectric production in Belize and higher average wholesale energy prices in Ontario. The recently acquired utilities in the Turks and Caicos contributed approximately \$1.8 million after-tax in the quarter.

We believe the following points are relevant about the quarter and our outlook:

- The company did not have any material mark-to-market gains or losses during the quarter, despite the change in accounting methodology. We believe that this reflects a real effort by management to minimize unnecessary complexities and highlights the prevalence of regulated assets within its asset portfolio.
- We note the distribution rate approvals for Fort Erie, Port Colborne and Gananoque. The key metrics in these decisions, 40% deemed equity and a return on equity of 9%, are consistent with the new rate-adjustment model as stipulated under the Ontario Energy Board's "Report of the Board on Cost of Capital and Second Generation Incentive Regulation".
- Utility capital expenditures are expected to be \$631 million in 2007, consistent with our expectation of a total spend of approximately \$710 million. Management highlighted the composition of the capital budget as follows: 32% - directed to ensure continued and enhanced performance, reliability and safety of the corporation's generation transmission and distribution assets; 48% - to meet customer growth; and 20% - facilities, equipment, vehicles and information technology systems. Capital investment at FortisAlberta and FortisBC is expected to be 66% of gross planned expenditures in 2007 and investment at the corporation's regulated and non-regulated utilities in the Caribbean is expected to represent approximately 18% of gross utility expenditures. These amounts are fully reflected in our financial model.
- We do expect that once closed, the company's primary focus will be on the integration of Terasen Inc. and the resumption of that entities' role as a core business, with a potential focus on renewed avenues for growth. The execution of two, two-year extensions to the incentive rate arrangements at Terasen Gas Inc. and Terasen Gas (Vancouver Island) until December 31, 2009 are important in this regard.
- We continue to believe the company is likely to select real estate and hospitality acquisitions in a manner consistent in size and scope with previous announcements – single properties or small asset pools acquired from families and/or other private buyers. Acquisitions are likely to be consistent with the following strategy: (i) maintain a portfolio that is approximately 10 to 15% of the company's total assets; (ii) follow the regulated utility operations; (iii) acquire mid-market hospitality assets; (iv) focus on smaller centres; and (v) enhance corporate tax efficiency.

- Our estimates assume that the planned acquisition of Terasen Inc. closes on June 30, 2007. We note that Terasen's earnings are highly seasonal and while we have attempted to match the seasonal profile in our Q3 and Q4 estimates, variances may occur. Fortis' Q1 and Q2/07 performance are not expected to reflect this transaction and there may be some per share averaging issues due to the large number of shares issued via the subscription receipt to finance this transaction. These issues are largely timing in nature and are largely neutral to our outlook.

Q1/07 performance and annual actual and expected performance by segment are set out in Table 1.

Table 1. Quarterly and Annual Segment Performance

Contribution by Segment	(Millions)										
	2003	2004	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	2007E	2008E
Newfoundland Power	29.5	31.1	29.4	10.7	8.0	2.6	8.8	30.1	10.5	29.8	31.0
Maritime Electric	7.2	8.2	9.1	2.1	2.2	3.1	2.4	9.8	2.6	11.7	12.1
Fortis Ontario	6.5	4.3	2.7	1.0	0.5	1.6	1.0	4.0	1.3	4.3	5.4
Fortis Alberta	0.0	18.6	30.3	9.5	11.3	12.3	8.3	41.4	11.9	41.9	42.0
Fortis BC	0.0	17.7	24.6	11.8	3.4	5.7	6.4	27.3	11.7	27.1	29.9
Belize Electricity	6.7	7.2	8.1	1.5	2.3	3.8	2.8	10.4	2.7	9.4	10.4
Caribbean Utilities	10.5	0.8	10.3	1.6	2.1	3.2	2.8	9.7	2.0	14.4	15.2
Turks & Caicos	0.0	0.0	0.0	0.0	0.0	0.7	2.8	3.4	1.8	9.4	11.5
Fortis Generation	10.9	12.8	21.6	5.4	6.0	7.8	6.8	26.0	7.3	28.9	28.3
Fortis Properties	11.0	11.8	14.1	1.5	5.0	6.3	2.8	15.6	1.8	18.9	19.8
Terasen Inc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	43.5	91.0
Corporate	(8.6)	(23.4)	(30.9)	(8.5)	(6.7)	(8.3)	(11.0)	(34.5)	(9.7)	(49.9)	(54.7)
Earnings Before Non-Recurring items	73.6	89.1	119.3	36.6	34.1	38.7	33.8	143.1	43.9	189.4	241.9
Average Shares	69.2	84.7	101.8	103.3	103.4	103.6	104.0	103.6	109.4	129.0	154.2
Net Earnings to Common (Basic)	\$1.06	\$1.05	\$1.17	\$0.35	\$0.33	\$0.37	\$0.33	\$1.38	\$0.40	\$1.47	\$1.57
Net Earnings to Common (Diluted)	\$1.03	\$0.99	\$1.10					\$1.33		\$1.44	\$1.54

Source: BMO Capital Markets

Table 2 sets out the production and revenue by geographic area for Fortis' non-regulated hydro electric business. We have not made any changes to our assumptions in this segment.

Table 2. Fortis Generation – Actual Fiscal and Quarterly Performance

Fortis Generation		Millions											
	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07
Operating Revenue	57.1	69.2	17.0	19.2	21.7	26.0	83.9	19.3	19.3	19.3	20.2	78.1	21.2
Energy Supply Costs	2.6	5.8	1.9	1.8	0.9	1.6	6.2	1.9	1.4	1.4	1.5	6.2	2.1
Operating Expenses	13.9	16.0	4.8	4.4	2.5	6.1	17.8	4.0	3.9	3.2	4.0	15.1	4.1
Depreciation	7.7	10.3	2.6	2.5	2.6	2.6	10.3	2.7	2.6	2.6	2.6	10.5	2.6
Operating Income	32.9	37.1	7.7	10.5	15.7	15.7	49.6	10.7	11.4	12.1	12.1	46.3	12.4
Interest Expense	13.3	15.4	3.9	4.0	3.5	2.7	14.1	2.7	2.6	2.5	2.3	10.1	2.4
Income Taxes	8.5	6.9	1.4	2.4	4.4	3.5	11.7	2.2	2.3	1.6	1.4	7.5	2.4
Non-controlling Interest	0.3	1.9	0.3	0.9	0.0	1.0	2.2	0.4	0.5	0.2	1.6	2.7	0.3
Net Earnings	10.9	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	7.8	6.8	26.0	7.3

Energy Sales (GWh)		2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07
Central Newfoundland		17	152	35	48	26	50	159	38	39	32	59	168	34
Ontario		705	721	184	176	166	182	708	187	177	172	186	722	184
Belize		61	63	7	7	18	36	68	27	33	65	53	178	44
British Columbia		0	23	5	11	15	8	39	3	13	9	4	30	3
Upper New York State		87	70	17	16	7	35	75	29	28	10	38	105	26
Total		870	1,029	248	258	232	311	1,049	284	290	288	340	1,203	291

Fortis Generation		\$/MWh											
	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07
Operating Revenue	65.6	67.3	68.5	74.4	93.5	83.6	80.0	68.0	66.6	66.9	59.3	64.9	72.9
Energy Supply Costs	2.9	5.6	7.7	7.0	3.9	5.1	5.9	6.7	4.8	4.9	4.4	5.2	7.2
Operating Expenses	16.0	15.6	19.4	17.1	10.8	19.6	17.0	14.1	13.4	11.1	11.8	12.6	14.1
Depreciation	8.8	10.0	10.5	9.7	11.2	8.4	9.8	9.5	9.0	9.0	7.6	8.7	8.9
Operating Income	37.9	36.1	31.0	40.7	67.7	50.5	47.3	37.7	39.3	42.0	35.5	38.5	42.6
Interest Expense	15.3	15.0	15.7	15.5	15.1	8.7	13.4	9.5	9.0	8.7	6.8	8.4	8.2
Income Taxes	9.8	6.7	5.6	9.3	19.0	11.3	11.2	7.7	7.9	5.5	4.1	6.2	8.2
Non-controlling Interest	0.3	1.9	1.2	3.5	0.0	3.2	2.1	1.4	1.7	0.7	4.7	2.2	1.0
Net Earnings	12.5	12.4	8.5	12.4	33.6	27.3	20.6	19.0	20.7	27.0	20.0	21.6	25.1

Source: BMO Capital Markets

Estimates

Unchanged. Our diluted 2007 EPS increases marginally due to rounding and the effect that a slightly higher share price has on the diluted EPS calculation. Our diluted 2007E and 2008E EPS estimates are \$1.44 and \$1.54, respectively. Our outlook fully reflects the successful close of the acquisition of Terasen Inc. from Kinder Morgan by June 30, 2007.

Valuation

Our target price of \$31.00 reflects a weighted approach: 18.0x diluted 2008E EPS of \$1.64 (12.5%), 2.0x 2008E BV of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 3. Consolidated Summary Sheet

4-May-07

Current Price:

\$27.79

12-Month Target Price:

\$31.00

ROR:

14.5%

Karen J. Taylor

BMO Capital Markets

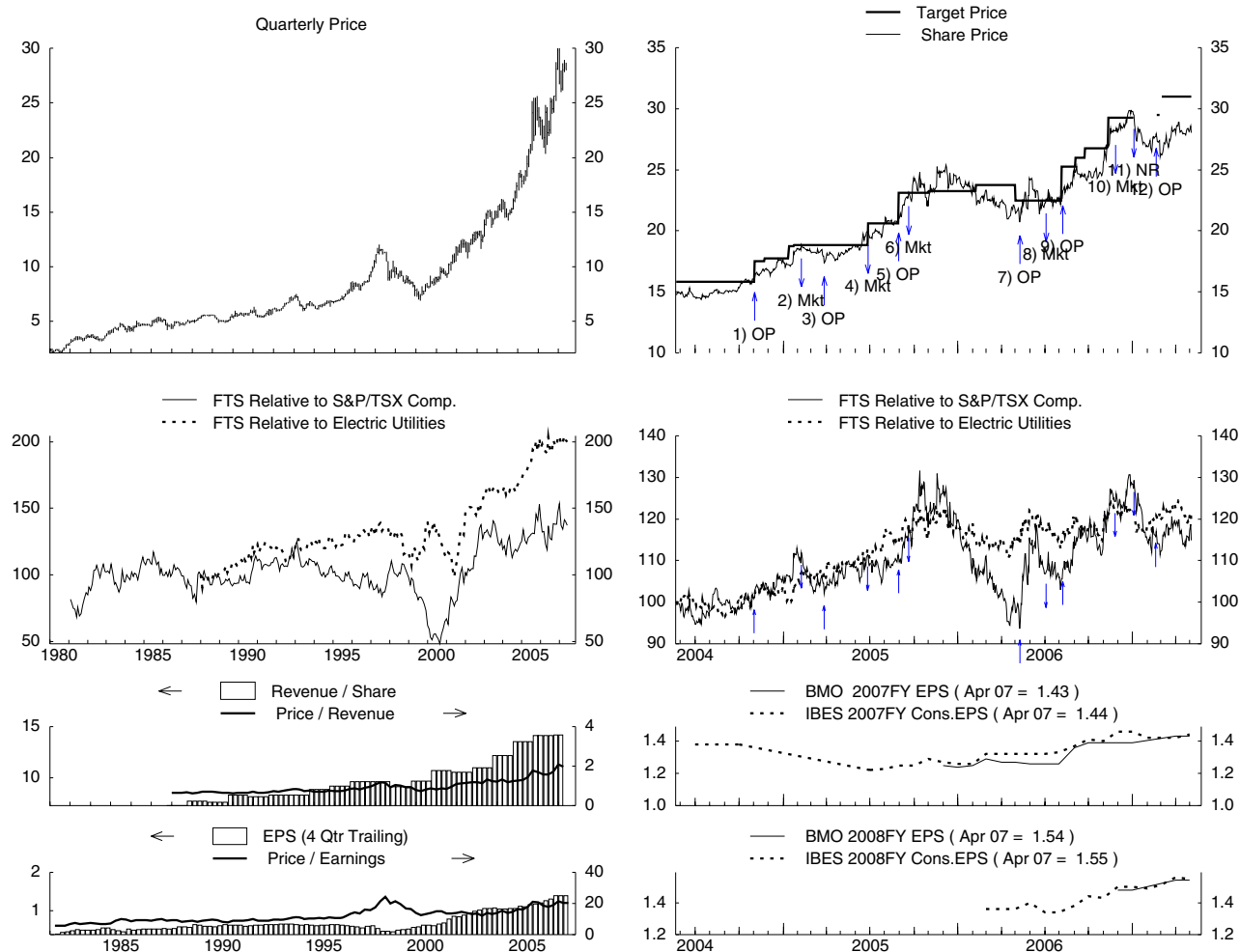
Recommendation:

Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.44	\$1.54
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.20
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.34	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	55.9%	58.3%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.29	17.97
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$27.79	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	18.9	17.7
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.61	1.55
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	2.95%	3.29%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	485.1	755.3
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,775.6	4,722.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.5	2,662.0	2,772.8
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,235.5	9,563.0
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	5.3%	7.9%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	51.7%	49.4%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	5.0%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.4%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.7%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.8%	29.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	189.4	241.9
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	499.2	582.0

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.38	20	0.76	2.7	55	12.19	2.3	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.6		10.1			10.2		
10 Year:	9.2		5.6			7.0		
20 Year:	5.0		4.6			6.1		

* Current EPS is the 4 Quarter Trailing to Q4/2006.

FTS - Rating as of 21-May-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: May 2, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.24
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

May 17, 2007

Brief Research Note
Gas & Electrical

Karen Taylor, CFA

(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Acquisition of Terasen Inc. Closes

Impact

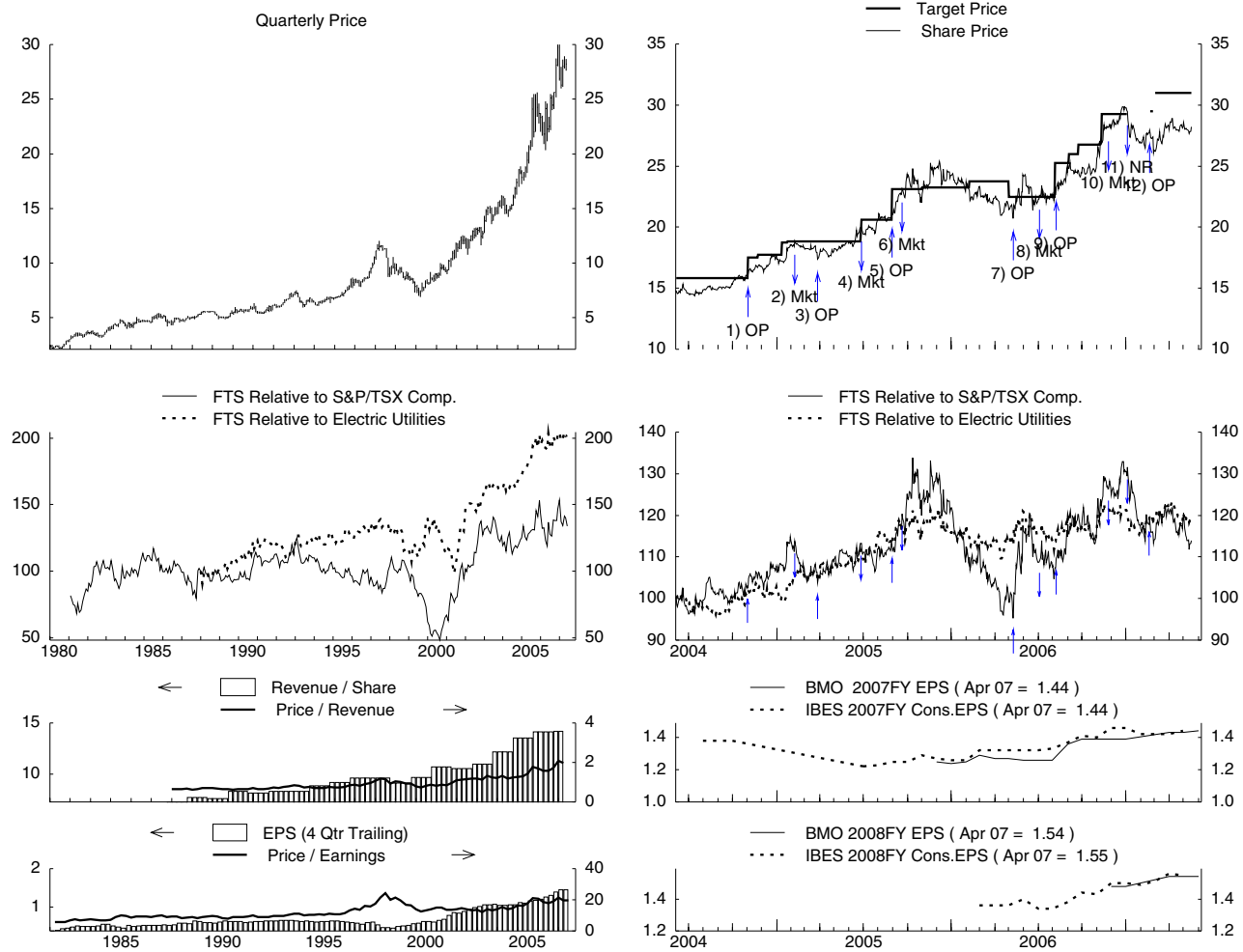
Neutral

Details & Analysis

Fortis Inc. has announced that it has completed the transaction to acquire all of the shares of Terasen Inc. from Kinder Morgan Inc. for total consideration of \$3.7 billion, including assumed debt. The announcement is in line with expectations and the acquisition is fully reflected in our outlook for Fortis. The subscription receipts issued (\$1 billion plus \$150 million pursuant to an over-allotment option) that closed on March 15, 2007, have been automatically exchanged for common shares (approximately 44.269 million common shares). Each subscription receipt holder also receives a cash payment of \$0.21 per subscription receipt, an amount equal to the dividends declared on the common shares of Fortis since March 15, 2007. We continue to rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	20	0.76	2.7	53	13.08	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	11.5		10.1			11.8		
10 Year:	9.6		5.6			7.7		
20 Year:	5.2		4.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 4-Jun-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
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10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: May 16, 2007

Company Risk Disclosure

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I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%

Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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Ratings Key

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Mkt = Market Perform - Forecast to perform roughly in line with the market;

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform
Member of: Top 15 Income Stock Selections

May 18, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Newfoundland Power Files 2008 GRA; Outperform Rating Unchanged

Event

On May 10, Newfoundland Power (100% - Fortis Inc.) filed two applications with the Newfoundland and Labrador Board of Commissioners of Public Utilities: (i) 2.9% proposed rate decrease relating to the disposition of the Rate Stabilization Account, which provides for adjustment to electricity rates each year on July 1 to reflect the price and amount of oil used by Newfoundland and Labrador Hydro in the generation of electricity; and (ii) 2008 General Rate Application, in which the utility is proposing a 5.3% rate increase, effective January 1, 2008. The key highlights of the 2008 GRA are set out herein.

Impact

Neutral.

Forecasts

We have updated our outlook for Newfoundland Power to reflect the key metrics of the application. Our diluted 2007 and 2008 EPS estimates for Fortis Inc. are unchanged at \$1.44 and \$1.54, respectively.

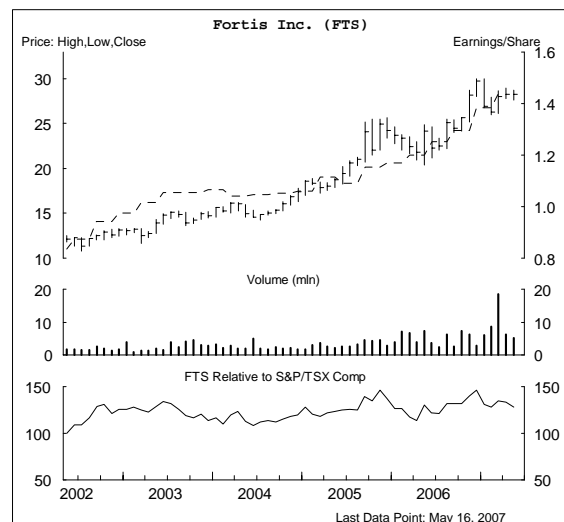
Valuation

Our target price of \$31.00 reflects a weighed valuation approach: 18.0x diluted 2008E EPS of \$1.54 (12.5%), 2.0x 2008E BV of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (17-May) \$28.24 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$21.16



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.54
P/E			19.6x	18.3x
CFPS	\$3.15	\$2.70	\$3.26	\$3.48
P/CFPS			8.7x	8.1x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,743	\$10,669
EBITDA (\$mm)	\$507	\$531	\$909	\$1,132
EV/EBITDA	9.2x	10.9x	10.7x	9.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.36	\$0.32	\$0.37
Dividend	\$0.84			3.0%
Book Value	\$13.08			Price/Book
Shares O/S (mm)	129.0			2.2x
Float O/S (mm)	129.0			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,528			\$3,643
Net Debt (\$mm)	\$6,098.5			Float Cap (\$mm)
				\$3,643
				Wkly \$ Vol (mm)
				\$40.1
				Next Rep. Date
				3-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2007E: \$1.43; 2008E: \$1.59

Details & Analysis

On May 10, Newfoundland Power (100% - Fortis Inc.) filed two applications with the Newfoundland and Labrador Board of Commissioners of Public Utilities: (i) 2.9% proposed rate decrease relating to the disposition of the Rate Stabilization Account, which provides for adjustment to electricity rates each year on July 1 to reflect the price and amount of oil used by Newfoundland and Labrador Hydro in the generation of electricity; and (ii) 2008 General Rate Application, in which the utility is proposing a 5.3% rate increase, effective January 1, 2008. The key highlights of the 2008 GRA include:

- A 5.3% increase in customer rates arising from three changes: (i) depreciation cost recovery accounts for an approximately 1.9% increase in 2008 revenues; (ii) proposed 2008 return on equity of 10.25% versus the 2007 return for ratemaking purposes of 8.60%, which increases the proposed revenue requirement by 1.9%; and (iii) recognition of other employee future benefits on an accrual basis, commencing in 2008, increasing revenue by 1.5%.
- Capital expenditures are expected to be \$52.854 million in 2008 versus \$62.851 million in 2007 and \$58.629 million in 2006.
- In 2008, 45% deemed equity capitalization, consistent with 2007.
- Common equity return of 10.25% for ratemaking purposes in 2008 versus 8.60% in 2007. We have not reflected this metric in our outlook for 2008, as we cannot reasonably ascertain whether the arguments presented in the application and the supporting cost of capital evidence will be adopted by the Board of Commissioners. We believe that the proposed rate of return of 10.25% to be within the range we have previously indicated is likely to meet the Fair Return Standard, given present capital markets and monetary conditions.
- Depreciation expense of \$41.002 million.
- Average rate base at year-end 2008 of \$816.6 million versus \$789.8 at year-end 2007 and \$752.9 at year-end 2006.
- Proposed amortization of the following amounts: (i) amortize as revenue over five years \$16.446 million of 2005 unbilled revenue and \$4.087 million related to a timing difference in receipt and recognition of municipal taxes; (ii) amortize the recovery over a five-year period of \$12.733 million in costs previously deferred by the Board; (iii) amortize the recovery over a five-year period of \$6.8 million of the balance of the Weather Normalization Reserve Account; (iv) amortize over a five-year period the balance of \$1.342 million in the Purchased Power Unit Cost Variance Reserve Account; and (v) amortize the recovery over a three-year period of an estimated \$1.250 million in Board and Consumer Advocate costs related to the Application.

Estimates

We have updated our outlook for Newfoundland Power to reflect the key metrics of the application. Our diluted 2007 and 2008 EPS estimates for Fortis Inc. are unchanged at \$1.44 and \$1.54, respectively.

Valuation

Our target price of \$31.00 reflects a weighed valuation approach: 18.0x diluted 2008E EPS of \$1.54 (12.5%), 2.0x 2008E BV of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

17-May-07

Current Price:

\$28.10

12-Month Target Price:

\$31.00

ROR:

13.2%

Recommendation:

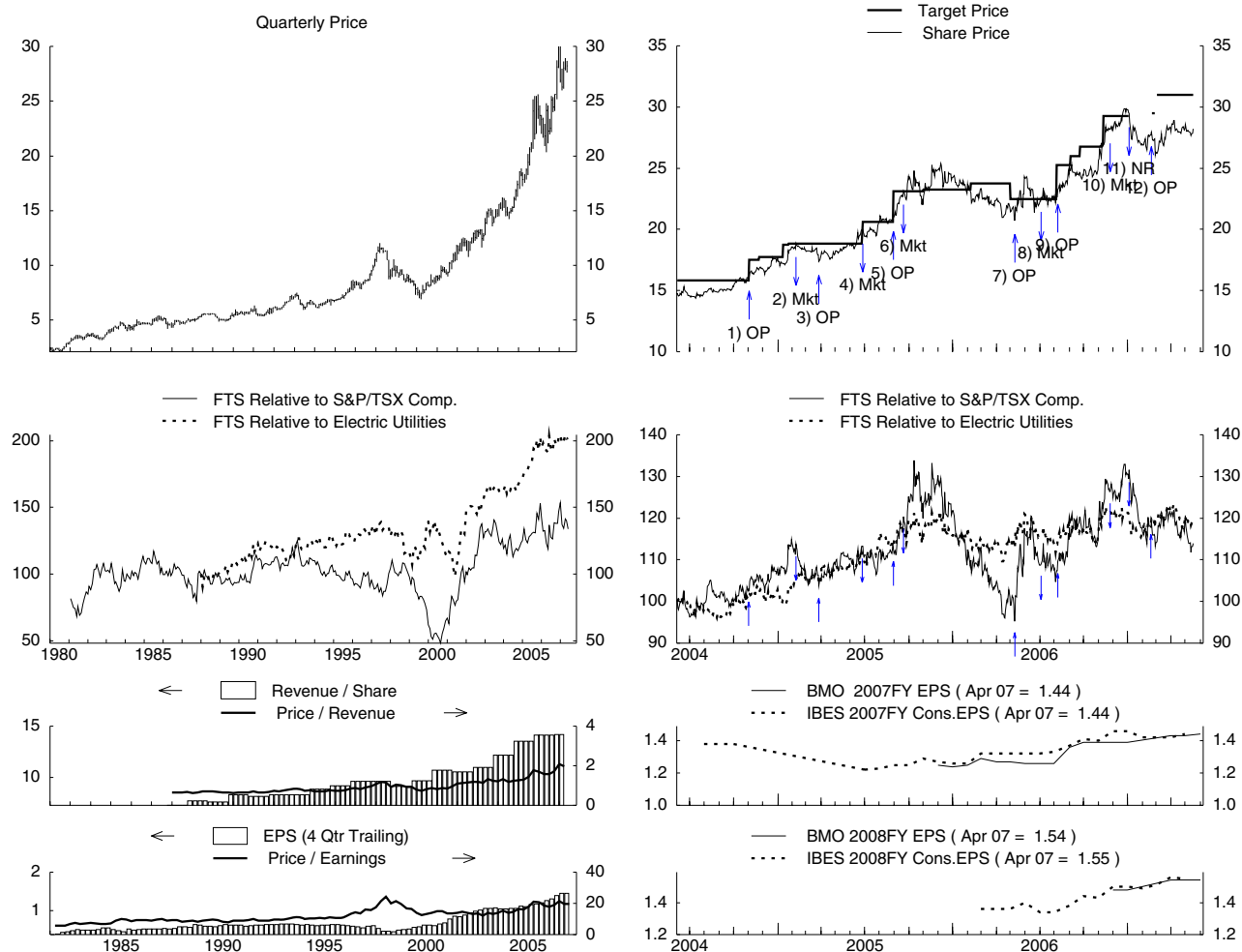
Outperform

Karen J. Taylor
BMO Capital Markets

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.44	\$1.54
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.34	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	55.9%	58.3%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.29	17.97
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$28.10	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	19.1	17.9
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.63	1.56
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	2.92%	3.26%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	485.1	759.6
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,775.6	4,722.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.5</u>	<u>2,662.0</u>	<u>2,772.9</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,235.5	9,567.4
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	5.3%	7.9%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	51.7%	49.4%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	5.0%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.4%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.7%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>28.8%</u>	<u>29.0%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	189.4	241.9
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	499.2	580.5

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	20	0.76	2.7	53	13.08	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	11.5		10.1			11.8		
10 Year:	9.6		5.6			7.7		
20 Year:	5.2		4.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 4-Jun-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: May 16, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.32
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

May 30, 2007
Brief Research Note
Gas & Electrical

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

18 MW Hydro Electric Facility to Be Constructed

Impact

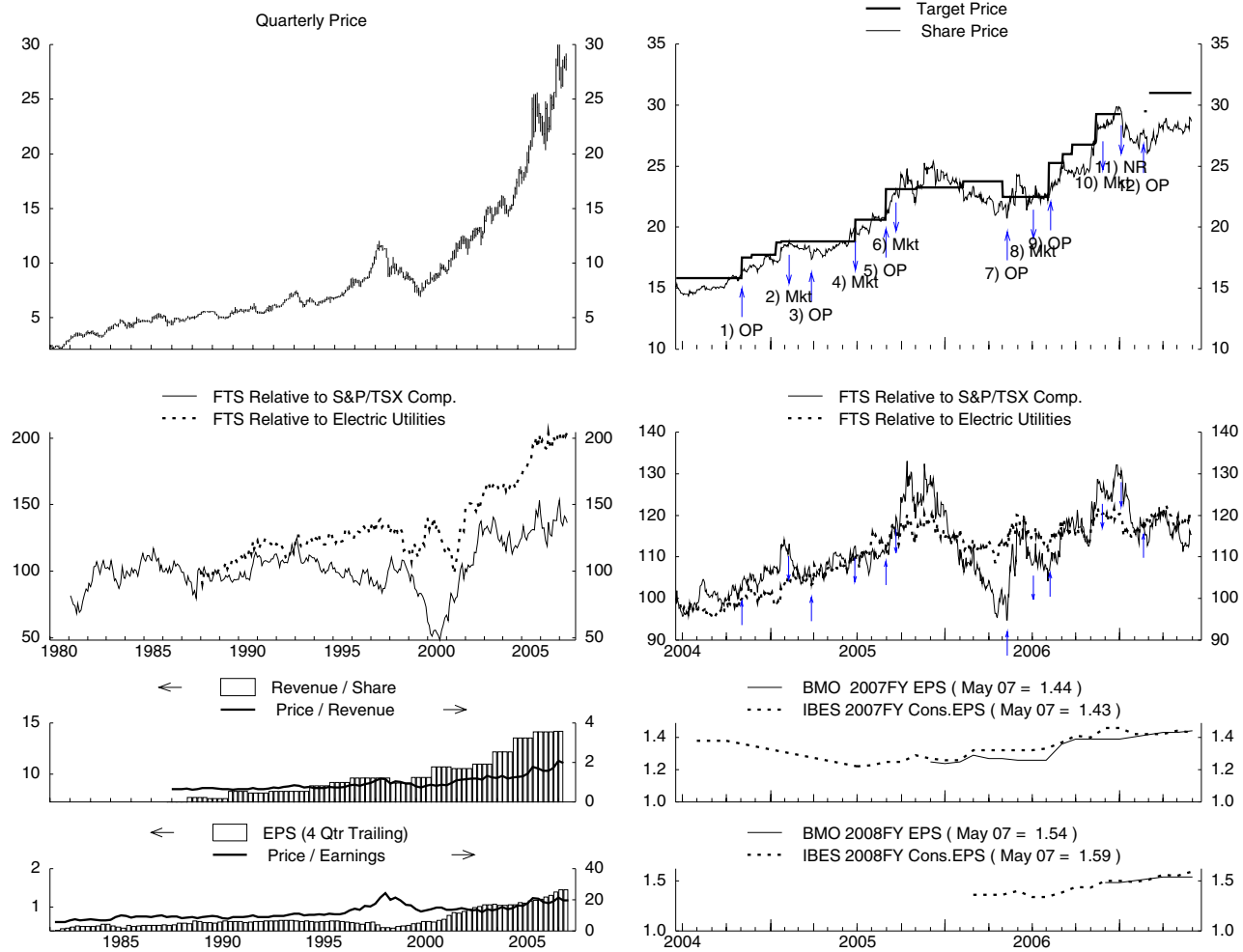
Neutral

Details & Analysis

Fortis has announced that BECOL, its indirect wholly owned subsidiary, has received all major approvals for the construction of a US\$52.5 million, 18 MW run-of-the-river hydroelectric generating facility at Vaca, on the Macal River in Belize. The Vaca facility is the final phase of a three-phase development on the Macal River and is downstream of the 25MW Mollejon hydroelectric facility and the 7MW Chalillo storage and hydro facility. The Vaca facility is expected to be in service in late 2009. Our diluted 2007 and 2008 EPS estimates of \$1.44 and \$1.54, respectively, are unchanged by this announcement, and we note that we previously reflected the potential construction of an 18MW plant in our outlook for 2009, pending the receipt of the requisite approvals. No change in view. We continue to rate the shares Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
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1996	0.59	14	0.43	5.1	73	6.21	1.4	10
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2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	20	0.76	2.7	53	13.08	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	11.5		10.1			11.8		
10 Year:	9.6		5.6			7.7		
20 Year:	5.2		4.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 17-Jun-04 = Mkt

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3 28-Mar-05	Mkt to OP	\$17.38
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5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
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8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: May 29, 2007

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

June 4, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

FortisAlberta Files 2008/09 DTA – Outperform Rating Unchanged

Event

On June 1, FortisAlberta (100% - Fortis Inc.) filed its 2008 and 2009 Distribution Tariff Application (DTA) with Alberta Energy and Utilities Board (AEUB), seeking approval for an increase in distribution rates of 8.5% and 9.0% in 2008 and 2009, respectively. Rate increases are expected in 2008 and 2009 due to increased capital expenditures and the addition of approximately \$145 million to 2008 opening rate base as a result of 2006/07 capital expenditures in excess of those anticipated under the 2006/07 Negotiated Settlement Agreement. This increase in capital spending is primarily related to customer-driven new connects resulting from higher than forecast growth and significantly higher labour and materials escalation than originally forecast. The key financial metrics from the application are included herein.

Impact

Neutral.

Forecasts

We have updated our outlook to reflect FortisAlberta's 2008/09 DTA. Our diluted 2007 EPS estimate of \$1.44 is unchanged. Our diluted 2008 EPS estimate increases to \$1.55 from 1.54.

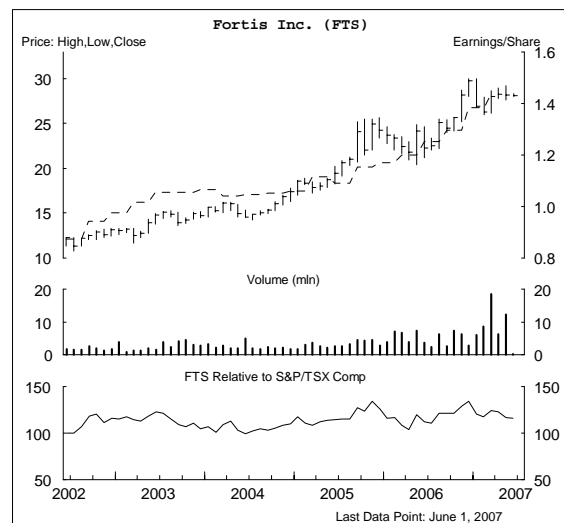
Valuation

Our target price reflects a weighted valuation approach: 18x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E BVPS of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (1-Jun) \$28.11 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$21.16



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.55↑
P/E			19.5x	18.1x
CFPS	\$3.15	\$2.70	\$3.26	\$3.48
P/CFPS			8.6x	8.1x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,823	\$10,769
EBITDA (\$mm)	\$507	\$531	\$909	\$1,131
EV/EBITDA	9.2x	10.9x	10.8x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.36	\$0.32	\$0.37
Dividend	\$0.84			Yield 3.0%
Book Value	\$13.08			Price/Book 2.1x
Shares O/S (mm)	129.0			Mkt. Cap (\$mm) \$3,626
Float O/S (mm)	129.0			Float Cap (\$mm) \$3,626
Wkly Vol (000s)	1,590			Wkly \$ Vol (mm) \$42.4
Net Debt (\$mm)	\$6,098.5			Next Rep. Date 3-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.44; 2008E: \$1.61

Changes	Annual EPS
	2008E \$1.54 to \$1.55

Details & Analysis

On June 1, FortisAlberta (100% - Fortis Inc.) filed its 2008 and 2009 Distribution Tariff Application (DTA) with Alberta Energy and Utilities Board (AEUB), seeking approval for an increase in distribution rates of 8.5% and 9.0% in 2008 and 2009, respectively. Rate increases are expected in 2008 and 2009 due to increased capital expenditures and the addition of approximately \$145 million to 2008 opening rate base as a result of 2006/07 capital expenditures in excess of those expected under the 2006/07 Negotiated Settlement Agreement. This increase in capital spending is primarily related to customer-driven new connects resulting from higher than forecast growth and significantly higher labour and materials escalation than originally forecast. The key financial metrics of the application include:

- Mid-year rate base subject to debt and equity return of \$799.6 million in 2006 (actual), \$961.5 million in 2007 (current estimate), and \$1,144.4 and \$1,373.5 million in 2008 and 2009, respectively.
- Deemed equity of 37% in each of 2008 and 2009. Cost of equity is assumed to 8.51%, the return allowed for fiscal 2007, to be subject to true-up in December 2007 and 2008 when the AEUB's Generic Cost of Capital formula is reset for each of 2008 and 2009, respectively.
- Total gross capital expenditures of \$256.3 million in 2006 (actual), \$285.3 million in 2007 (current estimate), \$305.1 million in 2008 and \$315.2 million in 2009. Expenditures relating to customer growth in each year are: \$142.1 million in 2006, \$149.3 million in 2007, \$155.3 million in 2008, and \$152.3 million in 2009.
- Total depreciation and amortization costs of \$73.6 million in 2006, \$81.6 million in 2007, \$91.9 million in 2008 and \$100.6 million in 2009.
- Total operating expenses of \$112.7 million in 2006, \$117.5 million in 2007, \$126.4 million in 2008 and \$128.3 million in 2009. Total operating costs before flow-through items are expected to be \$97.9 million in 2006 (actual), \$100.6 million in 2007 (current estimate), \$108.8 million in 2008 and \$109.6 million in 2009.
- Economic growth during the 2006 to 2009 period (Alberta GDP growth) is expected to be as follows: 6.8% in 2006, 3.8% in 2007, 3.7% in 2008 and 3.2% in 2009. In 2006, FortisAlberta delivered energy in the amount of 14,917 GWh to an average of 422,000 distribution connected customers. Energy delivery in 2007 is forecast to grow to 15,455 GWh, to an average of over 437,000 distribution connected customers. Delivery volumes in 2008 and 2009 are expected to increase to 15,974 GWh and 16,344 GWh, respectively, and distribution connected customers are expected to be 450,700 and 463,600 in 2008 and 2009, respectively.

Estimates

We have updated our outlook to reflect FortisAlberta's 2008/09 DTA. Our diluted 2007 EPS estimate of \$1.44 is unchanged. Our diluted 2008 EPS estimate increases to \$1.55 from 1.54.

Valuation

Our target price reflects a weighted valuation approach: 18x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E BVPS of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

4-Jun-07

Current Price: \$27.82
 12-Month Target Price: \$31.00
 ROR: 14.4%

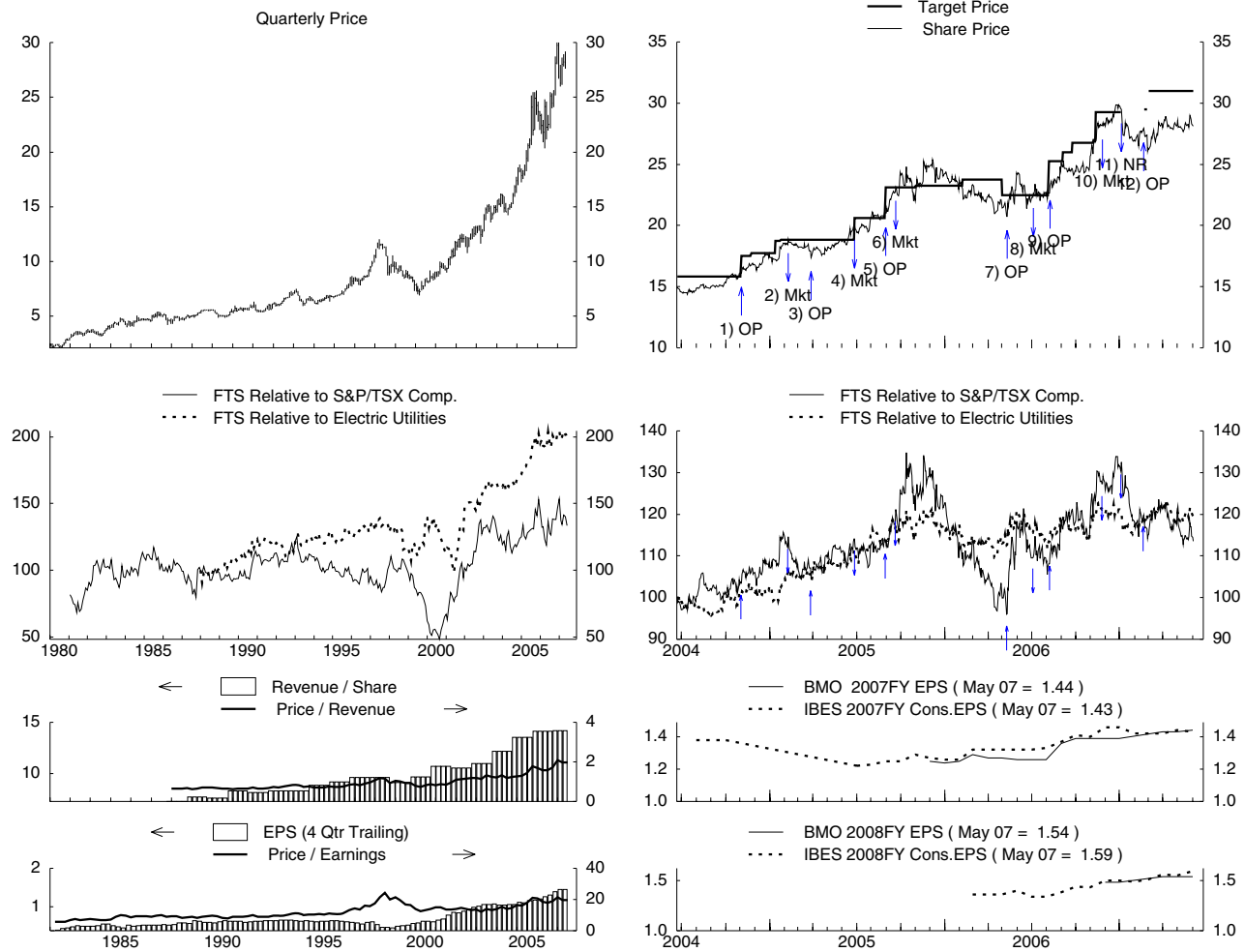
Karen J. Taylor
 BMO Capital Markets

Recommendation: Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.44	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.34	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	55.9%	58.3%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.29	17.97
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$27.82	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	19.0	17.7
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.61	1.55
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	2.95%	3.29%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	492.2	866.9
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,775.6	4,722.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.5</u>	<u>2,662.0</u>	<u>2,773.1</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.7	9,242.6	9,674.8
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	5.3%	9.0%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	51.7%	48.8%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.9%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.6%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>28.8%</u>	<u>28.7%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	189.4	242.1
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	502.3	580.0

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	20	0.84	3.0	58	13.08	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	11.5		11.4			11.8		
10 Year:	9.6		6.7			7.7		
20 Year:	5.2		5.1			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 22-Jun-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 1, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

June 6, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Terasen Gas Files Gas Storage Application; Outperform Rating Unchanged

Event

On June 5, Terasen Gas (Vancouver Island) Inc. (TGVI, 100% - Fortis Inc.) filed an application with the British Columbia Utilities Commission (BCUC) for a Certificate of Public Convenience and Necessity (CPCN) to build the Mt. Hayes liquefied natural gas (LNG) storage facility on Vancouver Island and the facilities to connect the LNG Storage Facility to TGVI's natural gas transmission system and associated upgrades. The proposed facilities are expected to cost between \$175 million and \$200 million and have a planned in-service date of November 1, 2011.

Impact

Potentially positive.

Forecasts

Unchanged. We have not updated our estimates for this project, pending the receipt of regulatory approval. As set out herein, similar facilities were approved on a conditional basis by the Commission in February 2005. The approval conditions were subsequently not met and construction of the facility did not proceed by December 31, 2005.

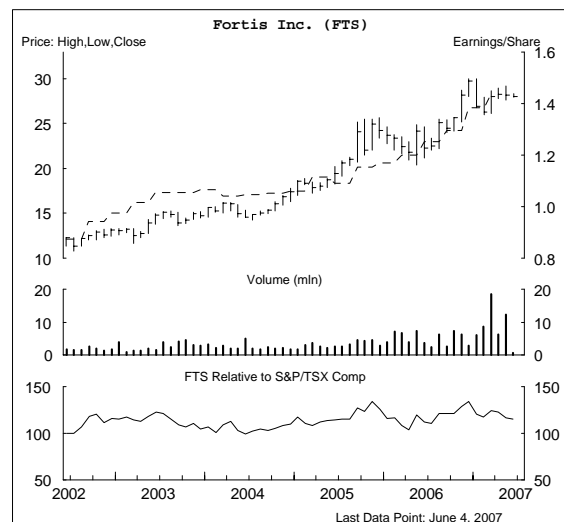
Valuation

Our target price of \$31.00 reflects a weighted valuation approach: 18.0x diluted 2008E EPs of \$1.55 (12.5%), 2.0x 2008E BVPS of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (5-Jun) \$27.60 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$21.16



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.55
P/E			19.2x	17.8x
CFPS	\$3.15	\$2.70	\$3.26	\$3.48
P/CFPS			8.5x	7.9x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,672	\$10,688
EBITDA (\$mm)	\$507	\$531	\$914	\$1,139
EV/EBITDA	9.2x	10.9x	10.6x	9.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.36	\$0.32	\$0.37
Dividend	\$0.84		Yield	3.0%
Book Value	\$12.19		Price/Book	2.3x
Shares O/S (mm)	129.0		Mkt. Cap (\$mm)	\$3,560
Float O/S (mm)	129.0		Float Cap (\$mm)	\$3,560
Wkly Vol (000s)	1,590		Wkly \$ Vol (mm)	\$42.4
Net Debt (\$mm)	\$6,105.5		Next Rep. Date	3-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.44; 2008E: \$1.57

Details & Analysis

On June 5, Terasen Gas (Vancouver Island) Inc. (TGVI, 100% - Fortis Inc.) filed an application with the British Columbia Utilities Commission (BCUC) for a Certificate of Public Convenience and Necessity (CPCN) to build the Mt. Hayes liquefied natural gas (LNG) storage facility on Vancouver Island and the facilities to connect the LNG Storage Facility to TGVI's natural gas transmission system and associated upgrades. The proposed facilities are expected to cost between \$175 million and \$200 million and have a planned in-service date of November 1, 2011.

The applied for facilities include:

- LNG storage facility consisting of a 1.5 Bcf storage tank and ancillary facilities including liquefaction and vaporization components, and substation and 5 km power line from the BC Hydro transmission system to provide the required electrical supply to the site;
- The liquefaction Rate will be 7.5 mmcf/d and the facility will have a maximum send-out rate of 150 mmcf/d. It will be designed of liquefaction to fill the tank if completely utilized in any one season and the ability to send-out at daily rates up to 10% of the storage capacity.
- A block of property at the proposed Mt. Hayes Project site has been optioned by TGVI for purchase from the owner. The 42 hectare section of the property was rezoned by the Cowichan Valley Regional District in 2004 to allow construction and operation of an LNG facility with up to two 1.5 Bcf storage tanks. An additional 20 hectares to the east of the rezone area will likely be retained in order to maintain control over the CSA code required buffer zone.
- Pipeline laterals connecting the TGVI transmission pipeline to the Mt. Hayes LNG Storage Facility and a measurement/odourization station adjacent to the LNG Storage Facility.
- Transmission system modifications in order to allow bi-directional flow. In most instances, gas nominated by Terasen Gas Inc. (TGI) under the proposed Storage and Delivery Services Agreement will be redelivered to Terasen Gas Inc.'s system through displacement. However, under certain demand conditions, there may be a requirement to physically flow gas sent out from the LNG Storage Facility to the interconnection between the TGVI and Terasen Gas Inc. systems at the Coquitlam compressor station. This requirement was not contemplated in the previous facilities application. Planned transmission modifications include: (i) replacement of check valves on each side of the two main marine crossings to allow for bi-directional flow; (ii) modification of the Texada Compressor Station including the installation of a second set of side valves and associated piping and control system changes; and (iii) the TGI/TGVI custody transfer station will be modified to include flow measurement, pressure control and overpressure protection.
- A return on equity that is a 50-basis-point premium to the return allowed by the BCUC for TGVI, which is presently 9.07% for 2007 (a 70-basis-point premium to the benchmark return of 8.37% in 2007) or 9.57%. TGVI's deemed equity is currently 40%.

Pre-construction development costs are expected to be \$1.9 million to December 31, 2007.

This is not a new project or business development concept for TGVI. The TGVI has been investigating the potential to locate an LNG peak shaving facility on Vancouver Island since 2003. The project was proposed as an alternative to the Georgia Strait Crossing pipeline proposed by BC Hydro and Williams Cos. to deliver natural gas to Vancouver Island to serve both the existing Island Cogeneration Project (previously 70% - Calpine Power Income Fund) and the proposed Vancouver Island Generation Project being advanced by BC Hydro at Duke Point. The development of new gas-fired generation on Vancouver Island over this period has a tortuous history, with the net result that TGVI filed for a CPCN for the LNG storage facility to meet a November 2007 in-service date. In February 2005, the BCUC conditionally approved the project, subject to the following:

- A maximum engineering, procurement and construction price for facility construction;
- An agreement for storage serviced provided to Terasen Gas Inc.;
- A long-term firm transportation service agreement with BC Hydro for existing and proposed gas-fired power generation facilities; and
- The commencement of construction by December 31, 2005.

The current application is based on the conclusions of the 2006 Resource Plan filed by TGVI and TGI with the BCUC, which provided an assessment of the benefits of developing an LNG storage facility on Vancouver Island based on facility sizes ranging from 0.5 to 1.5 Bcf of LNG storage and assume a 2011 in-service date. The assessment concluded that the development of a storage facility was in the best interest of TGVI's customers across a broad range of customer demand. It also concluded that economies of scale could be realized through the construction of a large facility, thereby allowing TGVI to offer competitive storage services to TGI and reduce the cost impact to its own customers.

We believe that the issue of project need is likely to be a dominant factor in the consideration of the project by the regulator. The scale, scope and cost of the facilities are also likely to be material issues.

The project development schedule filed with the Commission anticipates regulatory approval by year-end 2007.

Estimates

Unchanged. We have not updated our estimates for this project, pending the receipt of regulatory approval. If we assume that the project is approved by the BCUC with an in-service date of November 1, 2011, we estimate the potential earnings contribution from the project to be approximately \$7.5 million on a full-year basis in 2012 or approximately \$0.04 per share (diluted).

Valuation

Our target price of \$31.00 reflects a weighted valuation approach: 18.0x diluted 2008E EPs of \$1.55 (12.5%), 2.0x 2008E BVPS of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

6-Jun-07

Current Price:

\$27.34

12-Month Target Price:

\$31.00

ROR:

16.4%

Karen J. Taylor

BMO Capital Markets

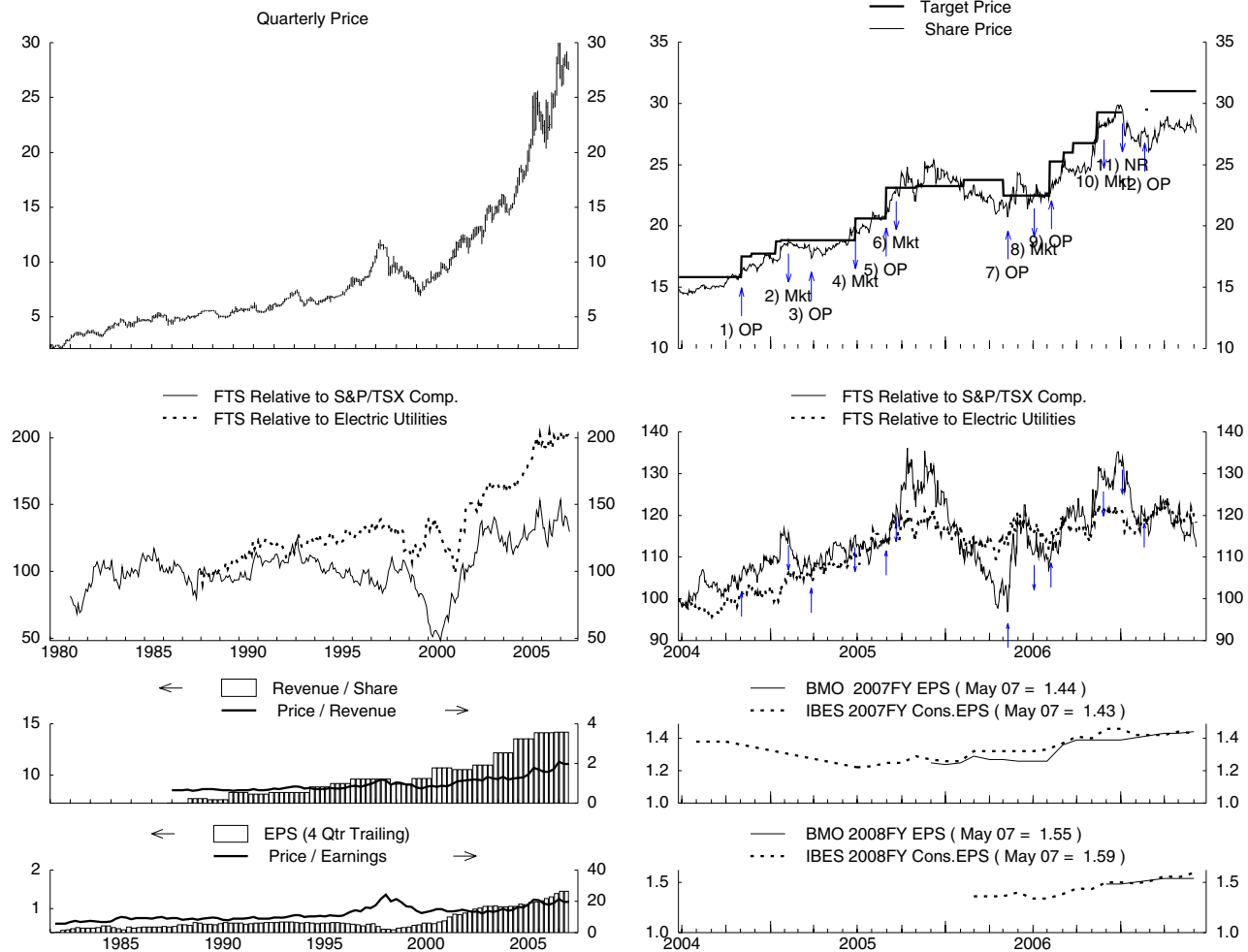
Recommendation:

Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.44	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.34	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	55.9%	58.2%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.29	17.97
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$27.34	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	18.6	17.4
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.58	1.52
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.00%	3.35%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	432.2	805.0
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,835.6	4,783.7
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.5	2,662.1	2,773.4
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.7	9,242.6	9,674.8
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	4.7%	8.3%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	52.3%	49.4%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.9%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.6%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.8%	28.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	189.4	242.4
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	502.4	580.2

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	20	0.84	3.0	58	13.08	2.2	11
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	11.5		11.4			11.8		
10 Year:	9.6		6.7			7.7		
20 Year:	5.2		5.1			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 24-Jun-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 5, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	39%	41%	45%
Hold	Market Perform	52%	52%	47%
Sell	Underperform	9%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Fortis Inc.

June 19, 2007

Brief Research Note

Laurie Conheady

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Standard & Poor's Upgrades and Changes Basis for Ratings on Fortis Inc.

Impact

Positive.

Details & Analysis

Standard & Poor's today upgraded its corporate credit rating on Fortis Inc. one notch to A- from BBB+ and assigned a Stable outlook. The ratings were also removed from CreditWatch with Positive Implications, where they were placed on February 26, 2007, on the announcement that the company was to acquire Terasen Inc. and its gas utility Terasen Gas Inc. Of greater significance is that the agency upgraded its senior unsecured debt rating two notches to A- from BBB. The rating on the senior unsecured debt had previously been rated a notch below the company's corporate credit rating to reflect its structurally subordinated position. Standard & Poor's decision to depart from its previous treatment of the senior unsecured debt and equalize the senior unsecured debt rating with the corporate credit rating reflects the increasing diversification of the company and the financial separation among its investments. The departure is not surprising and is in line with our expectations, as outlined in our *Weekly Credit Edge* article, "Potential Rating Upgrade for Fortis, Terasen Inc. and Terasen Gas Inc. - but Wait There's More ..." published on March 19, 2007.

The agency has advised the rating upgrade of Fortis reflects:

- the improved diversity resulting from the recent acquisition of Terasen Inc.;
- the operation of each regulated subsidiary as a separate stand-alone entity with debt non-recourse to Fortis Inc.;
- management's commitment to maintaining low levels of debt at the Fortis Inc. holding company level;
- management's continuing focus on pursuing acquisitions in stable, regulated utilities; and
- the success of key subsidiaries FortisBC and Fortis Alberta in executing their capital expansions.

Fortis Senior Unsecured Debt Ratings

DBRS
BBB (high)
Stable

S&P
A-
Stable

Moody's
Not Rated

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I, Laurie Conheady, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

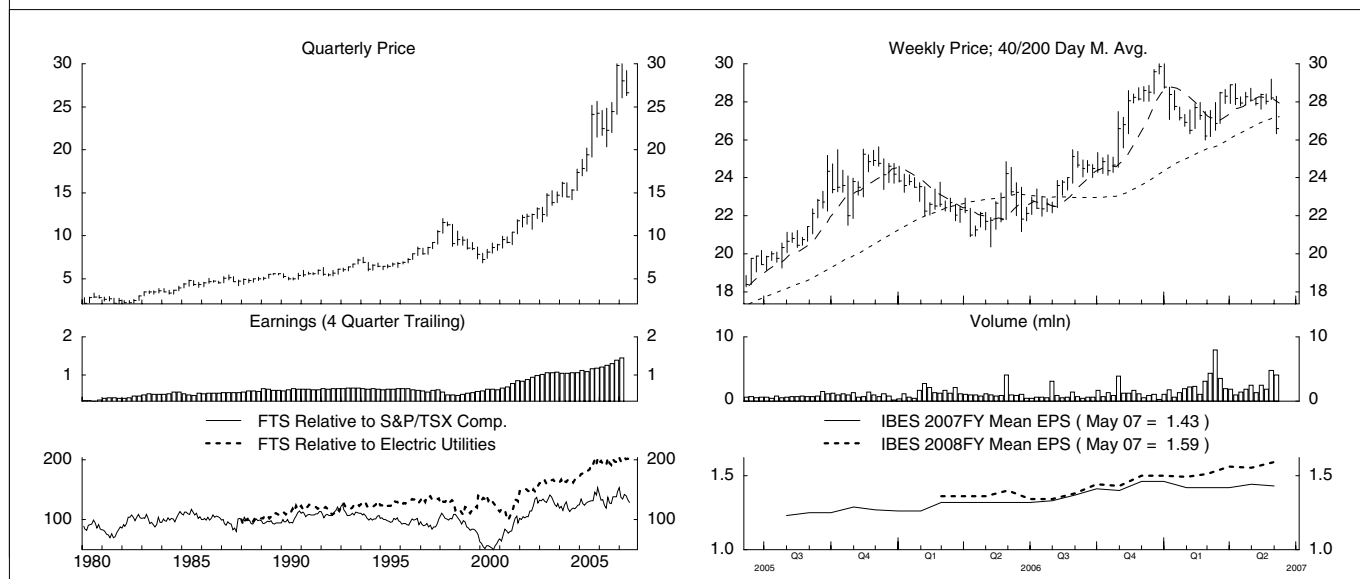
June 7, 2007
Research Fact Sheet
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Price (7-Jun)	\$26.60	52-Week High	\$30.00	
Target Price	\$31.00	52-Week Low	\$21.16	
Dividend	\$0.84	Book Value	\$12.19	
Yield	3.2%	Price/Book	2.2x	
Shares O/S (mm)	129.0	Mkt. Cap (\$mm)	\$3,431	
Float O/S (mm)	129.0	Float Cap (\$mm)	\$3,431	
Wkly Vol (000s)	1,590	Wkly \$ Vol (mm)	\$44.2	
Net Debt (\$mm)	\$6,106	Next Rep. Date	3-Aug (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40 a	\$0.36	\$0.32	\$0.37

(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.55
P/E			18.5x	17.2x
CFPS	\$3.15	\$2.70	\$3.89	\$3.76
P/CFPS			6.8x	7.1x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,538	\$10,527
EBITDA (\$mm)	\$507	\$531	\$914	\$1,139
EV/EBITDA	9.2x	10.9x	10.4x	9.2x
ROE (%)	9.8%	11.3%	7.1%	8.7%
Book Value (\$)	\$11.76	\$12.19	\$17.29	\$17.97
D/Tot. Cap. (%)	63.8%	63.4%	64.6%	65.1%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation, and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (54%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos),

FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Q1/07 EPS were \$0.38. After adjusting for a \$2.4 million after-tax impairment charge incurred by Caribbean Utilities in that company's Q3/07 (period ending January 31, 2007), Q1/07 EPS were \$0.40, slightly higher than our expectation of \$0.39 per share. Strong quarter over quarter performance was observed in all key business segments, notably Fortis Generation (non-regulated

hydroelectric generation), largely due to increased hydroelectric production in Belize and higher average wholesale energy prices in Ontario.

Corporate Developments – On May 30, Fortis announced that BECOL (100% - Fortis Inc.) has received all major approvals for the construction of a US\$52.5 million, 18 MW run-of-the-river hydroelectric generating facility at Vaca, on the Macal River in Belize. The Vaca facility is the final phase of a three-phase development on the Macal River and is downstream of the 25 MW Mollejon hydroelectric facility and the 7 MW Chalillo storage and hydro facility. The Vaca plant is expected to be in service in late 2009.

On May 17, Fortis announced that it has completed the previously announced transaction to acquire all of the shares of Terasen Inc. from Kinder Morgan Inc. for total consideration of \$3.7 billion, including assumed debt.

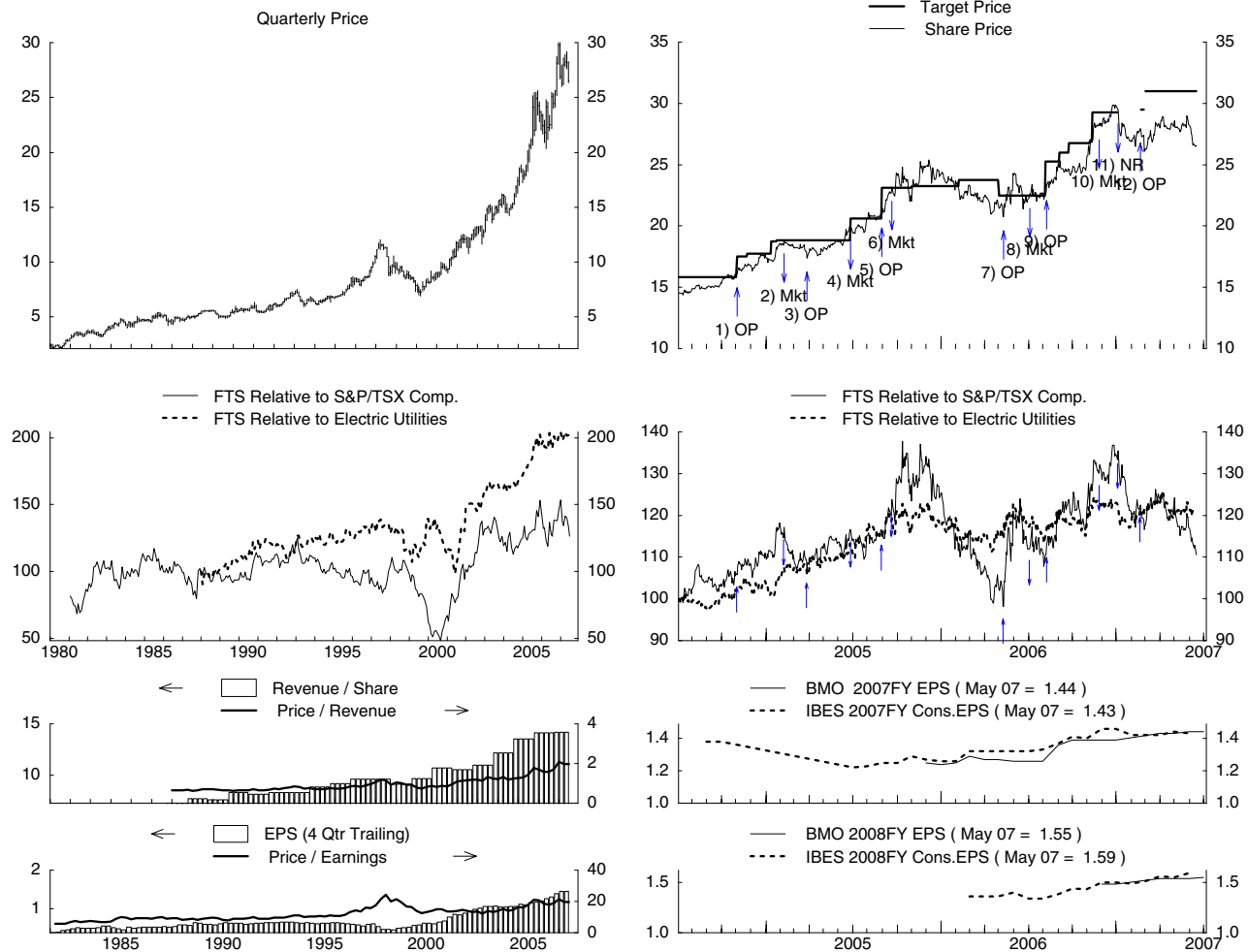
On May 10, Newfoundland Power filed two applications with the Newfoundland and Labrador Board of Commissioners of Public Utilities: (i) 2.9% proposed rate decrease relating to the disposition of the Rate Stabilization Account; and (ii) 2008 General Rate Application, in which the utility is proposing a 5.3% rate increase, effective January 1, 2008.

Forecasts – Diluted 2007E and 2008E EPS of \$1.44 and \$1.55 fully reflect the Vaca facility and the Terasen purchase.

Valuation – Our target price reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E BVPS of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation – We believe that the shares are attractively valued at current levels. Our rating is Outperform. Member of Top 15 Income stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	20	0.84	3.0	58	12.19	2.3	12
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	11.5		11.4			10.2		
10 Year:	9.6		6.7			7.0		
20 Year:	5.2		5.1			6.1		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 5-Jul-04 = Mkt

Date	Rating Change	Share Price
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2 8-Feb-05	OP to Mkt	\$18.88
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4 27-Jun-05	OP to Mkt	\$20.01
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6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
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11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 14, 2007

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Buy	Outperform	38%	47%	47%
Hold	Market Perform	52%	45%	46%

Sell Underperform 10% 8% 7%

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** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

Delta Regina to Be Acquired; Outperform Rating Unchanged

Event

Fortis Properties Corporation (100% - Fortis Inc.) has announced that it has entered into an agreement to purchase the Delta Regina in Regina, Saskatchewan, for \$49.95 million. We believe that the transaction is about 9.5x trailing 12-month EBITDA and reflects a cap rate of approximately 9x, slightly lower than the hotel properties acquired in Alberta and British Columbia in 2006 (see our October 20, 2006, comment for additional information). The transaction is expected to close in Q3 2007.

Impact

Neutral. The acquisition is consistent with Fortis' stated strategy for its property division: (i) maintain a portfolio that is 10% to 15% of total assets; (ii) "follow" the regulated utility operations; (iii) acquire mid-market hospitality assets; (iv) focus on smaller centres; and (iv) enhance corporate tax efficiency.

Forecasts

No change. Our current estimates reflect an earnings growth rate of approximately 5% over the 2007 to 2010 period for the Fortis Properties Segment, which includes asset acquisitions in both 2007 and 2009, each totalling some \$50 million. We continue to assume each acquisition is debt-financed. We do not assume a further equity issue until mid-2009. We note, however, that higher than forecast utility rate base growth could accelerate the requirement for additional common equity. We currently estimate total consolidated 2007 capital expenditures are assumed to be \$775 million and approximately \$675 million in 2008.

Valuation

Our target price of \$31.00 reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E BV per share of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

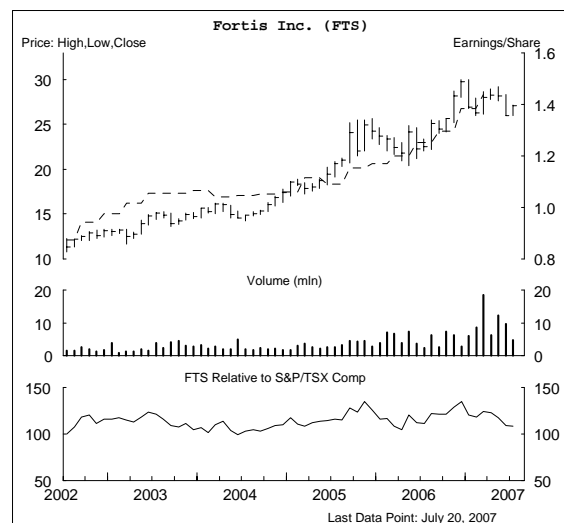
Recommendation

We believe that the shares are attractively valued at current levels. Our Outperform rating is unchanged.

July 23, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Price (20-Jul) \$27.10 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$22.15



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.55
P/E			18.8x	17.5x
CFPS	\$3.15	\$2.70	\$3.89	\$3.76
P/CFPS			7.0x	7.2x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,619	\$10,614
EBITDA (\$mm)	\$507	\$531	\$907	\$1,130
EV/EBITDA	9.2x	10.9x	10.6x	9.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.36	\$0.32	\$0.37
Dividend	\$0.84			
Book Value	\$12.19			
Shares O/S (mm)	129.0			
Float O/S (mm)	129.0			
Wkly Vol (000s)	1,768			
Net Debt (\$mm)	\$6,155.4			
Yield				3.1%
Price/Book				2.2x
Mkt. Cap (\$mm)				\$3,496
Float Cap (\$mm)				\$3,496
Wkly \$ Vol (mm)				\$47.6
Next Rep. Date				3-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2007E: \$1.44; 2008E: \$1.61

Table 1. Consolidated Summary Sheet

23-Jul-07

Current Price: \$26.70

12-Month Target Price: \$31.00

ROR: 19.2%

Karen J. Taylor

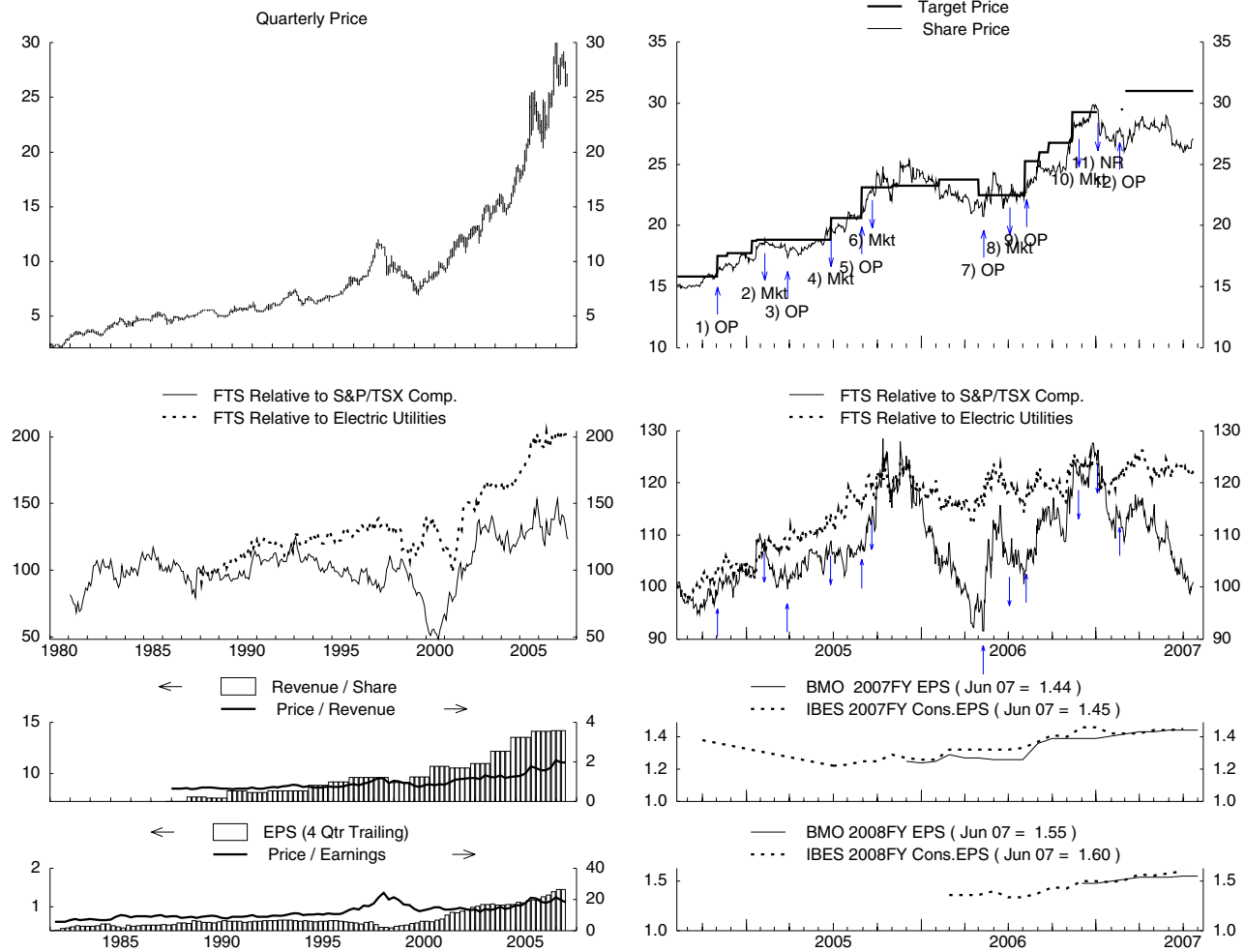
BMO Capital Markets

Recommendation: Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.44	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.34	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	55.8%	58.1%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.29	17.97
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$26.70	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	18.2	17.0
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.54	1.49
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.07%	3.43%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	354.5	759.6
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,963.2	4,879.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.5	2,662.1	2,773.7
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.7	9,292.5	9,725.3
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	3.8%	7.8%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	53.4%	50.2%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.9%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.6%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.6%	28.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	189.5	242.6
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	502.4	580.5

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Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.10
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

July 23, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Delta Regina Acquired

Impact

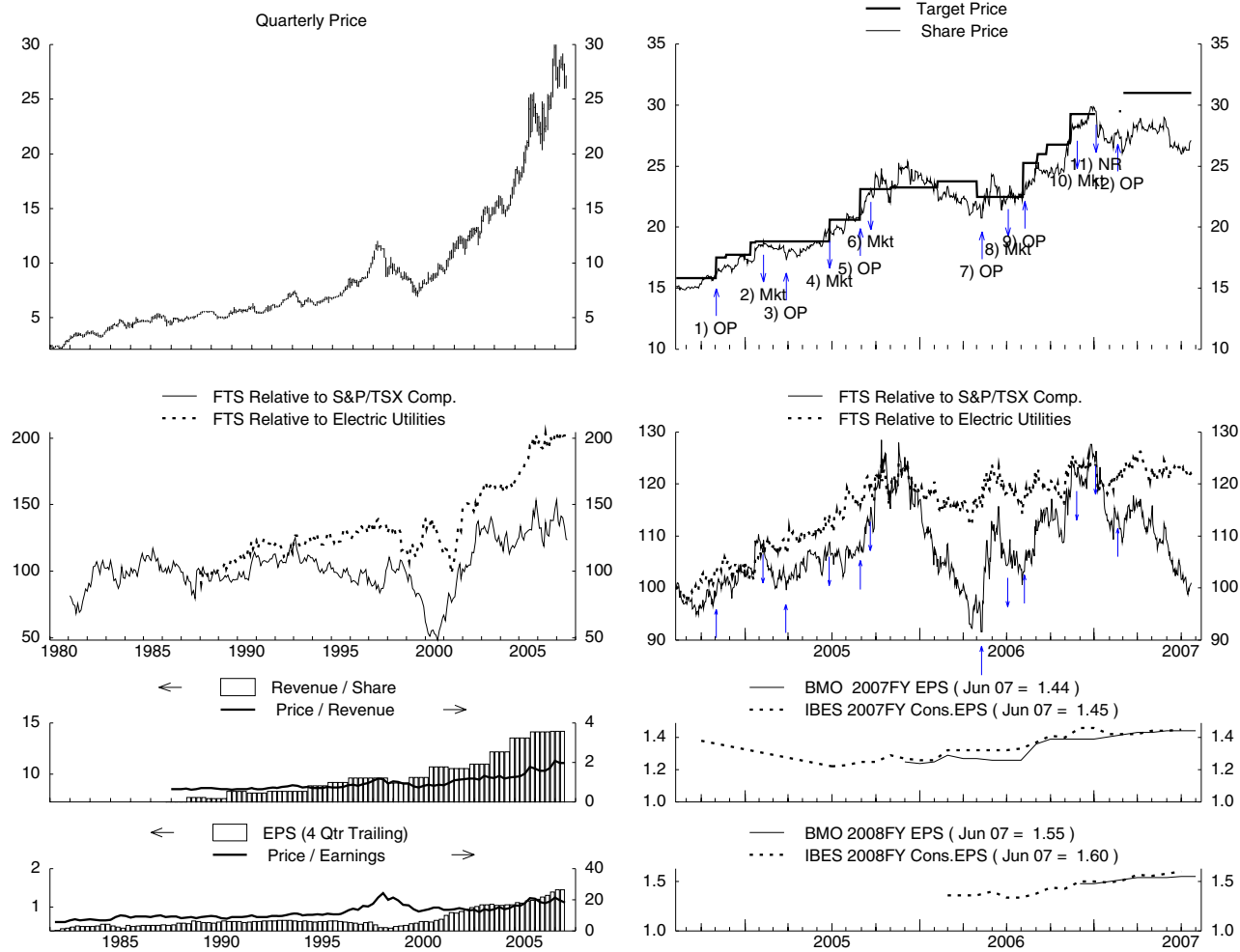
Neutral

Details & Analysis

Fortis Properties Corporation (100% - Fortis Inc.) has announced that it has entered into an agreement to purchase Delta Regina in Regina, Saskatchewan for \$49.95 million. The transaction is expected to close in Q3/07 and is also expected to be immediately accretive to consolidated corporate earnings. We are currently following-up with management; however, the planned acquisition is consistent with Fortis' stated strategy for its properties division: (i) maintain a portfolio that is approximately 10-15% of the company's total assets; (ii) "follow" the regulated utility operations; (iii) acquire mid-market hospitality assets; (iv) focus on smaller centres; and (v) enhance corporate tax efficiency. We believe the acquisition is likely to be debt financed; we do not expect a further equity issue until 2009, barring an additional utility acquisition. We continue to rate the shares Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	18	0.84	3.2	58	12.19	2.1	12
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.5		11.4			10.2		
10 Year:	10.2		6.7			7.0		
20 Year:	5.2		5.1			6.1		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 10-Aug-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: July 20, 2007

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	47%
Hold	Market Perform	52%	45%	46%
Sell	Underperform	10%	8%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$26.07
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

August 3, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Q2/07 EPS Largely in Line

Impact

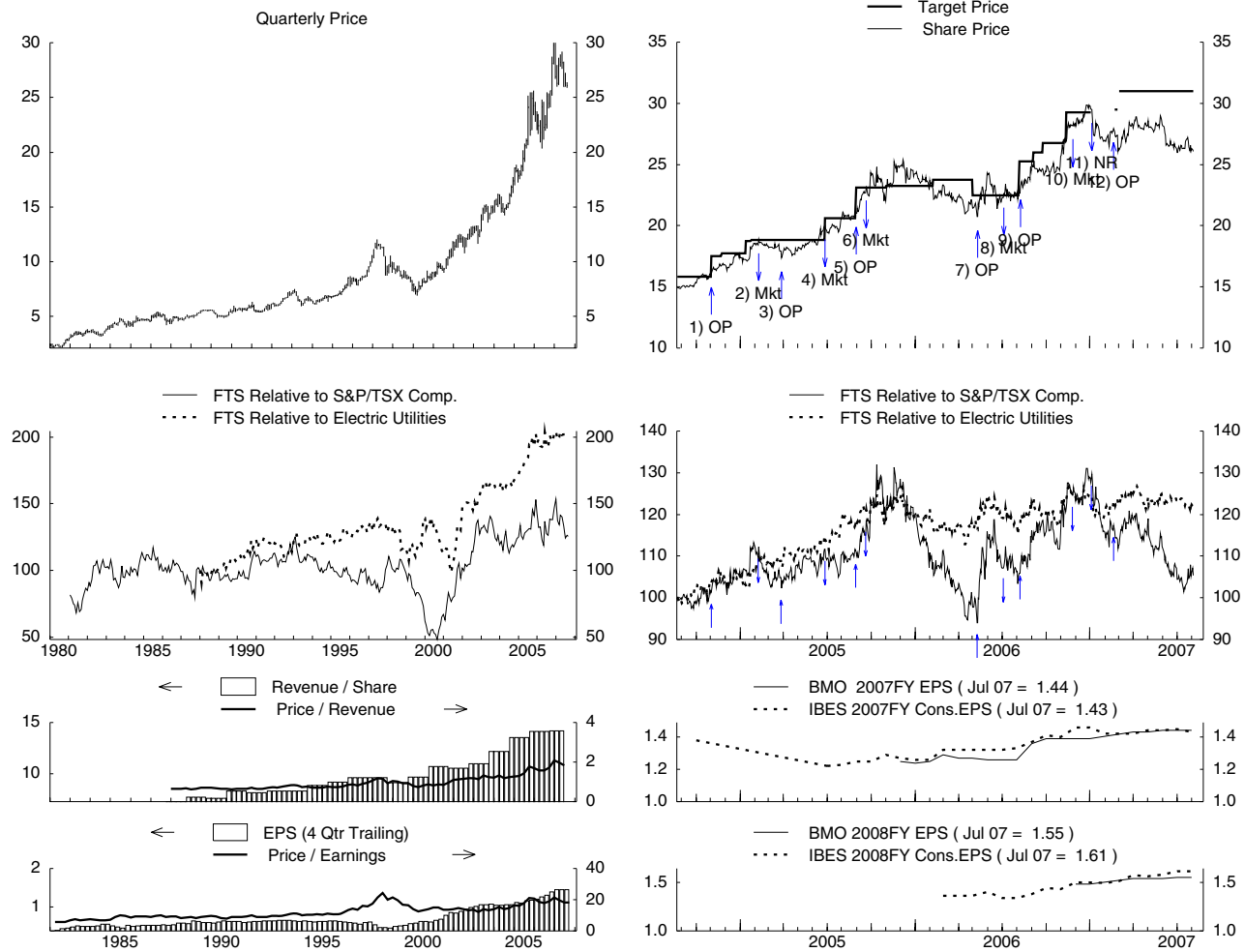
Neutral

Details & Analysis

Fortis Inc. reported Q2/07 earnings of \$41.5 million versus our expectation of \$39.8 million. On a per share basis, results were \$0.31 versus our expectation of \$0.30 per share and higher than the mean estimate of \$0.29 per share. Q2/07 results were largely in line with expectations. The quarter included a \$1.6 million contribution from the acquisition of Terasen Inc., which closed on May 17. The variance between expected and actual performance appears to be attributable to: (i) moderately better than expected performance at FortisAlberta and FortisBC due to higher than expected customer growth and capital expenditures; offset by: (ii) reduction in the contribution from Fortis Generation due to lower Q2/07 hydrology versus Q2/06 in Belize, central Newfoundland and Upper New York State. We continue to review the release. No change in view. We rate the shares of Fortis Outperform.

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* Current EPS is the 4 Quarter Trailing to Q1/2007.

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1 2-Nov-04	Mkt to OP	\$16.10
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Last Daily Data Point: August 2, 2007

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** Reflects rating distribution of all North American equity research analysts.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

August 3, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Q2/07 EPS in Line; Outperform Rating Maintained

Event

Fortis reported Q2/07 earnings of \$41.5 million versus our expectation of \$39.8 million. On a per-share basis, results were \$0.31 per share versus our expectation of \$0.30 per share and the mean estimate of \$0.29 per share. Results were largely in line with expectations. The quarter included a \$1.6 million contribution from Terasen Inc., which closed on May 17, 2007. The variance between expected and actual performance is largely attributable to: (i) higher contribution from FortisAlberta and FortisBC due to income tax recoveries at FortisAlberta, and higher than expected customer growth and capital expenditures at both utilities YTD; partially offset by: (ii) reduction in the contribution from Fortis Generation due to lower Q2/07 hydrology versus Q2/06 in Belize, central Newfoundland and Upper New York State.

Impact

Neutral.

Forecasts

Unchanged. We have refined our quarterly EPS profile to reflect the seasonality expected in Q3/07 deriving from Terasen Inc., which tends to report higher EPS in Q1 and Q4 due to the winter peaking characteristics of natural gas consumption in its service areas.

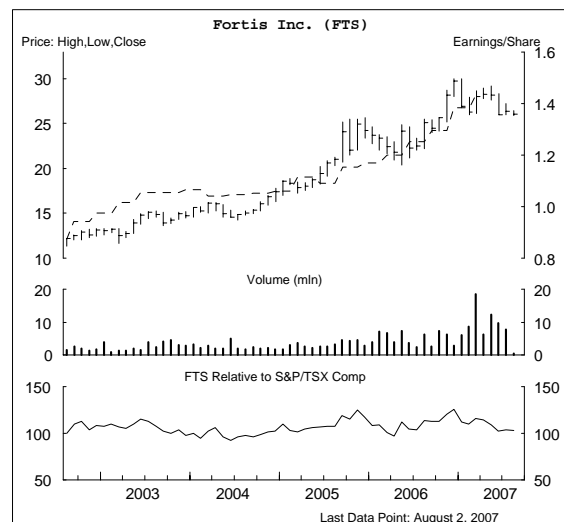
Valuation

Our target price of \$31 reflects a weighted valuation approach; 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E BVPS of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (2-Aug) \$26.07
Target Price \$31.00
52-Week High \$30.00
52-Week Low \$22.42



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.44	\$1.55
P/E			18.1x	16.8x
CFPS	\$3.15	\$2.70	\$3.89	\$3.76
P/CFPS			6.7x	6.9x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,552	\$10,534
EBITDA (\$mm)	\$507	\$531	\$907	\$1,130
EV/EBITDA	9.2x	10.9x	10.5x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.28↓	\$0.40↑
Dividend	\$0.84			3.2%
Book Value	\$16.54			Price/Book
Shares O/S (mm)	154.0			1.6x
Float O/S (mm)	154.0			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,802			\$4,016
Net Debt (\$mm)	\$6,155.4			Float Cap (\$mm)
				\$4,016
				Wkly \$ Vol (mm)
				\$48.5
				Next Rep. Date
				2-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.43; 2008E: \$1.61

Changes

Quarterly EPS
 Q3/07E \$0.32 to \$0.28
 Q4/07E \$0.37 to \$0.40

Details & Analysis

Fortis reported Q2/07 earnings of \$41.5 million versus our expectation of \$39.8 million. On a per-share basis, results were \$0.31 per share versus our expectation of \$0.30 per share and the mean estimate of \$0.29 per share. Q2/07 results were largely in line with expectations. The quarter included a \$1.6 million contribution from Terasen Inc., which closed on May 17, 2007. The variance between expected and actual performance is largely attributable to: (i) higher contribution from FortisAlberta and FortisBC due to income tax recoveries at FortisAlberta, and higher than expected customer growth and capital expenditures at both utilities year-to-date; partially offset by: (ii) reduction in the contribution from Fortis Generation due to lower Q2/07 hydrology versus Q2/06 in Belize, central Newfoundland and Upper New York State.

We believe that the following points are relevant about the quarter and our outlook:

- There were no material one-time items or adjustments in the quarter and no material mark-to-market gains or losses that affected net income.
- The rate applications discussed for FortisAlberta and Newfoundland Power are fully reflected in our outlook, as per our comments dated June 4, 2007 and May 18, 2007, respectively. The June 29, 2007, Capital Budget application filed by Newfoundland Power requesting approval for a 2008 capital budget of \$50.8 million is also reflected in our outlook. The application contains a five-year capital plan for the utility which stipulates \$288 million in capital expenditures for plant and equipment over the 2008 to 2012 period, including amounts for the refurbishment of the Rattling Brook Dam, which is expected to total \$18 million and result in the production of additional energy and displace the consumption of 10,500 barrels of oil per year. The capital plan set out is as follows: 2008 - \$53.429 million; 2009 - \$58.605 million; 2010 - \$58.049 million; 2011 - \$58.181 million; and 2012 - \$59.291 million. These amounts are reflected in our estimates profile for Newfoundland Power. The approved capital budget for 2007 is \$62.851 million. Actual year-to-date spending highlighted in the application was \$66.032 million, with approximately \$1.8 million of the \$3.181 million expected to be recovered via contributions in aid of construction.
- The June application filed by Maritime Electric with the Island Regulatory and Appeals Commission in P.E.I. for its 2008 capital budget of \$18.6 million is not yet available. We currently assume that 2008 capital expenditures at Maritime Electric are approximately \$20.3 million.
- On August 2, the company closed the acquisition of the Delta Regina and the associated Saskatchewan Trade and Convention Centre for \$49.95 million. This acquisition is fully reflected in our outlook for Fortis.
- The June 26, 2007, decision of the Belize Public Utilities Commission (PUC) is not expected to have a material effect on the consolidated outlook for Fortis Inc. and we expect Belize Electricity Ltd. (BEL, 70.1% - Fortis Inc.) to appeal to the PUC to reconsider its final order. The most material part of the decision is the order by the PUC for a reduction in the forecast cost of power for 2007 and 2008 by BZ\$1.28 million and BZ\$1.142 million, respectively, and BZ\$1.77 million for the annual tariff period 2007/08, due to the disallowance of the full CFE cost of power under an August 2006 contract versus a March Offer.
- Planned capital expenditures are expected to be approximately \$775 million in 2007 and \$665 million in 2008.

Q2/07 performance and annual actual and expected performance by segment are set out in Table 1.

Table 1. Quarterly and Annual Segment Performance

Contribution by Segment	(Millions)											
	2003	2004	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	2007E	2008E
Newfoundland Power	29.5	31.1	29.4	10.7	8.0	2.6	8.8	30.1	10.5	8.0	29.8	31.6
Maritime Electric	7.2	8.2	9.1	2.1	2.2	3.1	2.4	9.8	2.6	2.8	11.7	12.1
Fortis Ontario	6.5	4.3	2.7	1.0	0.5	1.6	1.0	4.0	1.3	1.2	4.3	5.1
FortisAlberta	0.0	18.6	30.3	9.5	11.3	12.3	8.3	41.4	11.9	15.5	41.9	42.2
FortisBC	0.0	17.7	24.6	11.8	3.4	5.7	6.4	27.3	11.7	6.5	27.1	29.9
Belize Electricity	6.7	7.2	8.1	1.5	2.3	3.8	2.8	10.4	2.7	2.9	10.0	10.9
Caribbean Utilities	10.5	0.8	10.3	1.6	2.1	3.2	2.8	9.7	2.0	2.3	13.9	15.0
Turks & Caicos	0.0	0.0	0.0	0.0	0.0	0.7	2.8	3.4	1.8	2.4	9.4	11.5
Fortis Generation	10.9	12.8	21.6	5.4	6.0	7.8	6.8	26.0	7.3	4.9	28.9	28.3
Fortis Properties	11.0	11.8	14.1	1.5	5.0	6.3	2.8	15.6	1.8	6.0	18.9	20.0
Terasen Inc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	43.5	91.0
Corporate	(8.6)	(23.4)	(30.9)	(8.5)	(6.7)	(8.3)	(11.0)	(34.5)	(9.7)	(12.6)	(49.9)	(54.9)
Earnings Before Non-Recurring items	73.6	89.1	119.3	36.6	34.1	38.7	33.8	143.1	43.9	41.5	189.5	242.6
Average Shares	69.2	84.7	101.8	103.3	103.4	103.6	104.0	103.6	109.4	131.1	129.0	154.2
Net Earnings to Common (Basic)	\$1.06	\$1.05	\$1.17	\$0.35	\$0.33	\$0.37	\$0.33	\$1.38	\$0.40	\$0.31	\$1.47	\$1.57
Net Earnings to Common (Diluted)	\$1.03	\$0.99	\$1.10					\$1.33			\$1.44	\$1.55

Source: BMO Capital Markets

Table 2 sets out the production and revenue by geographic area for Fortis' non-regulated hydro electric business. We have not made any changes to our assumptions in this segment.

Table 2. Fortis Generation – Actual Fiscal and Quarterly Performance

Fortis Generation	Millions													
	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07
Operating Revenue	57.1	69.2	17.0	19.2	21.7	26.0	83.9	19.3	19.3	19.3	20.2	78.1	21.2	17.6
Energy Supply Costs	2.6	5.8	1.9	1.8	0.9	1.6	6.2	1.9	1.4	1.4	1.5	6.2	2.1	1.7
Operating Expenses	13.9	16.0	4.8	4.4	2.5	6.1	17.8	4.0	3.9	3.2	4.0	15.1	4.1	3.5
Depreciation	7.7	10.3	2.6	2.5	2.6	2.6	10.3	2.7	2.6	2.6	2.6	10.5	2.6	2.8
Operating Income	32.9	37.1	7.7	10.5	15.7	15.7	49.6	10.7	11.4	12.1	12.1	46.3	12.4	9.6
Interest Expense	13.3	15.4	3.9	4.0	3.5	2.7	14.1	2.7	2.6	2.5	2.3	10.1	2.4	2.4
Income Taxes	8.5	6.9	1.4	2.4	4.4	3.5	11.7	2.2	2.3	1.6	1.4	7.5	2.4	2.1
Non-controlling Interest	0.3	1.9	0.3	0.9	0.0	1.0	2.2	0.4	0.5	0.2	1.6	2.7	0.3	0.2
Net Earnings	10.9	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	7.8	6.8	26.0	7.3	4.9

Energy Sales (GWh)	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07
Central Newfoundland	17	152	35	48	26	50	159	38	39	32	59	168	34	32
Ontario	705	721	184	176	166	182	708	187	177	172	186	722	184	177
Belize	61	63	7	7	18	36	68	27	33	65	53	178	44	26
British Columbia	0	23	5	11	15	8	39	3	13	9	4	30	3	16
Upper New York State	87	70	17	16	7	35	75	29	28	10	38	105	26	23
Total	870	1,029	248	258	232	311	1,049	284	290	288	340	1,203	291	274

Fortis Generation	\$/MWh													
	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07
Operating Revenue	65.6	67.3	68.5	74.4	93.5	83.6	80.0	68.0	66.6	66.9	59.3	64.9	72.9	64.2
Energy Supply Costs	2.9	5.6	7.7	7.0	3.9	5.1	5.9	6.7	4.8	4.9	4.4	5.2	7.2	6.2
Operating Expenses	16.0	15.6	19.4	17.1	10.8	19.6	17.0	14.1	13.4	11.1	11.8	12.6	14.1	12.8
Depreciation	8.8	10.0	10.5	9.7	11.2	8.4	9.8	9.5	9.0	9.0	7.6	8.7	8.9	10.2
Operating Income	37.9	36.1	31.0	40.7	67.7	50.5	47.3	37.7	39.3	42.0	35.5	38.5	42.6	35.0
Interest Expense	15.3	15.0	15.7	15.5	15.1	8.7	13.4	9.5	9.0	8.7	6.8	8.4	8.2	8.8
Income Taxes	9.8	6.7	5.6	9.3	19.0	11.3	11.2	7.7	7.9	5.5	4.1	6.2	8.2	7.7
Non-controlling Interest	0.3	1.9	1.2	3.5	0.0	3.2	2.1	1.4	1.7	0.7	4.7	2.2	1.0	0.7
Net Earnings	12.5	12.4	8.5	12.4	33.6	27.3	20.6	19.0	20.7	27.0	20.0	21.6	25.1	17.9

Source: BMO Capital Markets

Estimates

Unchanged. We have refined our quarterly EPS profile to reflect the seasonality expected in Q3/07 deriving from Terasen Inc., which tends to report higher EPS in Q1 and Q4 due to the winter peaking characteristics of natural gas consumption in its service areas.

Valuation

Our target price of \$31.00 reflects a weighted valuation approach; 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E book value per share of \$17.97 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 3. Consolidated Summary Sheet

3-Aug-07

Current Price: \$25.83

12-Month Target Price: \$31.00

ROR: 23.2%

Karen J. Taylor

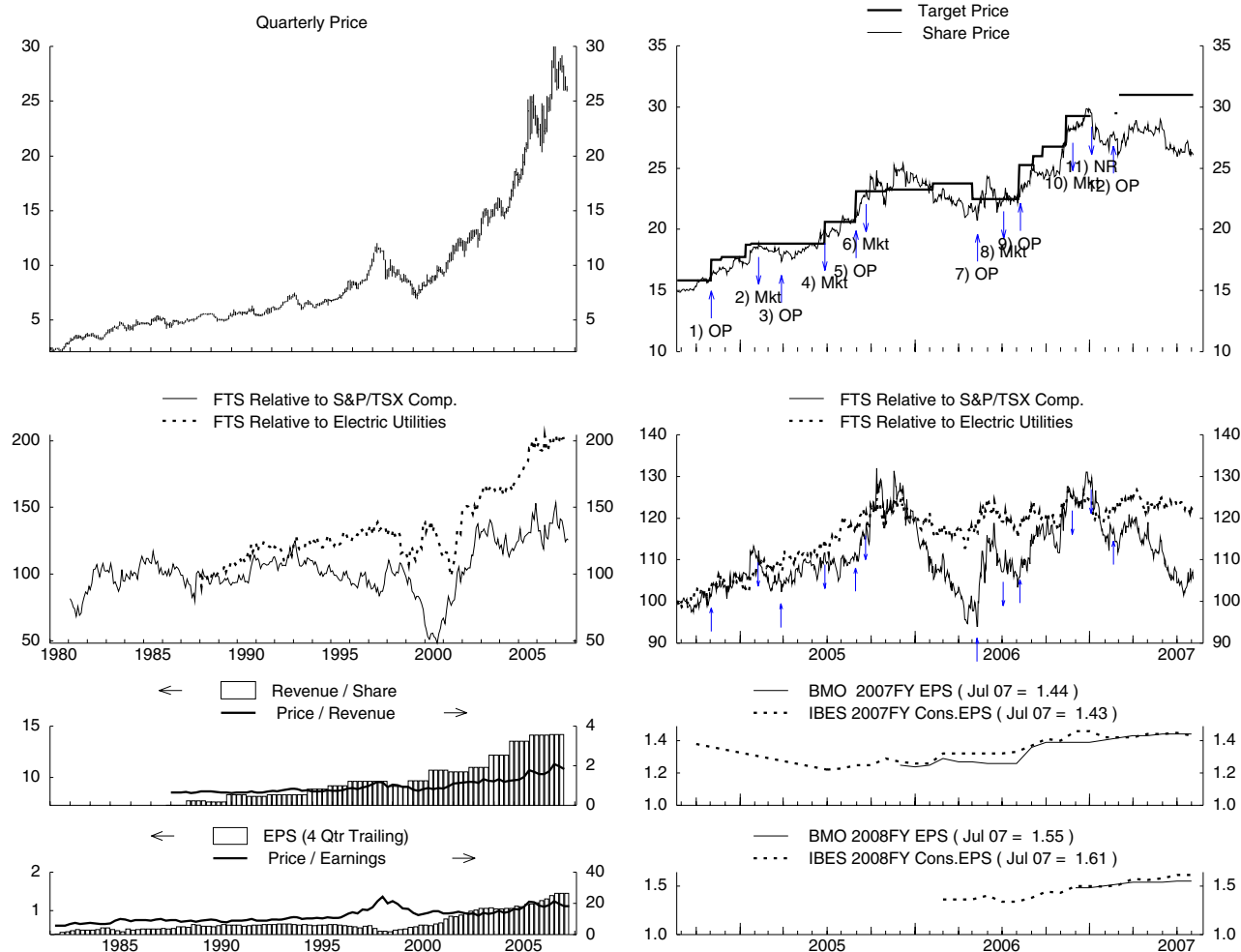
BMO Capital Markets

Recommendation: Outperform

		Year-Ended December 31						
		2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.47	\$1.57
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.44	\$1.55
Segmented EPS								
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.23	\$0.21
Maritime Electric		\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/Fortis Ontario		\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties		\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.13
Fortis Trust/Fortis Generation		\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/Fortis Caribbean		\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.26	\$0.24
FortisAlberta/FortisBC		\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.47
Terasen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.34	\$0.59
Other/Corporate		(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.39)	(\$0.36)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	55.8%	58.1%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	129.0	154.2
Net Book Value		8.72	8.98	10.47	11.76	12.19	17.29	17.97
Market Valuation								
Price: High		\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low		\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current		-	-	-	-	-	\$25.83	-
P/E Ratio: High		13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low		11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current		-	-	-	-	-	17.6	16.4
Price/Book Value: High		1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low		1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current		-	-	-	-	-	1.49	1.44
Yield: High Price		3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price		4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current		-	-	-	-	-	3.17%	3.54%
Balance Sheet (\$mm)								
Debt (S-T)		446.1	421.9	231.3	218.2	418.0	354.5	759.6
Debt (L-T)		583.8	910.7	1,855.8	1,990.2	2,322.9	4,963.2	4,879.3
Deposits Due		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits		61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest		40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares		0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures		15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity		584.2	624.6	1,000.1	1,213.4	1,268.5	2,662.1	2,773.7
		1,731.2	2,251.3	3,534.0	3,995.3	5,117.7	9,292.5	9,725.3
Balance Sheet (%)								
Debt (S-T)		25.8%	18.7%	6.5%	5.5%	8.2%	3.8%	7.8%
Debt (L-T)		33.7%	40.5%	52.5%	49.8%	45.4%	53.4%	50.2%
Deposits Due		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits		3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.9%
Minority Interest		2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares		0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.6%
Convertible Debentures		0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity		33.7%	27.7%	28.3%	30.4%	24.8%	28.6%	28.5%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common		63.3	73.6	89.0	119.3	143.1	189.5	242.6
Cash Flow from Operations		134.4	160.7	283.7	320.0	279.8	502.4	580.5

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	18	0.84	3.2	58	12.19	2.2	12
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.5		11.4			10.2		
10 Year:	10.2		6.7			7.0		
20 Year:	5.2		5.1			6.1		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 23-Aug-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 2, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	47%
Hold	Market Perform	52%	45%	46%
Sell	Underperform	10%	8%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform
Member of: Top 15 Income Stock Selections

August 7, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

2007 Average Shares Fine-Tuned; Outperform Rating Maintained

Event

We have fine-tuned our estimated 2007 weighted average shares outstanding, basic and diluted, to more fully reflect the May 17, 2007, acquisition of Terasen Inc. and the subsequent conversion of the previously issued subscription receipts into 44.275 million common shares of the corporation.

Impact

Neutral.

Forecasts

Our diluted 2007 EPS estimate declines to \$1.42 from \$1.44. Our diluted 2008 EPS estimate of \$1.55 is unchanged.

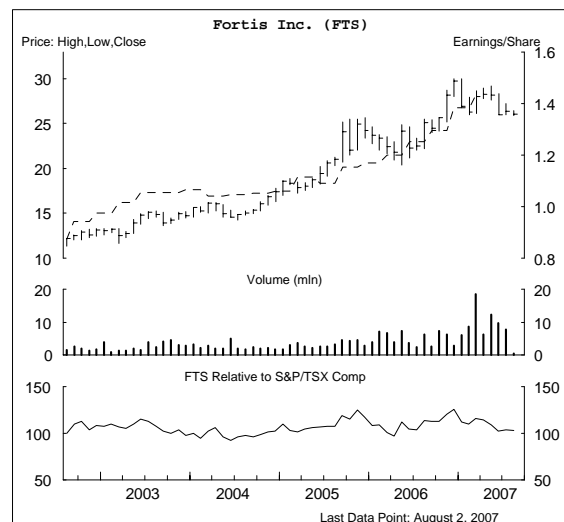
Valuation

Our target price of \$31 reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E book value per share of \$17.96 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (3-Aug) \$26.05
Target Price \$31.00
52-Week High \$30.00
52-Week Low \$22.42



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.42↓	\$1.55
P/E			18.3x	16.8x
CFPS	\$3.15	\$2.70	\$3.89	\$3.76
P/CFPS			6.7x	6.9x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,517	\$10,493
EBITDA (\$mm)	\$507	\$531	\$907	\$1,130
EV/EBITDA	9.2x	10.9x	10.5x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.28	\$0.41↑
Dividend	\$0.84	Yield		3.2%
Book Value	\$16.54	Price/Book		1.6x
Shares O/S (mm)	154.0	Mkt. Cap (\$mm)		\$4,013
Float O/S (mm)	154.0	Float Cap (\$mm)		\$4,013
Wkly Vol (000s)	1,769	Wkly \$ Vol (mm)		\$47.8
Net Debt (\$mm)	\$6,155.4	Next Rep. Date		2-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.43; 2008E: \$1.61

Changes

Annual EPS
 2007E \$1.44 to \$1.42

Quarterly EPS
 Q4/07E \$0.40 to \$0.41

Table 1. Consolidated Summary Sheet

7-Aug-07

Current Price: \$25.70

12-Month Target Price: \$31.00

ROR: 23.8%

Karen J. Taylor

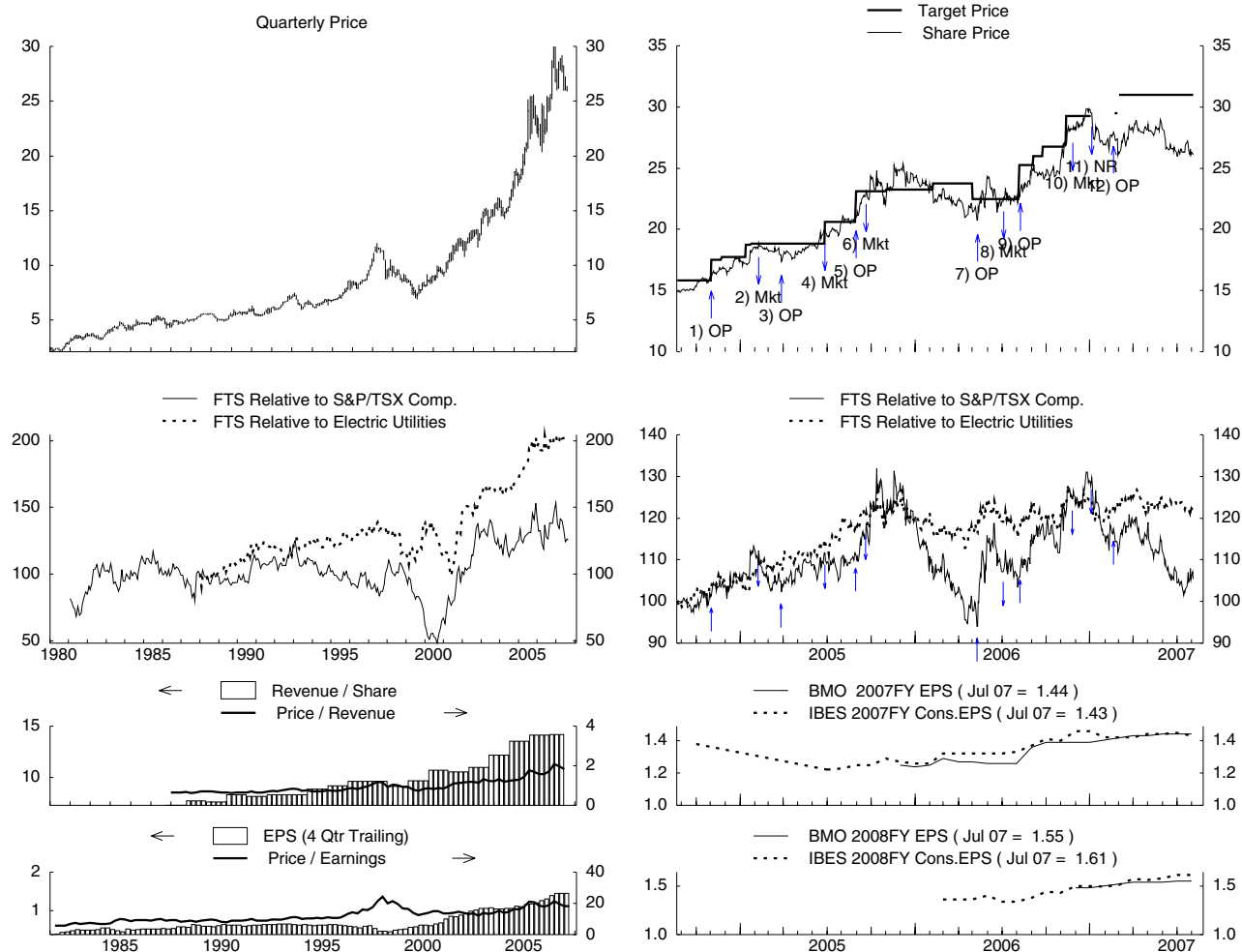
BMO Capital Markets

Recommendation: Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.44	\$1.58
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.42	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.54	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.33	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.37)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	56.8%	58.1%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.27	17.96
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$25.70	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	17.8	16.3
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.49	1.43
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.19%	3.56%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	360.2	763.2
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,963.2	4,879.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,656.5</u>	<u>2,768.2</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,292.6	9,723.5
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	3.9%	7.8%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	53.4%	50.2%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.9%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.6%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>28.6%</u>	<u>28.5%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	192.1	242.6
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	505.0	580.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.44	18	0.84	3.2	58	12.19	2.2	12
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.5		11.4			10.2		
10 Year:	10.2		6.7			7.0		
20 Year:	5.2		5.1			6.1		

* Current EPS is the 4 Quarter Trailing to Q1/2007.

FTS - Rating as of 23-Aug-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 2, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	47%
Hold	Market Perform	52%	45%	46%
Sell	Underperform	10%	8%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Fortis Inc.

August 7, 2007
Research Comment
Corporate Debt – Utilities

Laurie Conheady
416-359-4584
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Q2/07 Results: Credit Metrics Weaken on Terasen Acquisition

Event

Fortis Inc. (Fortis) releases Q2/07 results.

Impact

Neutral.

Key Points

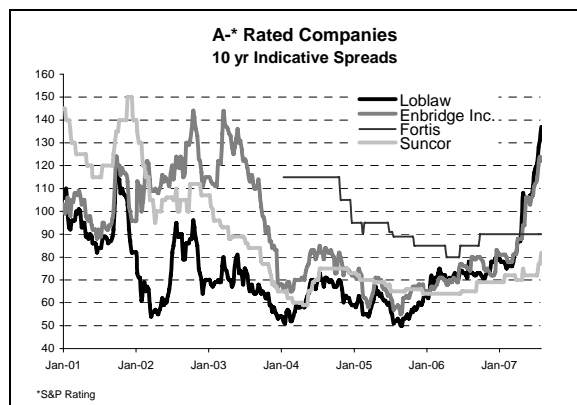
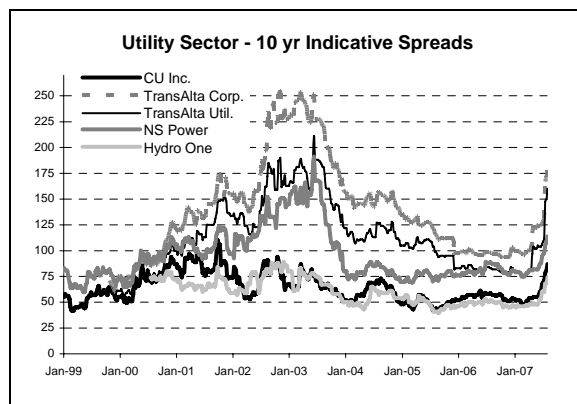
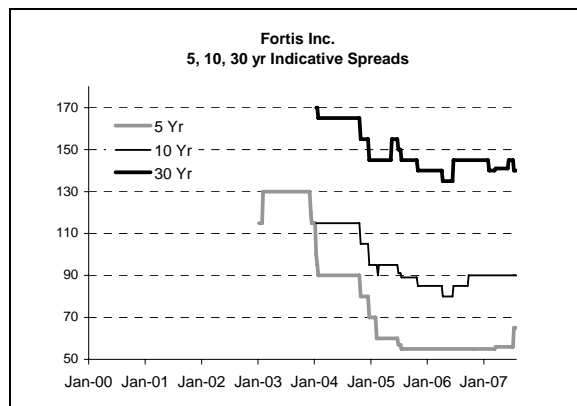
Fortis Inc.'s earnings in Q2/07 of \$41.5 million were up 9% versus Q2/06, and higher than BMO Capital Markets equity research's expectation of \$39.8 million. Funds from operations (FFO) in Q2/07 jumped 56% to \$116 million compared to Q2/06 but credit metrics weakened, albeit temporarily, due to the higher debt associated with the Terasen Inc. acquisition and the seasonality of Terasen Gas' cash flow. Fortis' total debt commitments and leverage were significantly impacted by the \$3.7 billion acquisition of Terasen Inc. and assumed debt of \$2.4 billion as part of the transaction. Fortis' consolidated liquidity improved in Q2/07 and remains adequate for its operational, refinancing and capital requirement needs.

Recommendation

We believe the credit profile of Fortis continues to strengthen and will improve further with the increased diversity of regulated cash flows from the recent Terasen Inc. acquisition. The company's single Canadian dollar issue limits the opportunity for investors to pursue relative value trades along the issuer's credit curve and the relative illiquid nature of its paper is a pricing consideration. The 5-year indicative spreads of Fortis have largely flat-lined since mid-2005, before moving out in recent weeks on general spread widening.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
BBB (High)	A-	Not Rated
Stable	Stable	



Details & Analysis

Earnings and Cash Flow

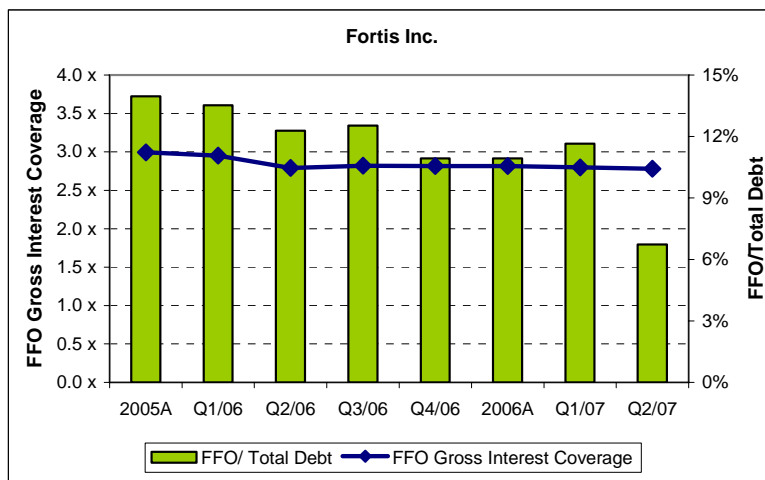
Fortis Inc.'s earnings in Q2/07 of \$41.5 million were up 9% versus Q2/06, and were higher than BMO Capital Markets equity research's expectation of \$39.8 million. On a per share basis, results were \$0.31 versus BMO Capital Markets' expectation of \$0.30 and higher than the mean estimate of \$0.29. Impacting the result were:

- moderately better than expected performance at FortisAlberta and FortisBC; offset by
- a reduction in the contribution from Fortis Generation due to lower Q2/07 hydrology versus Q2/06 in Belize, central Newfoundland and Upper New York State.

The quarter included a \$1.6 million contribution from the acquisition of Terasen Inc., which closed on May 17, 2007.

Funds from operations (FFO) in Q2/07 jumped 56% to \$116 million versus Q2/06 but credit metrics weakened, albeit temporarily, due to the higher debt associated with the Terasen Inc. acquisition and the seasonality of Terasen Gas' cash flow. Despite the higher FFO, the cash flows were insufficient to meet cash outlays with negative free cash flow (FFO less capital expenditure and distributions) of \$114 million as the result. The cash flow shortfall was met through proceeds from long-term debt. Fortis' large capital expenditure program will dominate cash flows outlays and financing activities for the next few years at least, with negative free cash flow expected to be the norm. In the next five years, gross consolidated electric utility expenditure of close to \$4 billion is expected.

Chart 1: Fortis Inc. Cash Flow Credit Metrics on a Rolling 12-months Basis



Source: BMO Capital Markets

Although unadjusted FFO interest coverage on a rolling 12-month basis to June 30, 2007, of 2.7x was close to that in Q2/06 of 2.8x, the company's FFO-to-total debt took a tumble, falling to 6.5% from 11.7% at the end of Q1/07. We expect the ratio to improve over the next 12 months to levels similar to its recent past as cash flow received from its Terasen Inc. subsidiary is matched against the higher debt levels that have resulted from the acquisition. Nonetheless, even when it does improve we expect the ratio to remain on the low side for some time as the company continues to partially debt finance expansion of its electricity network asset bases and the delay in receipt of regulated cash flows from the asset constructed.

Capital Structure and Liquidity

Fortis' total debt commitments and leverage were significantly impacted by the \$3.7 billion acquisition of Terasen Inc. and assumed debt of \$2.4 billion as part of the transaction. Total consolidated debt doubled to \$5.2 billion from \$2.6 billion in Q1/07. The vast majority of Fortis' consolidated debt, about 95%, resides at the company's various subsidiaries. Debt at the holding company level comprises \$100 million of senior unsecured debentures maturing 2010, US\$150 million senior unsecured notes maturing 2014 and about US\$59 million in unsecured subordinated convertible debentures due between 2012 and 2016. The company's leverage, as measured by total debt-to-total capital and treating the preference shares as equity, is expected to settle about its target level of 60%. At June 30, 2007, leverage was a touch above its target at 63%, up from 57% in Q1/07 and reflecting the higher debt associated with the Terasen Inc. acquisition.

Fortis' consolidated liquidity improved in Q2/07 and remains adequate for its operational, refinancing and capital requirement needs. Total credit facilities of the company increased to \$2.2 billion in Q2/07 compared to \$963.5 million in Q1/07. Unused capacity after drawdowns and outstanding letters of credit under the facilities was \$1.03 billion, up from \$722.8 million at the end of Q1/07. At the end of the quarter, Fortis also had consolidated cash and cash equivalents of \$63.5 million. We note that on May 14, 2007, the company terminated its unused \$1.425 billion non-revolving term credit facilities established to fund the Terasen acquisition. Maturing debt commitments and amortizing debt repayments are manageable. The company's earliest maturities are two debt issues at Terasen Gas Inc. totalling \$250 million in October 2007, and a \$40 million issue (of which \$32 million was outstanding at June 30, 2007) at Newfoundland Power due to mature in December this year.

Credit Ratings

Fortis' corporate credit rating and senior unsecured debt issue rating benefited from the company's recent acquisition of Terasen Inc.

On June 19, 2007, **Standard & Poor's** upgraded its corporate credit rating on Fortis Inc. one notch to A- and assigned a Stable outlook. Of greater significance was that the senior unsecured debt rating was upgraded two notches to A- from BBB. The rating on the senior unsecured debt had previously been rated a notch below the corporate credit rating to reflect its structurally subordinated position. Standard & Poor's decision to depart from its previous treatment of the senior unsecured debt and equalize the senior unsecured debt rating with the corporate credit

rating reflects the increasing diversification of the company and the financial separation among its investments. The agency has advised that the rating upgrade of Fortis reflects the improved diversity resulting from the recent acquisition of Terasen Inc.; the operation of each regulated subsidiary as a separate stand-alone entity with debt non-recourse to Fortis Inc.; management's commitment to maintaining low levels of debt at the Fortis Inc. holding company level; management's continuing focus on pursuing acquisitions in stable, regulated utilities; and the success of key subsidiaries FortisBC and Fortis Alberta in executing their capital expansions.

DBRS confirmed its ratings on Fortis on February 26, 2007, following its announced intention to acquire 100% of the common shares of Terasen Inc. DBRS believes the transaction will have a positive impact on Fortis's overall business risk profile as a result of the acquisition of stable, low-risk gas distribution assets. From a financial risk perspective, DBRS expects a modest decline in consolidated interest coverage metrics, given the existing levels of debt at the acquired entities; however, it expects modest improvement in non-consolidated credit metrics, given that the transaction is predominantly equity financed, coupled with the historical strength of Terasen Gas Inc.'s dividends. Overall, DBRS views the predominantly equity-financed acquisition of regulated assets as a good strategic fit for Fortis and views the proposed transaction as credit neutral to slightly credit positive.

Recommendation

We believe the credit profile of Fortis continues to strengthen and will improve further with the increased diversity of regulated cash flows from the recent Terasen Inc. acquisition. The company's single Canadian dollar issue limits the opportunity for investors to pursue relative value trades along the issuer's credit curve and the relative illiquid nature of its paper is a pricing consideration. The 5-year indicative spreads of Fortis have largely flat-lined since mid-2005, before moving out in recent weeks on general spread widening.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding (\$mm)
Terasen Gas Inc.	6.500%	16-Oct-07	\$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	\$100
Terasen Gas Inc.	Floating	24-Oct-07	\$150	Floating Rate Notes	24-Oct-05	NA	Non-callable	88078ZAD6	\$150
Newfoundland Power	11.88%	16-Dec-07	\$40	First Mortgage	16-Dec-87	145.0 bps	Make Whole (+ 75.0 bps)	651350BC3	\$32
Terasen Gas Inc.	6.200%	2-Jun-08	\$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	\$188
Terasen Inc.	6.300%	1-Dec-08	\$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	\$200
Terasen Gas Inc.	10.750%	8-Jun-09	\$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	\$60
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	1-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$5
Maritime Electric	12.00%	1-May-10	\$15	First Mortgage	1-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
FortisBC Inc.	9.44%	31-Oct-13		WPP Mortgage	NA	NA	NA	NA	\$6
Newfoundland Power	10.55%	1-Aug-14	\$40	First Mortgage	9-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
Terasen Inc.	5.560%	15-Sep-14	\$125	MTNs	15-Sep-04	93.0 bps	Make Whole + 23 bps	88079ZAB9	\$125
Fortis Inc.	5.74%	31-Oct-14	US\$150	Senior Notes	28-Oct-04	NA	NA	NA	US\$150
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debenture	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
Terasen Gas Inc.	11.800%	30-Sep-15	\$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	\$75
FortisBC Inc.	8.77%	1-Feb-16	\$25	Unsecured Debenture	1-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	2-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric	11.50%	15-Aug-16	\$12	First Mortgage	1-Jan-91	NA	NA	NA	\$12
Terasen Gas Inc.	10.300%	30-Sep-16	\$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	\$200
Maritime Electric	8.55%	7-Dec-18	\$15	First Mortgage	7-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	1-Oct-20	\$40	First Mortgage	1-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$35
FortisBC Inc.	7.81%	1-Dec-21	\$25	Unsecured Debenture	1-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$34
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DAA7	\$25
Maritime Electric	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	7-May-26	\$40	First Mortgage	7-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$46
Terasen Gas Inc.	6.950%	21-Sep-29	\$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	\$150
Maritime Electric	8.92%	3-Jul-31	\$20	First Mortgage	3-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	1-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$72
Terasen Gas Inc.	6.500%	1-May-34	\$150	MTNs	29-Apr-04	127.0 bps	Make Whole + 31 bps	88078ZAB0	\$150
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debenture	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Terasen Gas Inc.	5.900%	26-Feb-35	\$150	MTNs	25-Feb-05	118.0 bps	Make Whole + 29 bps	88078ZAC8	\$150
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	9-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debenture	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100
Terasen Gas Inc.	5.550%	25-Sep-36	\$120	MTNs	25-Sep-06	136.0 bps	Make whole + 34 bps	88078ZAE4	\$120
Terasen Inc.	8.000%	19-Apr-40	\$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	\$125
FortisAlberta	4.99%	3-Jan-47	\$110	Unsecured Debenture	3-Jan-07	97.0 bps	Make Whole (+ 24 bps)	34957ZAA2	\$110

Ownership Structure

Widely Held.

Credit Facilities (\$mm)

Company	Facility Size	Amount Available		Maturity	Type
		Q2 2007	Q1 2007		
Fortis Inc.*	\$2,202.7	\$1,034.8	\$722.8		Lines of Credit
*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.					

Corp. Lease Schedule (\$mm) at 12/31/2006

Year	Capital Lease Payments	Operating Lease Payments	Lease Receipts
2007	2.6	5.6	
2008	2.6	5.1	
2009	2.6	5.1	
2010	2.6	3.8	
2011	2.6	3.8	
Thereafter	55.4	16.3	
*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.			

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2006	FY 2005	FY 2006	FY 2005
	(\$mm)	(\$mm)	(\$mm)	(\$mm)
Accrued Benefit Obligation	413.4	389.8	125.2	116.5
Plan Assets	<u>390.6</u>	<u>349.9</u>	<u>-</u>	<u>-</u>
Funded Status	(22.8)	(39.8)	(125.2)	(116.5)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	102.0	97.2	63.7	(53.6)
Discount Rate	5-5.25%	6-6.25%	6-6.25%	6-6.25%
Expected Long-term Rate of of Return on Assets	6.5-7.5%	7-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.0%	3.5-4.5%	3.5-4.5%	3.5-4.5%

Historical Ratings
Senior Unsecured Rating - Fortis

DBRS			S&P			Moody's		
Rating	Trend	Date	Rating	Trend	Date	Rating	Trend	Date
BBB (high)	Stable	5-Nov-03	A-	Stable	19-Jun-07	Not Rated		
BBB (high)	Under Review - Developing	16-Sep-03	BBB	Credit Watch Positive	26-Feb-07			
BBB (high)	Stable	6-Oct-00	BBB	Stable	7-Dec-05			
			BBB	Negative	7-Jan-04			
			BBB	Credit Watch Negative	22-Sep-03			

Analyst's Certification

I, Laurie Conheady, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$25.59
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

August 9, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Maritime Electric Files 2008 Capital Budget

Impact

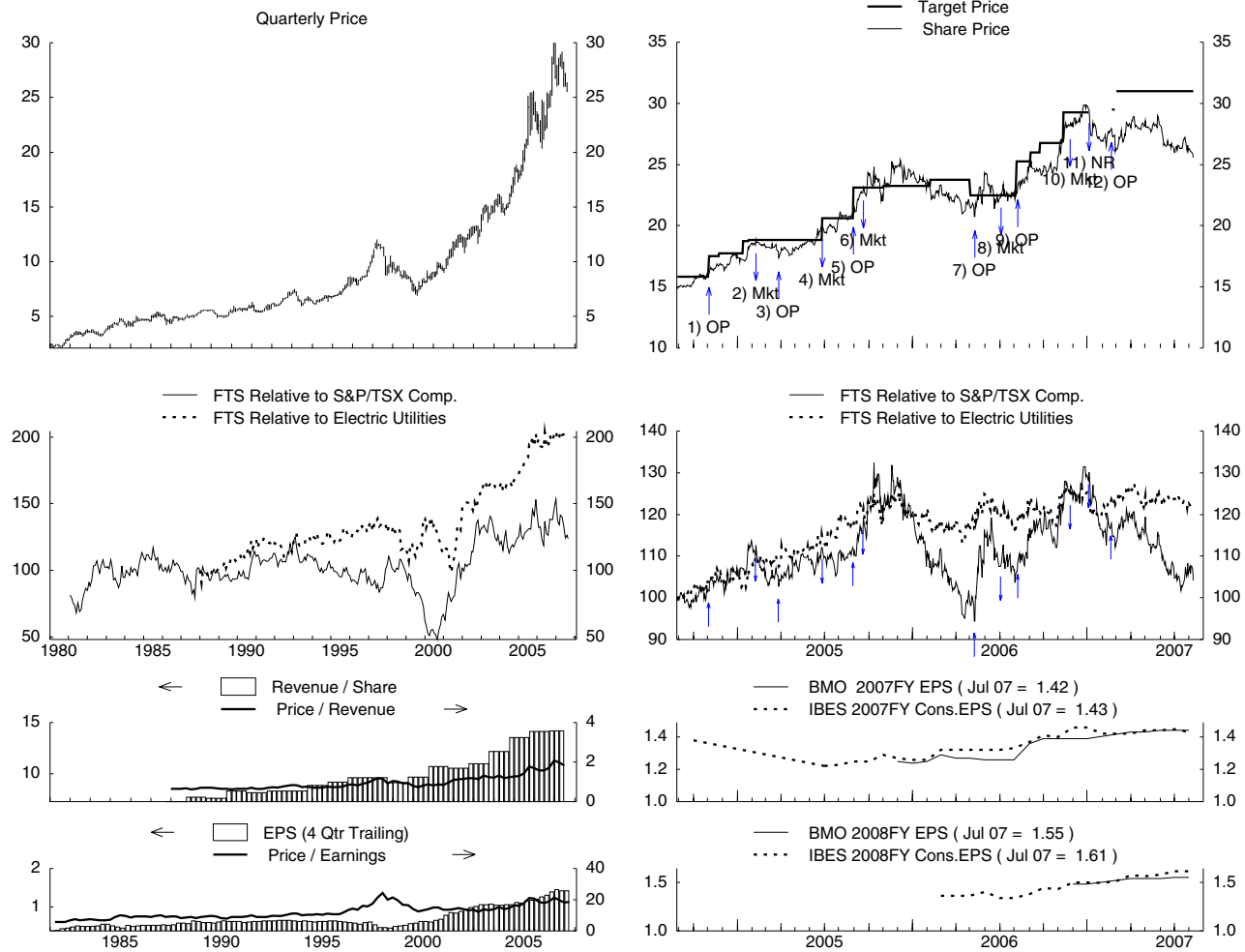
Neutral

Details & Analysis

On August 6, the Island Regulatory and Appeals Commission (IRAC) issued a Notice of Application regarding a June 27, 2008, application by Maritime Electric (100% - Fortis Inc.) that seeks approval for utility capital expenditures of \$18.358 million in 2008. The application also highlights an anticipated 2009 capital plan of \$19.269 million. We believe that IRAC is likely to issue a decision on this application in early Q4/07. The applied-for budget for 2008 and the outlook for 2009 are fully reflected in our outlook for Fortis Inc. We continue to rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under NYSE/NASD rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	19	0.84	3.2	59	16.54	1.6	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.2		11.4			17.2		
10 Year:	10.1		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 27-Aug-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 8, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	47%	47%
Hold	Market Perform	52%	45%	46%
Sell	Underperform	10%	8%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

September 24, 2007

Research Comment
 Toronto, Ontario

Karen Taylor, CFA

(416) 359-4304

Karen.Taylor@bmo.com

Assoc: Benjamin Pham

Management Meetings – Outperform Rating Unchanged

Event

We hosted investor meetings with management on September 18/19 and note the following highlights: (i) the low-risk growth strategy remains intact – we estimate a 5% compound annual growth rate over the 2006 to 2010 period substantially from visible, utility projects. The company has very few larger, high risk projects that would jeopardize estimated growth rates were they not to be approved; (ii) we continue to expect \$250 million in common share equity will be required in early 2009 in order to partially fund \$900 million of utility capital expenditures in both 2008 and 2009; and (iii) we continue to believe that the company may be acquisitive over the forecast period, in the gas/electric distribution segment in Canada or the Pacific Northwestern United States, and that the company is likely to undertake only accretive transactions.

Impact

Neutral.

Forecasts

We have updated our outlook to: (i) better reflect the seasonality of Terasen Inc's quarterly earnings profile of Q1 – 55%; Q2 – 5%; Q3 – (5%); and Q4 – 45%; and (ii) incorporate the LNG Storage Facility applied for by Terasen Gas (Vancouver Island) on June 5 (see our June 6, 2007 comment). Our estimates currently reflect a December 31, 2006 rate base for Newfoundland Power of \$752.9 million and 2008 capital additions of \$50.754 million, as per that utility's May 10 filing that was approved by the Newfoundland Board of Commissioners of Public Utilities on September 19/2007. Our 2007 EPS estimate declines to \$1.36 from \$1.44, as a result of the change in the assumed seasonality of Terasen's earnings.

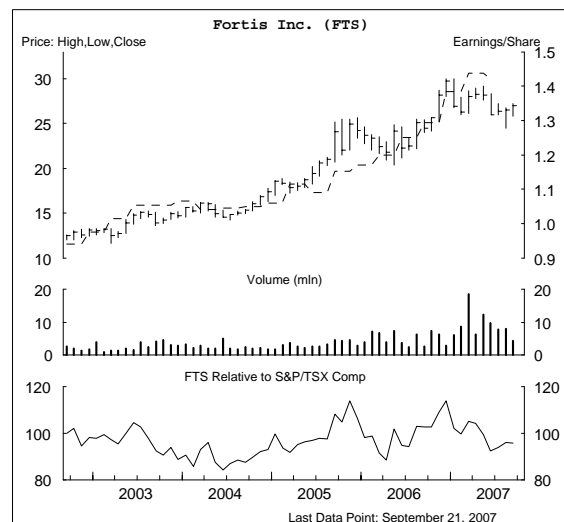
Valuation

Our target price reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E book value per share of \$17.90 (12.5%), and a target yield of 3.00% (75%), assuming 2008E dividends per share of \$0.92.

Recommendation

We believe the shares are attractively valued at current levels. Our rating is Outperform.

Price (21-Sep) \$27.00 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$24.00



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.36↓	\$1.55
P/E			19.9x	17.4x
CFPS	\$3.15	\$2.70	\$3.79	\$3.77
P/CFPS			7.1x	7.2x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,787	\$10,675
EBITDA (\$mm)	\$507	\$531	\$904	\$1,127
EV/EBITDA	9.2x	10.9x	10.8x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.19↓	\$0.46↑
Dividend	\$0.84	Yield		3.1%
Book Value	\$16.54	Price/Book		1.6x
Shares O/S (mm)	154.0	Mkt. Cap (\$mm)		\$4,159
Float O/S (mm)	154.0	Float Cap (\$mm)		\$4,159
Wkly Vol (000s)	1,899	Wkly \$ Vol (mm)		\$51.4
Net Debt (\$mm)	\$6,161.2	Next Rep. Date		2-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.39; 2008E: \$1.59

Changes

Annual EPS
 2007E \$1.42 to \$1.36

Quarterly EPS
 Q3/07E \$0.28 to \$0.19
 Q4/07E \$0.41 to \$0.46

Table 1. Consolidated Summary Sheet

23-Sep-07

Current Price: \$26.71

12-Month Target Price: \$31.00

ROR: 19.1%

Karen J. Taylor

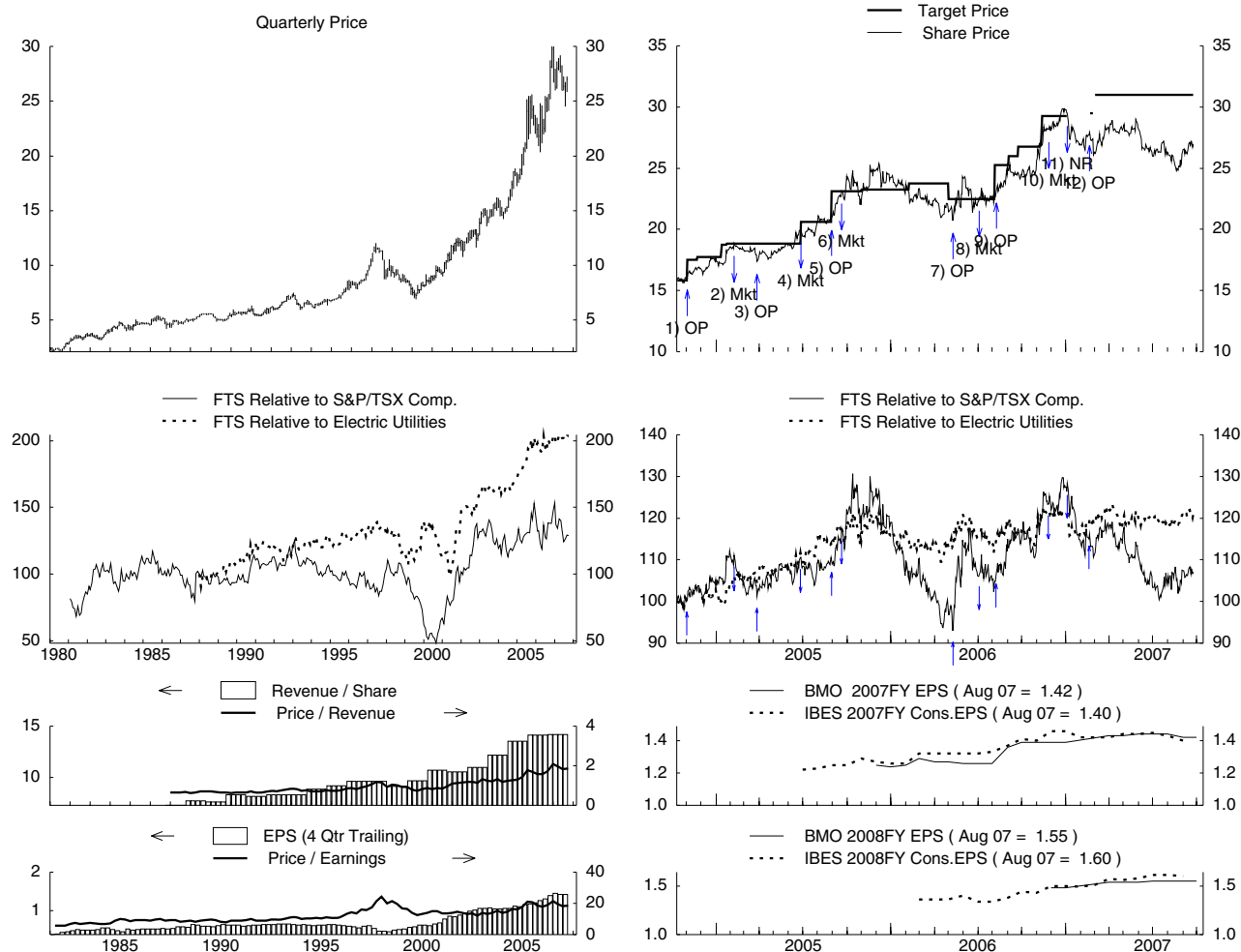
BMO Capital Markets

Recommendation: Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.38	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.36	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.54	\$0.47
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.38)	(\$0.36)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	59.5%	58.2%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.21	17.90
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$26.71	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	19.4	17.0
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.55	1.49
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.07%	3.43%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	99.6	643.8
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,255.2	5,178.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,647.7</u>	<u>2,758.9</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,315.1	9,893.5
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.1%	6.5%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.4%	52.3%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>28.4%</u>	<u>27.9%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	183.3	242.1
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	496.3	579.9

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	19	0.84	3.2	59	16.54	1.6	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	10.2		11.4			17.2		
10 Year:	10.1		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 12-Oct-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: September 21, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform
Member of: Top 15 Income Stock Selections

October 4, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

FortisBC Applies for 2008 Rates; Outperform Rating Unchanged

Event

On October 2, FortisBC (100% - Fortis Inc.) filed an application with the British Columbia Utilities Commission (BCUC) to set customer electricity rates for 2008. The application that was filed by the utility is consistent with the Multi-Year Performance Based Regulation (PBR) Plan for the period 2006 to 2008 (with an option to extend the Plan for 2009) approved by the Commission on May 19, 2006, and has a number of key highlights, as set out herein.

Impact

Neutral.

Forecasts

Our diluted 2007 and 2008 EPS estimates of \$1.36 and \$1.55, respectively, are unchanged.

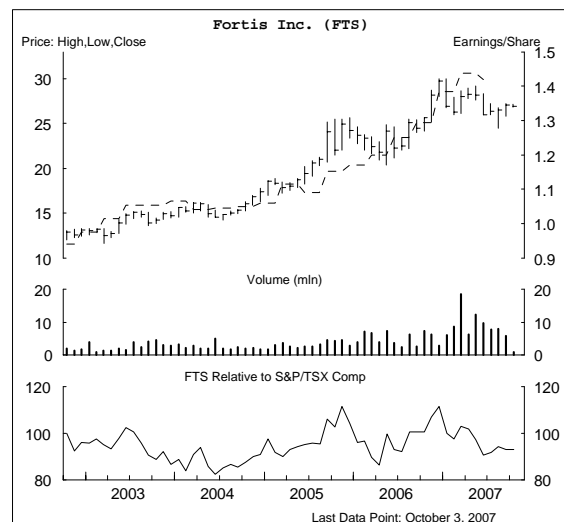
Valuation

Our target price of \$31.00 reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E book value per share of \$17.90 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (4-Oct) \$26.95 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$24.12



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.36	\$1.55
P/E			19.8x	17.4x
CFPS	\$3.15	\$2.70	\$3.79	\$3.77
P/CFPS			7.1x	7.1x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,783	\$10,814
EBITDA (\$mm)	\$507	\$531	\$891	\$1,137
EV/EBITDA	9.2x	10.9x	11.0x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.19	\$0.46
Dividend	\$0.84	Yield		3.1%
Book Value	\$16.54	Price/Book		1.6x
Shares O/S (mm)	154.0	Mkt. Cap (\$mm)		\$4,152
Float O/S (mm)	154.0	Float Cap (\$mm)		\$4,152
Wkly Vol (000s)	1,912	Wkly \$ Vol (mm)		\$51.8
Net Debt (\$mm)	\$6,192.5	Next Rep. Date		2-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.37; 2008E: \$1.59

Details & Analysis

On October 2, FortisBC (100% - Fortis Inc.) filed an application with the British Columbia Utilities Commission (BCUC) to set customer electricity rates for 2008. The application that was filed by the utility is consistent with the Multi-Year Performance Based Regulation (PBR) Plan for the period 2006 to 2008 (with an option to extend the Plan for 2009) approved by the Commission on May 19, 2006, and has a number of key highlights, as set out below:

- 4% Rate Increase – the utility has requested a 4% rate increase effective January 1, 2008. The proposed increase is attributable to the following: (i) financing costs associated with incremental rate base \$11.6 million or 2.6% of the proposed increase; (ii) increased power supply costs due to load growth \$2.8 million or 0.6% of the proposed increase in rates; (iii) increased income tax expense of \$1.3 million or 0.3% of the proposed increases; (iv) \$0.7 million higher operating costs or 0.2% of the increase; (v) flow-through adjustments of \$1.3 million or 0.3% of the increase; and (vi) reduction in rates of 1% arising from \$2.3 million returned to customers via the approved return on equity sharing mechanism adjustment. This adjustment provides for equal sharing of any return on equity variance within a 2% band above or below the approved return on equity.
- Mid-year utility rate base of \$833.035 million, versus a forecast mid-year utility rate base of \$750.832 million in 2007.
- Net plant additions of \$111.150 million in 2008 versus forecast net additions of \$134.696 million in 2007. Gross capital expenditures are expected to be \$124.050 million in 2008 and \$142.508 million in 2007.
- Allowed capital structure of 40% equity and 60% debt in 2008, consistent with the capital structure in 2007.
- The allowed return for 2008 will be subject to the Commission's existing formula, which provides the utility with a 40-basis-point premium to the benchmark utility allowed return. For 2007, the allowed return on equity was 8.77%. The 2008 allowed return is expected to be determined in late November 2007.
- Depreciation and amortization of \$34.953 million in 2008 versus \$31.051 million approved for fiscal 2007.
- The utility does not anticipate issuing long-term debt in 2008; however, it is anticipating the use of its \$150 million operating credit facility in order to finance its 2008 capital expenditure program.

Estimates

Our diluted 2007 and 2008 EPS estimates of \$1.36 and \$1.55, respectively, are unchanged.

Valuation

Our target price of \$31.00 reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E book value per share of \$17.90 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

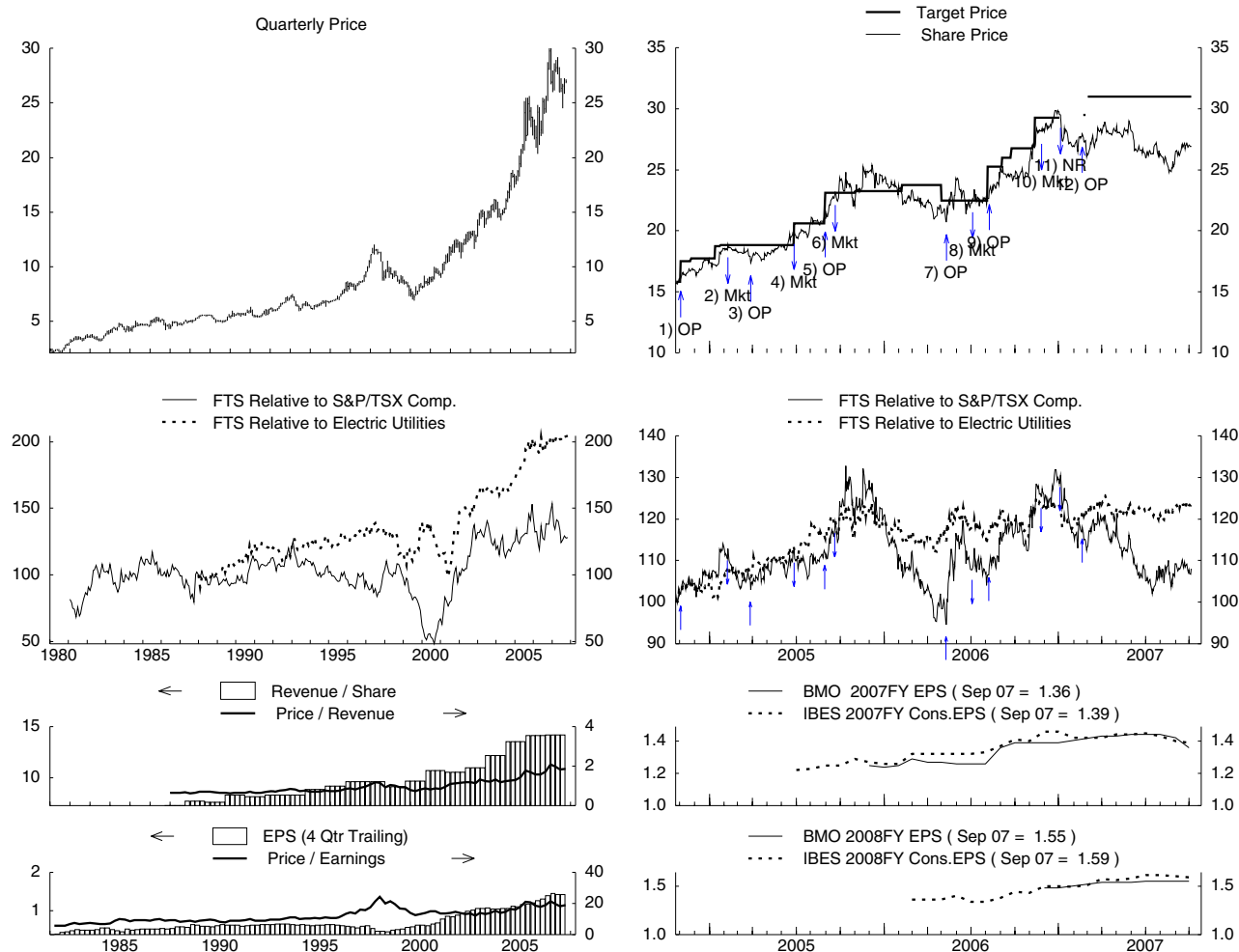
We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

4-Oct-07							
Current Price:	\$26.65						Karen J. Taylor
12-Month Target Price:	\$31.00						BMO Capital Markets
ROR:	19.4%					Recommendation:	Outperform
	2002	2003	Year-Ended December 31				
			2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.37	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.36	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.46
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.38)	(\$0.35)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	59.8%	58.2%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.21	17.89
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$26.65	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	19.4	17.0
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.55	1.49
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.08%	3.43%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	107.1	650.7
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,255.2	5,178.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	66.6	66.6
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,647.0</u>	<u>2,758.1</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,321.9	9,899.6
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.1%	6.6%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.4%	52.3%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.7%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>28.4%</u>	<u>27.9%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	182.6	242.0
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	494.9	580.0

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	19	0.84	3.1	59	16.54	1.6	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	8.6		11.4			17.2		
10 Year:	9.3		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 22-Oct-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: October 3, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

October 12, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Revised 2008 Rate Application Filed; Outperform Rating Maintained

Event

On October 11, Newfoundland Power (100% - Fortis Inc.) filed a revised application for 2008 rates with the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). The revised application proposes an average electricity rate increase of 2.8% versus the previously applied-for increase of 5.3%. The revised application is the result of recent negotiations between the company and the Consumer Advocate, which determined that the applied-for ROE for 2008 should be 8.95% versus the previously applied-for ROE of 10.25% and an allowed ROE of 8.60% in 2007. The parties agree that the risk-free rate for 2008 be set at 4.60% and the risk premium be set at 4.35%.

Impact

Neutral.

Forecasts

We have updated our financial model to reflect the revised estimated 2008 rate base, allowed ROE and capital expenditure budget outlined in the new application. We have also updated our U.S. dollar/Canadian dollar exchange rate assumptions. We now assume an average exchange rate of 1.0746 CDN/USD in 2007 and parity thereafter versus 1.11 CDN/USD in 2007 and 2008. Average fiscal 2008 rate base is assumed to be \$812.2 million versus year-end 2008 rate base of \$816.6 million previously.

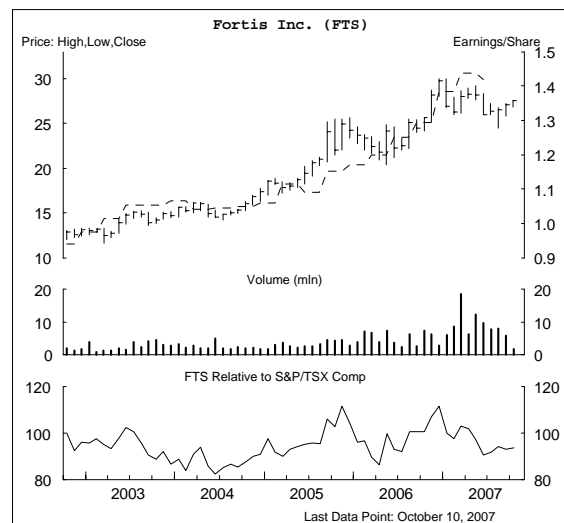
Valuation

Our \$31 target reflects a weighted valuation approach: 18.0x diluted 2008E EPS of \$1.55 (12.5%), 2.0x 2008E book value per share of \$17.89 (12.5%), and a target yield of 3.00% (75%), assuming 2008 dividends per share of \$0.92.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (11-Oct) \$27.35 **52-Week High** \$30.00
Target Price \$31.00 **52-Week Low** \$24.12



(FY-Dec.)	2005A	2006A	2007E	2008E
EPS	\$1.10	\$1.33	\$1.35↓	\$1.55
P/E			20.3x	17.6x
CFPS	\$3.15	\$2.70	\$3.79	\$3.77
P/CFPS			7.2x	7.3x
Div.	\$0.61	\$0.67	\$0.82	\$0.92
EV (\$mm)	\$4,667	\$5,758	\$9,904	\$10,952
EBITDA (\$mm)	\$507	\$531	\$898	\$1,147
EV/EBITDA	9.2x	10.9x	11.0x	9.5x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2005A	\$0.32	\$0.28	\$0.33	\$0.24
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.19	\$0.44↓
Dividend	\$0.84	Yield		3.1%
Book Value	\$16.54	Price/Book		1.7x
Shares O/S (mm)	154.0	Mkt. Cap (\$mm)		\$4,213
Float O/S (mm)	154.0	Float Cap (\$mm)		\$4,213
Wkly Vol (000s)	1,900	Wkly \$ Vol (mm)		\$51.5
Net Debt (\$mm)	\$6,200.0	Next Rep. Date		2-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2007E: \$1.37; 2008E: \$1.59

Changes

Annual EPS
 2007E \$1.36 to \$1.35

Quarterly EPS
 Q4/07E \$0.46 to \$0.44

Table 1. Consolidated Summary Sheet

11-Oct-07

Current Price:

\$27.06

12-Month Target Price:

\$31.00

ROR:

17.6%

Karen J. Taylor

BMO Capital Markets

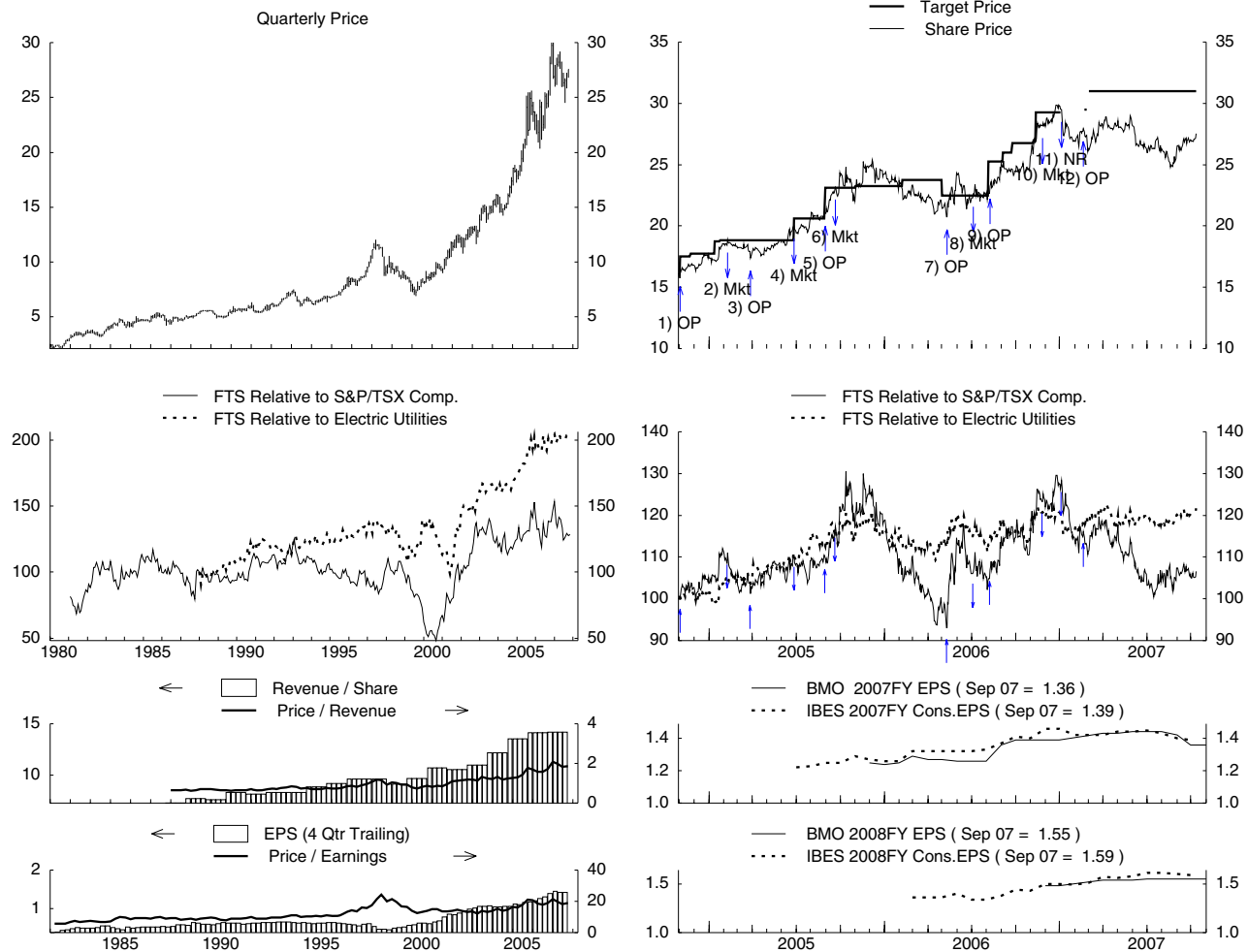
Recommendation:

Outperform

	Year-Ended December 31						
	2002	2003	2004	2005	2006	2007E	2008E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.37	\$1.57
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.35	\$1.55
Segmented EPS							
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.13
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.22	\$0.18
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.22
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.53	\$0.46
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.37)	(\$0.33)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	59.9%	58.2%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.21	17.89
Market Valuation							
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-
Price: Current	-	-	-	-	-	\$27.06	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	19.8	17.2
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	1.57	1.51
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-
Yield: Current	-	-	-	-	-	3.03%	3.38%
Balance Sheet (\$mm)							
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	122.8	682.3
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,238.7	5,142.0
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,646.5</u>	<u>2,757.7</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,318.6	9,888.1
Balance Sheet (%)							
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.3%	6.9%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.2%	52.0%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>28.4%</u>	<u>27.9%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement							
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	182.1	242.2
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	494.3	579.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	19	0.84	3.1	59	16.54	1.6	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	8.6		11.4			17.2		
10 Year:	9.3		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 29-Oct-04 = Mkt

Date	Rating Change	Share Price
1 2-Nov-04	Mkt to OP	\$16.10
2 8-Feb-05	OP to Mkt	\$18.88
3 28-Mar-05	Mkt to OP	\$17.38
4 27-Jun-05	OP to Mkt	\$20.01
5 30-Aug-05	Mkt to OP	\$21.01
6 20-Sep-05	OP to Mkt	\$23.18
7 10-May-06	Mkt to OP	\$20.75
8 4-Jul-06	OP to Mkt	\$22.60
9 8-Aug-06	Mkt to OP	\$23.24
10 24-Nov-06	OP to Mkt	\$28.20
11 3-Jan-07	Mkt to NR	\$29.51
12 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: October 10, 2007

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$26.78
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

October 26, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Proposed Royalty Regime

Impact

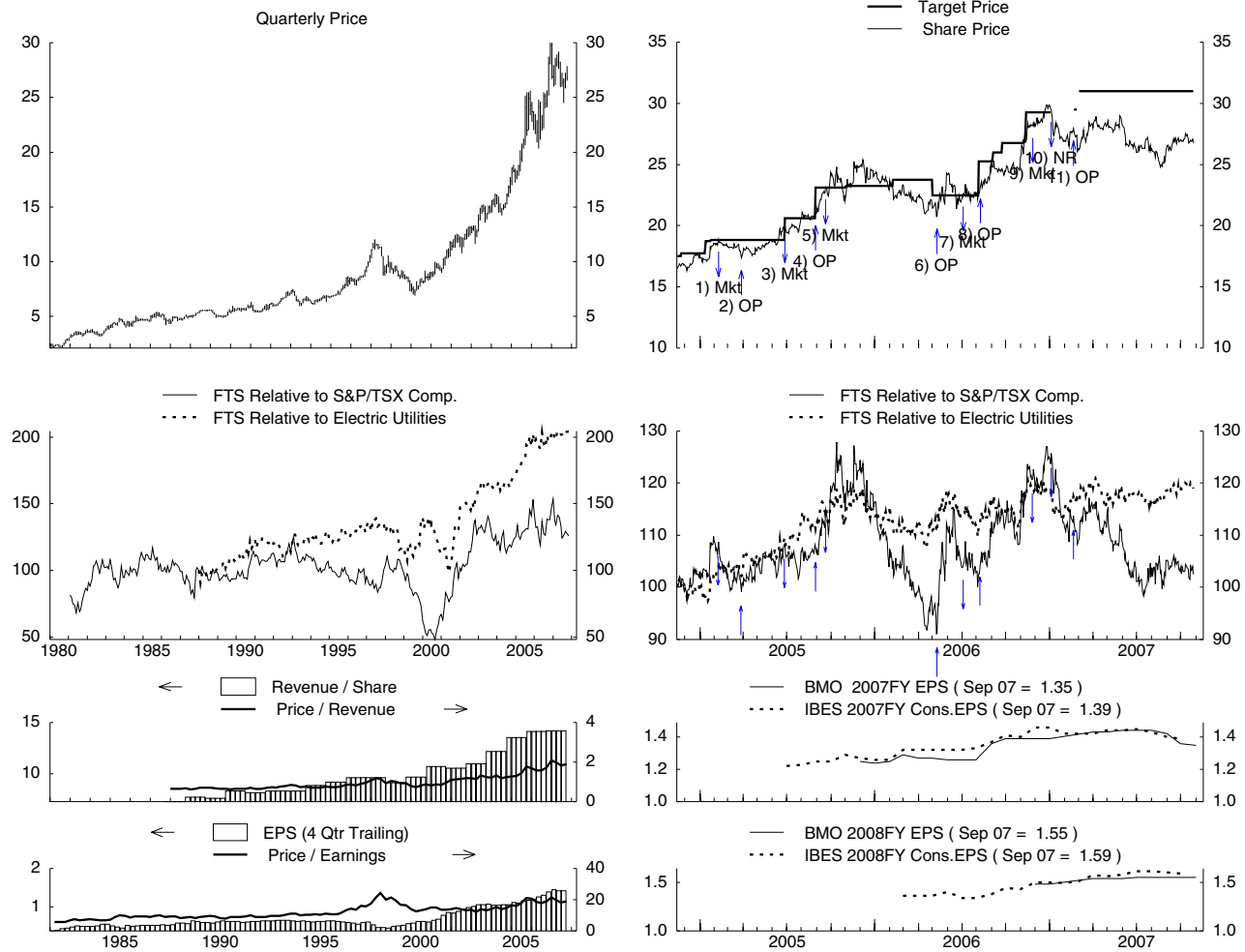
Neutral

Details & Analysis

Alberta Premier Ed Stelmach unveiled the province's new royalty tax regime yesterday, increasing royalties an average of 20% or \$1.4 billion by 2010. Although FortisAlberta (100% - Fortis Inc.) is one of the fastest-growing utility operations in the Fortis group of utilities, we do not expect the new royalty regime to have a material effect on our outlook for the stock. FortisAlberta has been growing at an above-average rate for several years. Even if customer requests for new service were to decline as a result of this new royalty regime, we believe that the utility would continue to have elevated capital expenditure levels to in-fill the growth it has already accommodated on its system. Capital expenditures are expected to remain at above-average levels beyond the end of our current forecast period. We continue to rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	19	0.84	3.1	59	16.54	1.6	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	8.6		11.4			17.2		
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* Current EPS is the 4 Quarter Trailing to Q2/2007.

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Last Daily Data Point: October 25, 2007

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

November 2, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Q3/07 EPS in Line with Expectations; Outperform Rating Maintained

Event

Fortis reported Q3/07 EPS of \$0.20 versus our expectation of \$0.19 and a mean estimate of \$0.21. Results were largely in line with expectations. We note the following: (i) the contribution from FortisAlberta and FortisBC were moderately higher than expected, due to higher taxation recoveries at FortisAlberta and stronger-than-expected customer growth at FortisBC. These gains were partially offset by: (ii) lower contribution from the non-regulated power generation segment, arising from lower quarter-over-quarter hydrological conditions in Ontario, Upper State New York and Belize; and (iii) higher-than-expected unallocated Corporate costs. There were no material one-time items or adjustments during the quarter.

Impact

Neutral.

Forecasts

We have updated our financial model to better reflect year-to-date performance. Our diluted 2007 EPS estimate of \$1.35 is unchanged. Our diluted 2008 EPS estimate declines marginally to \$1.52 from \$1.55, and we are introducing our 2009 EPS estimate of \$1.53.

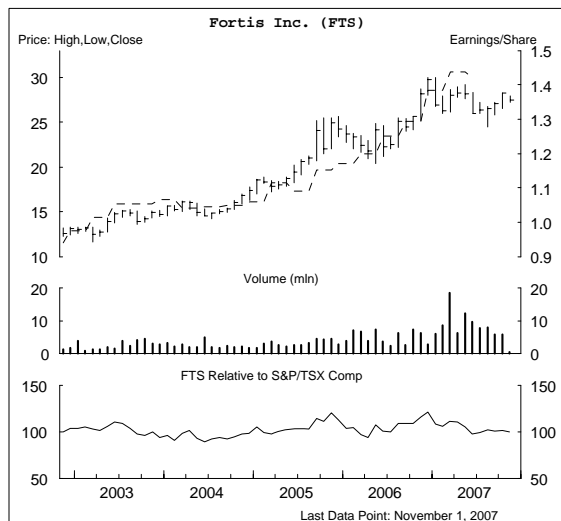
Valuation

Our target price of \$32.00 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%), 2.0x 2009E BVPS of \$19.12 (12.5%) and a target yield of 3.00% (75%), assuming 2009 dividends per share of \$0.96.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (1-Nov) \$27.43
Target Price \$32.00↑
52-Week High \$30.00
52-Week Low \$24.50



(FY-Dec.)	2006A	2007E	2008E	2009E
EPS	\$1.33	\$1.35	\$1.52↓	\$1.53
P/E		20.3x	18.0x	17.9x
CFPS	\$2.70	\$3.71	\$3.76	\$3.80
P/CFPS		7.4x	7.3x	7.2x
Div.	\$0.67	\$0.82	\$0.92	\$0.96
EV (\$mm)	\$5,758	\$9,956	\$11,004	\$11,504
EBITDA (\$mm)	\$531	\$895	\$1,144	\$1,189
EV/EBITDA	10.9x	11.1x	9.6x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.20a	\$0.43↓
2008E	\$0.59	\$0.29	\$0.22	\$0.45
Dividend	\$0.84	Yield		3.1%
Book Value	\$16.47	Price/Book		1.7x
Shares O/S (mm)	154.9	Mkt. Cap (\$mm)		\$4,249
Float O/S (mm)	154.9	Float Cap (\$mm)		\$4,249
Wkly Vol (000s)	1,911	Wkly \$ Vol (mm)		\$52.0
Net Debt (\$mm)	\$6,197.1	Next Rep. Date		1-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.37; 2008E: \$1.59; 2009E: \$1.63

Changes

Annual EPS
 2008E \$1.55 to \$1.52

Quarterly EPS
 Q4/07E \$0.44 to \$0.43

Target
 \$31.00 to \$32.00

Details & Analysis

Fortis reported Q3/07 EPS of \$0.20 versus our expectation of \$0.19 and a mean estimate of \$0.21. Results were largely in line with expectations. We note the following: (i) the contribution from FortisAlberta and FortisBC were moderately higher than expected, due to higher taxation recoveries at FortisAlberta and stronger-than-expected customer growth at FortisBC. These gains were partially offset by: (ii) lower contribution from the non-regulated power generation segment, arising from lower quarter-over-quarter hydrological conditions in Ontario, Upper State New York and Belize; and (iii) higher-than-expected unallocated Corporate costs. There were no material one-time items or adjustments during the quarter.

We believe that the following points are relevant about quarterly and year-to-date performance:

- The contribution from FortisAlberta was higher than expected due to the continued benefit arising from corporate income tax recoveries associated with AESO deferral amounts. In Q3/07, \$2.7 million of taxation recoveries were booked, and \$7.0 million year to date. We note that FortisAlberta has sold the \$28 million amount in its annual Alberta Electric System Operator (AESO) Charges Deferral Account for cash consideration of approximately \$26.8 million and a receivable of approximately \$1.2 million, due in February 15, 2008. We do not believe that any further corporate income tax recoveries are likely to be forthcoming in Q4/07 and thereafter. We believe that in Q4/06, there were approximately \$1.4 million of recoveries, and estimated performance reflects our assumption that the amortization of deferred taxation balances is now complete.
- With the exception of the 2008 rate application filed by Maritime Electric (100% - Fortis) with the Prince Edward Island Regulatory Appeals Commission (IRAC) on October 18, our estimates fully reflect: (i) \$18.6 million capital budget for 2008 at Maritime Electric, as approved by IRAC on October 11, 2007; (ii) Newfoundland Power's October 11 revised filing with the Newfoundland & Labrador Board of Commissioners of Public Utilities for 2008 rates; (iii) FortisBC's October 2, application with the British Columbia Utilities Commission (BCUC) for approval to set 2008 rates in accordance with the previously approved Multi-Year Performance Based Regulation Plan for 2006 to 2008 (extendible until the end of 2009); (iv) FortisAlberta's June 1 application to the Alberta Energy and Utilities Board for 2008 and 2009 Distribution Tariffs; (v) Terasen Gas (Vancouver Island)'s June 5 application to the BCUC to build, own and operate the Mt. Hayes liquefied natural gas storage facility on Vancouver Island; and (vi) Newfoundland Power's 2008 capital budget of \$50.754 million was approved by the Newfoundland & Labrador Board of Commissioners of Public Utilities on September 19, 2007.
- Corporate costs of approximately \$16.3 million in Q3/07 were higher than expected. We have revised our outlook for these unallocated financing amounts, to approximately \$16.5 million of cost per quarter in 2008 or \$66 million and approximately \$62.3 million in 2009.
- We have adjusted the seasonality of our 2008 quarterly EPS profile to reflect the expected contribution from Terasen Inc. on a full-year basis. We expect the following quarterly EPS profile for Terasen: Q1 – 55%, Q2 – 5%, Q3 – (5%), and Q4 – 45%.

- We have fine-tuned our 2009 contribution for Fortis' non-regulated generation segment, to reflect an expected \$14 million reduction in segment contribution from the previously announced expiry of the water rights on the Rankine River (74.6 MW of capacity). Our estimates previously incorporated a larger reduction in segment contribution.
- Quarterly and annual performance by segment is set out in Table 1, below.

Table 1. Quarterly and Annual Segment Performance

Contribution by Segment		Millions											
	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	Q4/07E	2007E	2008E	2009E
Newfoundland Power	29.4	10.7	8.0	2.6	8.8	30.1	10.5	8.0	2.7	8.6	29.8	32.7	33.0
Maritime Electric	9.1	2.1	2.2	3.1	2.4	9.8	2.6	2.8	3.0	3.3	11.7	12.1	12.2
Fortis Ontario	2.7	1.0	0.5	1.6	1.0	4.0	1.3	1.2	1.4	0.4	4.3	5.1	6.6
FortisAlberta	30.3	9.5	11.3	12.3	8.3	41.4	11.9	15.5	14.7	7.0	49.1	42.2	50.6
FortisBC	24.6	11.8	3.4	5.7	6.4	27.3	11.7	6.5	6.2	6.7	31.1	34.5	38.5
Belize Electricity	8.1	1.5	2.3	3.8	2.8	10.4	2.7	2.9	3.0	1.1	9.7	9.8	10.4
Caribbean Utilities	10.3	1.6	2.1	3.2	2.8	9.7	2.0	2.3	4.1	5.1	13.5	13.5	14.0
Turks & Caicos	0.0	0.0	0.0	0.7	2.8	3.4	1.8	2.4	2.7	3.8	10.7	12.2	14.2
Fortis Generation	21.6	5.4	6.0	7.8	6.8	26.0	7.3	4.9	5.0	6.1	23.3	27.7	13.6
Fortis Properties	14.1	1.5	5.0	6.3	2.8	15.6	1.8	6.0	8.0	3.1	18.9	22.5	24.1
Terasen Inc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	(3.7)	36.9	34.8	91.0	91.2
Corporate	(30.9)	(8.5)	(6.7)	(8.3)	(11.0)	(34.5)	(9.7)	(12.6)	(16.3)	(16.2)	(54.8)	(66.0)	(62.3)
Earnings Before Non-Recurring items	119.3	36.6	34.1	38.7	33.8	143.2	43.9	41.5	30.8	65.8	182.0	237.2	246.0
Average Shares	101.8	103.3	103.4	103.6	104.0	103.6	109.4	131.1	154.5	154.5	133.1	154.0	158.3
Net Earnings to Common (Basic)	\$1.17	\$0.35	\$0.33	\$0.37	\$0.33	\$1.38	\$0.40	\$0.31	\$0.20	\$0.43	\$1.37	\$1.54	\$1.55
Net Earnings to Common (Diluted)	\$1.10					\$1.33					\$1.35	\$1.52	\$1.53

Source: BMO Capital Markets

- Table 2 sets out the production and revenue by geographic area for Fortis' non-regulated hydro-electric business.

Table 2. Fortis Generation – Actual Fiscal and Quarterly Performance

Fortis Generation		Millions													
	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	
Operating Revenue	69.2	17.0	19.2	21.7	26.0	83.9	19.3	19.3	19.3	20.2	78.1	21.2	17.6	16.9	
Energy Supply Costs	5.8	1.9	1.8	0.9	1.6	6.2	1.9	1.4	1.4	1.5	6.2	2.1	1.7	1.5	
Operating Expenses	16.0	4.8	4.4	2.5	6.1	17.8	4.0	3.9	3.2	4.0	15.1	4.1	3.5	3.6	
Depreciation	10.3	2.6	2.5	2.6	2.6	10.3	2.7	2.6	2.6	2.6	10.5	2.6	2.8	2.5	
Operating Income	37.1	7.7	10.5	15.7	15.7	49.6	10.7	11.4	12.1	12.1	46.3	12.4	9.6	9.3	
Interest Expense	15.4	3.9	4.0	3.5	2.7	14.1	2.7	2.6	2.5	2.3	10.1	2.4	2.4	2.4	
Income Taxes	6.9	1.4	2.4	4.4	3.5	11.7	2.2	2.3	1.6	1.4	7.5	2.4	2.1	1.7	
Non-controlling Interest	1.9	0.3	0.9	0.0	1.0	2.2	0.4	0.5	0.2	1.6	2.7	0.3	0.2	0.2	
Net Earnings	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	7.8	6.8	26.0	7.3	4.9	5.0	

Energy Sales (GWh)		2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07
Central Newfoundland	152	35	48	26	50	159	38	39	32	59	168	34	32	31	
Ontario	721	184	176	166	182	708	187	177	172	186	722	184	177	167	
Belize	63	7	7	18	36	68	27	33	65	53	178	44	26	45	
British Columbia	23	5	11	15	8	39	3	13	9	4	30	3	16	10	
Upper New York State	70	17	16	7	35	75	29	28	10	38	105	26	23	1	
Total	1,029	248	258	232	311	1,049	284	290	288	340	1,203	291	274	254	

Fortis Generation		\$/MWh													
	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	
Operating Revenue	67.3	68.5	74.4	93.5	83.6	80.0	68.0	66.6	66.9	59.3	64.9	72.9	64.2	66.5	
Energy Supply Costs	5.6	7.7	7.0	3.9	5.1	5.9	6.7	4.8	4.9	4.4	5.2	7.2	6.2	5.9	
Operating Expenses	15.6	19.4	17.1	10.8	19.6	17.0	14.1	13.4	11.1	11.8	12.6	14.1	12.8	14.2	
Depreciation	10.0	10.5	9.7	11.2	8.4	9.8	9.5	9.0	9.0	7.6	8.7	8.9	10.2	9.8	
Operating Income	36.1	31.0	40.7	67.7	50.5	47.3	37.7	39.3	42.0	35.5	38.5	42.6	35.0	36.6	
Interest Expense	15.0	15.7	15.5	15.1	8.7	13.4	9.5	9.0	8.7	6.8	8.4	8.2	8.8	9.4	
Income Taxes	6.7	5.6	9.3	19.0	11.3	11.2	7.7	7.9	5.5	4.1	6.2	8.2	7.7	6.7	
Non-controlling Interest	1.9	1.2	3.5	0.0	3.2	2.1	1.4	1.7	0.7	4.7	2.2	1.0	0.7	0.8	
Net Earnings	12.4	8.5	12.4	33.6	27.3	20.6	19.0	20.7	27.0	20.0	21.6	25.1	17.9	19.7	

Source: BMO Capital Markets

Estimates

We have updated our financial model to better reflect year-to-date performance. Our diluted 2007 EPS estimate of \$1.35 is unchanged. Our diluted 2008 EPS estimate declines marginally to \$1.52 from \$1.55, and we are introducing our 2009 EPS estimate of \$1.53.

Valuation

Our target price of \$32.00 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%), 2.0x 2009E BVPS of \$19.12 (12.5%) and a target yield of 3.00% (75%), assuming 2009 dividends per share of \$0.96.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 3. Consolidated Summary Sheet

2-Nov-07
 Current Price: \$27.27
 12-Month Target Price: \$32.00
 ROR: 20.4%

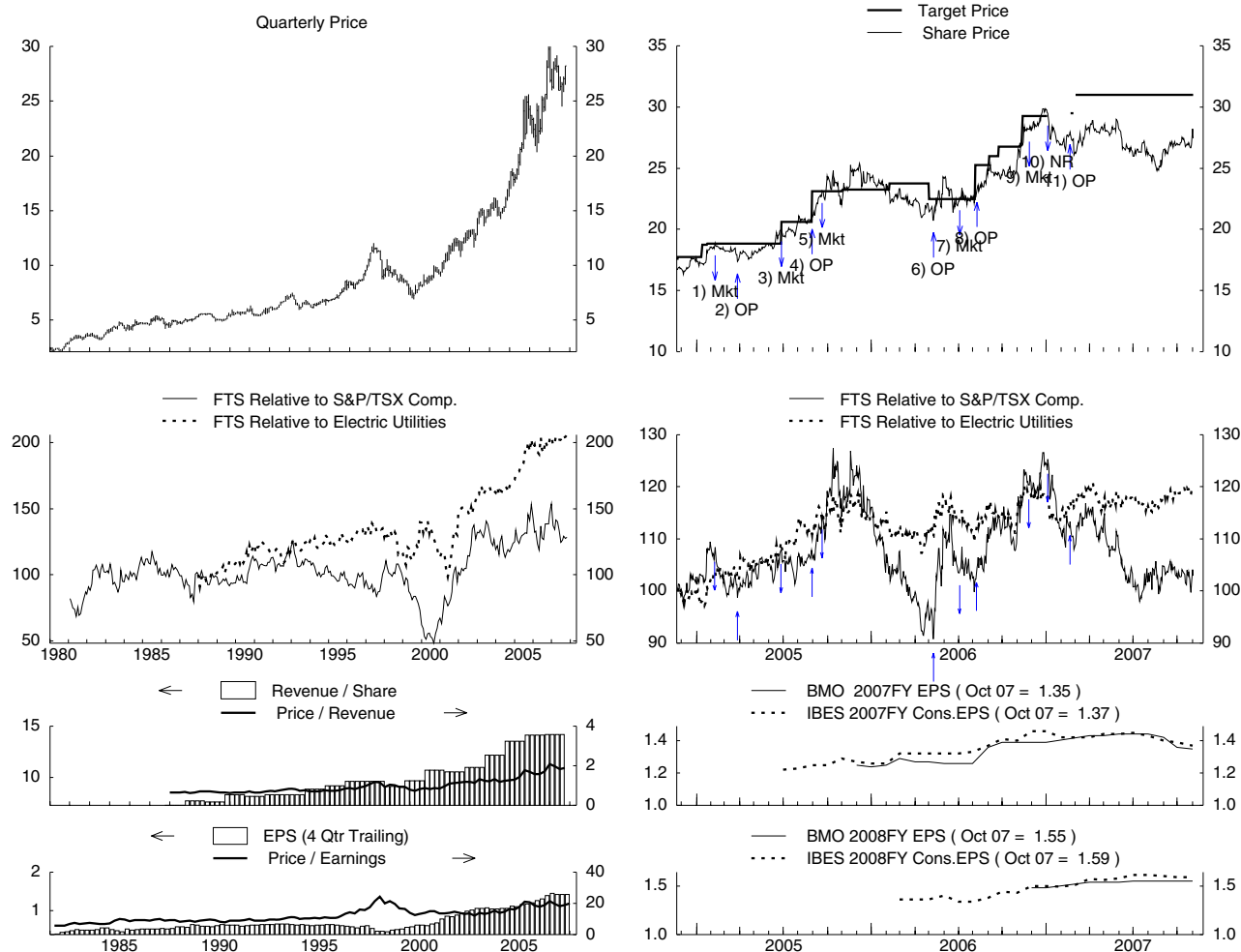
Karen J. Taylor
 BMO Capital Markets

Recommendation: Outperform

Year Ending December 31								
	2002	2003	2004	2005	2006	2007E	2008E	2009E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.37	\$1.54	\$1.55
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.35	\$1.52	\$1.53
Segmented EPS								
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	\$0.08	\$0.08
CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.15	\$0.15
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.18	\$0.09
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.23	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.60	\$0.50	\$0.56
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59	\$0.58
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.43)	(\$0.39)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92	\$0.96
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.0%	59.4%	61.5%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0	158.3
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.21	17.86	19.12
Market Valuation								
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-	-
Price: Current	-	-	-	-	-	\$27.27	-	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-	-
P/E Ratio: Current	-	-	-	-	-	19.9	17.7	17.6
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.58	1.53	1.43
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-	-
Yield: Current	-	-	-	-	-	3.01%	3.36%	3.50%
Balance Sheet (\$mm)								
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	122.9	687.4	1,255.1
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,238.7	5,142.0	4,951.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0	60.0
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.6	2,646.3	2,752.6	3,107.5
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,318.6	9,888.1	10,620.0
Balance Sheet (%)								
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.3%	7.0%	11.8%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.2%	52.0%	46.6%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%	4.5%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%	1.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%	6.0%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%	0.6%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.4%	27.8%	29.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	182.0	237.2	246.0
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	494.2	574.4	599.6

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	20	0.84	3.0	59	16.54	1.7	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	8.6		11.4			17.2		
10 Year:	9.3		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 22-Nov-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 1, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.43
Target Price: \$31.00

Member of: Top 15 Income Stock Selections

November 2, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
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Assoc: Benjamin Pham

Q3/07 EPS in Line With Expectations

Impact

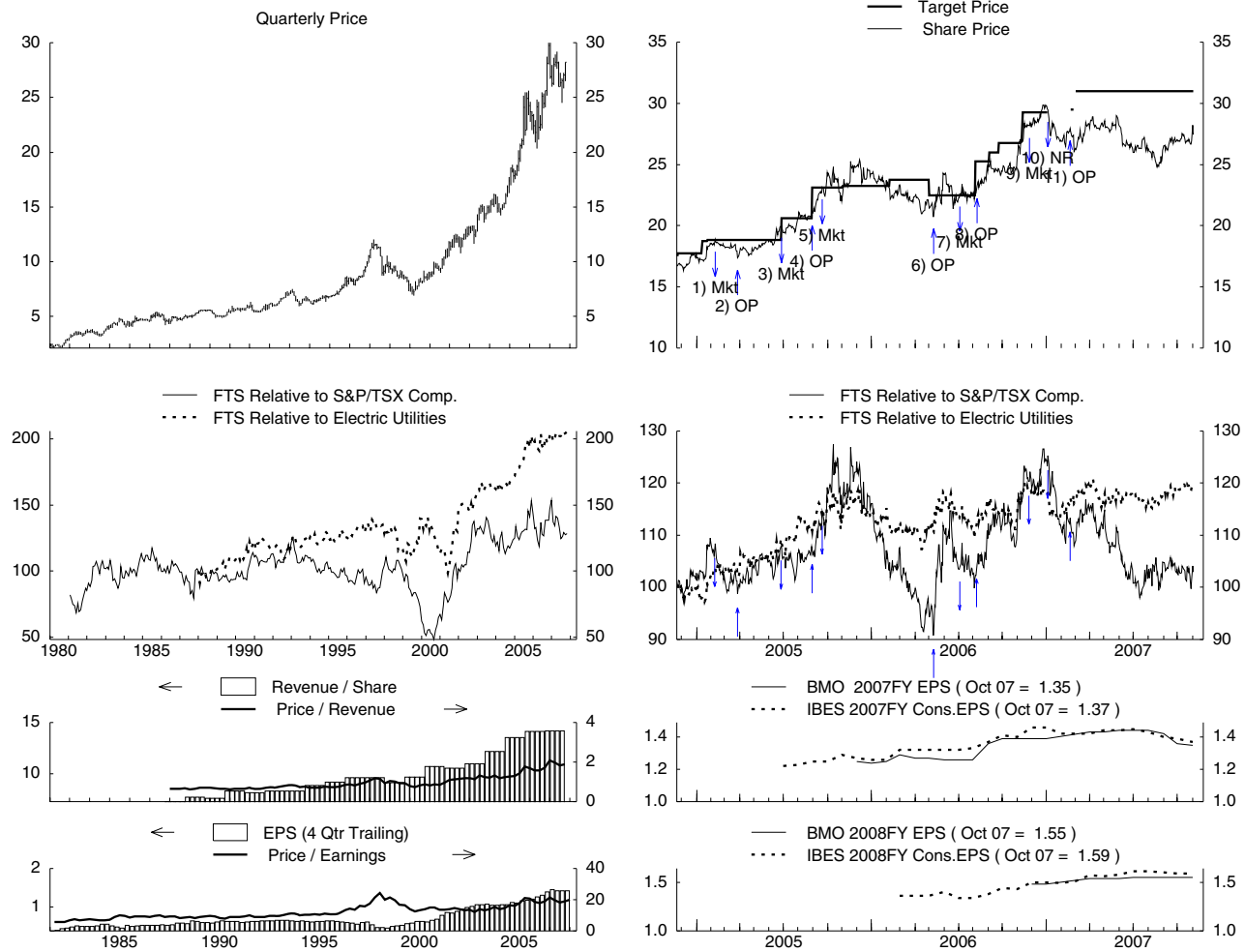
Neutral

Details & Analysis

Fortis reported Q3/07 EPS of \$0.20, slightly higher than our estimate of \$0.19 and slightly lower than a mean estimate of \$0.21. Results were largely in line with expectations. We note the following: (i) the contribution from FortisAlberta and FortisBC were moderately higher than expected, due to higher taxation recoveries at FortisAlberta and stronger than expected customer growth at FortisBC; these gains were partially offset by: (ii) lower contribution from the non-regulated power generation segment, arising from lower quarter-over-quarter hydrological conditions in Ontario and Belize; and (iii) higher than expected unallocated Corporate costs. Although we continue to review the comprehensive release, there does not appear to be any significant one-time items or adjustments. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	20	0.84	3.0	59	16.54	1.7	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	8.6		11.4			17.2		
10 Year:	9.3		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 22-Nov-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 1, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc.

November 5, 2007
Research Comment
Corporate Debt – Utilities

Laurie Conheady
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Q3/07 Results: Weakened Credit Metrics Are Expected to Improve in Coming Quarters

Event

Fortis Inc. (Fortis) released Q3/07 results.

Impact

Neutral.

Key Points

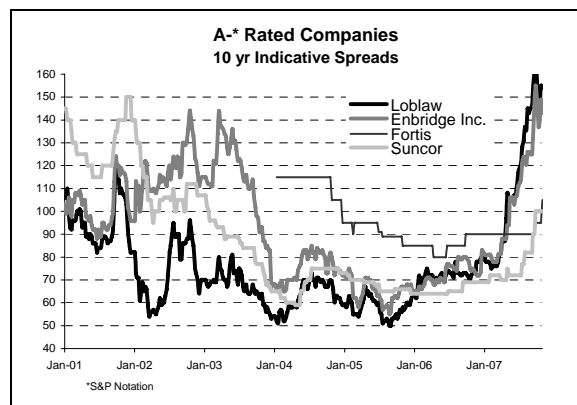
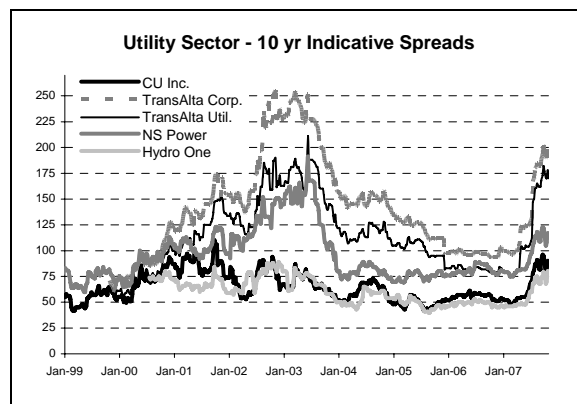
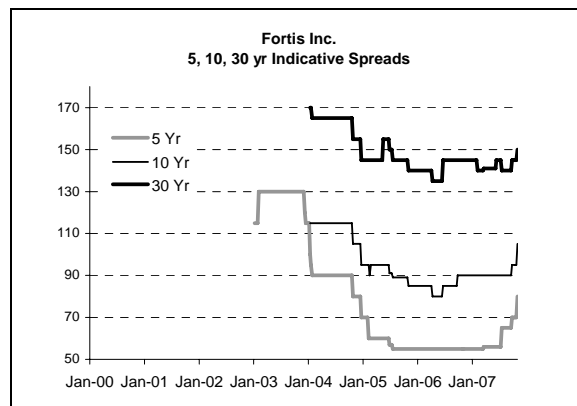
Fortis Inc.'s Q3/07 earnings were impacted by its \$3.7 billion acquisition of Terasen Inc. in Q2/07. On an earnings per share basis, results were largely in line with expectations. FFO of \$145.7 million in Q3/07 was more than double the \$68.2 million realized in Q3/06. However, the company's credit metrics were weak in the third quarter and are expected to remain so until the full-year cash flow impact of its Terasen Inc. acquisition is realized. Debt issues undertaken by Fortis Inc. and its regulated subsidiaries in Q3/07 pushed debt outstanding marginally higher in the quarter, but consolidated liquidity remains adequate for its operational, capital requirement and refinancing needs.

Recommendation

We believe the credit profile of Fortis continues to strengthen and will improve further with the added diversity of regulated cash flows provided by the Terasen Inc. acquisition. The company's only Canadian dollar issue (\$100 million due in 2010) limits the opportunity for investors to pursue relative value trades along the issuer's credit curve, and the relative illiquid nature of the paper is a pricing consideration. Nevertheless, we view Fortis Inc. as a good buy and hold exposure. Along with other utilities, Fortis Inc.'s 5-year indicative spreads have softened recently but are largely in line with those of other regulated utilities in the sector.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
BBB (high)	A-	Not Rated
Stable	Stable	



Details & Analysis

Earnings and Cash Flow

Fortis Inc.'s Q3/07 earnings were impacted by its \$3.7 billion acquisition of Terasen Inc. in Q2/07. Despite higher operating income of \$41 million in Q3/07 versus Q3/06, higher financing costs largely associated with the Terasen Inc. acquisition (of \$48.3 million), compared to the same period a year earlier, contributed to a \$6.5 million drop in net earnings to \$32.3 million in Q3/07. We note the higher earnings from the Terasen Inc. acquisition will not be materially realized until the fourth quarter of 2007. Due to the seasonal nature of its gas distribution businesses, Terasen Inc. effectively realizes all its earnings in the first and fourth quarters. Highlighting the seasonal nature of its business, Terasen reported a net loss of \$3.7 million for Q3/07.

On an earnings per share basis, Fortis Inc.'s results were largely in line with expectations. The company reported Q3/07 EPS of \$0.20, slightly higher than BMO Capital Markets' equity research estimate of \$0.19 and slightly lower than a mean estimate of \$0.21. With respect to the earnings we note:

- the contribution from FortisAlberta and FortisBC were moderately higher than expected, due to higher taxation recoveries at FortisAlberta and stronger-than-expected customer growth at FortisBC; and

the gains from FortisAlberta and FortisBC were partially offset by:

- a lower contribution from the non-regulated power generation segment, arising from lower quarter-over-quarter hydrological conditions in Ontario and Belize; and
- higher-than-expected unallocated corporate costs.

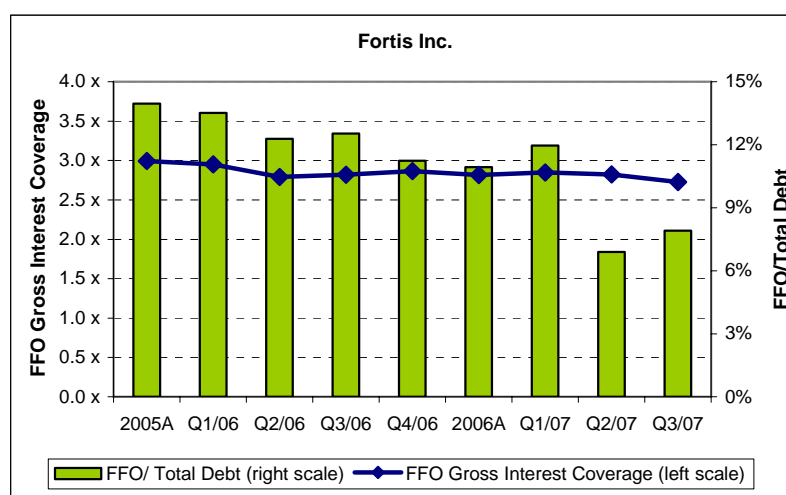
For a more detailed review of Fortis Inc.'s Q3/07 earnings results, refer to BMO Capital Markets equity analyst Karen Taylor's equity comment on [Fortis Inc.](#), published November 2, 2007.

As was the case in Q2/07, funds from operations (FFO) moved higher in Q3/07 compared to the corresponding period a year earlier. FFO of \$145.7 million in Q3/07 was more than double the \$68.2 million realised in Q3/06. The improved cash flows reflect in part business acquisitions undertaken in the past year; however, they were insufficient to fund capital outlays in the quarter. The company realized negative free cash flow (FFO less capital expenditure and dividends) of \$86.8 million in the quarter as it undertook capital expenditures net of customer contributions of \$195.4 million and made distributions of \$37.1 million. The shortfall was met through an increase in short-term borrowings and proceeds from long-term debt issues undertaken in the quarter.

Fortis' large capital expenditure program will dominate cash flows outlays and financing activities for the next few years at least, with negative free cash flow expected to be the norm. In the next five years, gross consolidated electric utility expenditure of close to \$4 billion is expected.

As expected, Fortis Inc.'s cash flow credit metrics were weak in the third quarter and are expected to remain so until the full-year cash flow impact of its Terasen Inc. acquisition is realized. Unadjusted FFO gross interest coverage on a rolling 12-month basis to September 30, 2007, of 2.7x was marginally below the 2.8x in Q2/07 and for fiscal 2006. The bigger impact of the Terasen Inc. acquisition is on the FFO-to-total-debt ratio, which was 8% for the 12 months to September 30, 2007, down from 11% in 2006. We expect the ratio to improve over the next 12 months to levels similar to its recent past as cash flow received from its Terasen Inc. subsidiary are matched against the higher debt levels incurred when acquiring the subsidiary. Despite an expected improvement, we expect the ratio to remain on the low side for some time as the company continues to partially debt finance expansion of its electricity network asset bases with a delay in receipt of regulated cash flows from the assets constructed.

Chart 1: Fortis Inc. Cash Flow Credit Metrics on a Rolling 12-Month Basis



Source: BMO Capital Markets

Capital Structure and Liquidity

Debt issues undertaken by Fortis Inc. and its regulated subsidiaries (Newfoundland Power, FortisBC and Caribbean Utilities) in Q3/07 pushed debt outstanding higher in the quarter. The company's total debt commitments at September of \$5.4 billion were up from \$5.2 billion at the half-year with the \$449.4 million in proceeds from the issuance undertaken in the quarter used in part to reduce outstanding debt under credit facilities. The vast majority of Fortis' consolidated debt, about 95%, resides at the company's various subsidiaries. Debt at the holding company level comprises:

- a \$100 million of senior unsecured debentures maturing 2010;
- US\$150 million senior unsecured notes maturing 2014;
- US\$200 million senior unsecured notes maturing 2037 (issued September 6, 2007); and

- US\$60 million in unsecured subordinated convertible debentures due between 2012 and 2016.

Leverage, as measured by total debt to total capital and treating the preference shares as equity, is expected to settle about the company's target level of 60%; but at the end of Q3/07 it was marginally over the targeted level at 63.5%, largely unchanged from Q2/06.

Fortis' consolidated liquidity remains adequate for its operational, capital requirement and refinancing needs. At the end of Q3/07 the company had \$1.23 billion of available capacity under its \$2.12 billion of credit facilities after drawdowns and outstanding letters of credit. The available capacity was \$92 million more than at June 30, 2007. In addition, the company had cash and cash equivalents of \$50.7 million, down from \$63.5 million mid-year. Maturing debt commitments and amortizing debt repayments are manageable, with the company facing a maturing debt of \$32 million at Newfoundland Power on December 16, 2007; a \$188 million maturity at Terasen Gas in June 2008; and a \$200 million maturing debt issue at Terasen Inc. due December 2008, which that is expected to be repaid on maturity. We note Terasen Gas undertook a \$260 million MTN debt issue on October 2, 2007, to repay its maturing debt in October 2007.

Credit Ratings

Fortis' corporate credit rating and senior unsecured debt issue rating benefited from the company's recent acquisition of Terasen Inc.

On June 19, 2007, **Standard & Poor's** upgraded its corporate credit rating on Fortis Inc. one notch to A- and assigned a Stable outlook. Of greater significance was that the senior unsecured debt rating was upgraded two notches to A- from BBB. The rating on the senior unsecured debt had previously been rated a notch below the corporate credit rating to reflect its structurally subordinated position. Standard & Poor's decision to depart from its previous treatment of the senior unsecured debt and equalize the senior unsecured debt rating with the corporate credit rating reflects the increasing diversification of the company and the financial separation among its investments. The agency has advised the rating upgrade of Fortis reflects:

- the improved diversity resulting from the recent acquisition of Terasen Inc.;
- the operation of each regulated subsidiary as a separate stand-alone entity with debt non-recourse to Fortis Inc.;
- management's commitment to maintaining low levels of debt at the Fortis Inc. holding company level;
- management's continuing focus on pursuing acquisitions in stable, regulated utilities; and
- the success of key subsidiaries FortisBC and Fortis Alberta in executing their capital expansions.

DBRS confirmed its ratings on Fortis on February 26, 2007, following its announced intention to acquire Terasen Inc. DBRS believes the transaction will have a positive impact on Fortis's overall business risk profile as a result of the acquisition of stable, low-risk gas distribution

assets. From a financial risk perspective, DBRS expects a modest decline in consolidated interest coverage metrics, given the existing levels of debt at the acquired entities; however, it expects modest improvement in non-consolidated credit metrics, given that the transaction is predominantly equity financed, coupled with the historical strength of Terasen Gas Inc.'s dividends. Overall, DBRS views the predominantly equity-financed acquisition of regulated assets as a good strategic fit for Fortis and views the proposed transaction as credit neutral to slightly credit positive.

Recommendation

We believe the credit profile of Fortis continues to strengthen and will improve further with the added diversity of regulated cash flows provided by the recent Terasen Inc. acquisition. The company's only Canadian dollar issue (a \$100 million issue due 2010) limits the opportunity for investors to pursue relative value trades along the issuer's credit curve, and the relative illiquid nature of its paper is a pricing consideration. Nevertheless, we view Fortis Inc. as a good buy and hold exposure. Along with other utilities, Fortis Inc.'s 5-year indicative spreads have softened recently but are largely in line with those of other regulated utilities in the sector.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding (\$mm)
Newfoundland Power	11.88%	16-Dec-07	\$40	First Mortgage	16-Dec-87	145.0 bps	Make Whole (+ 75.0 bps)	651350BC3	\$32
Terasen Gas Inc.	6.200%	2-Jun-08	\$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	\$188
Terasen Inc.	6.300%	1-Dec-08	\$200	MTNs	30-Nov-01	NA	Make Whole (+ 27 bps)	11058ZAA8	\$200
Terasen Gas Inc.	10.750%	8-Jun-09	\$60	Debentures	8-Jun-89	NA	Make Whole (+ 40 bps)	457452AH3	\$60
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	1-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$5
Maritime Electric	12.00%	1-May-10	\$15	First Mortgage	1-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
FortisBC Inc.	9.44%	31-Oct-13	\$5	WPP Mortgage	NA	NA	NA	NA	\$5
Newfoundland Power	10.55%	1-Aug-14	\$40	First Mortgage	9-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
Terasen Inc.	5.560%	15-Sep-14	\$125	MTNs	15-Sep-04	93.0 bps	Make Whole (+ 23 bps)	88079ZAB9	\$125
Fortis Inc.	5.74%	31-Oct-14	US\$150	Senior Note	28-Oct-04	NA	NA	NA	US\$150
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debenture	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
Terasen Gas Inc.	11.800%	30-Sep-15	\$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	\$75
FortisBC Inc.	8.77%	1-Feb-16	\$25	Unsecured Debenture	1-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	2-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric	11.50%	15-Aug-16	\$12	First Mortgage	1-Jan-91	NA	NA	NA	\$12
Terasen Gas Inc.	10.300%	30-Sep-16	\$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	\$200
Maritime Electric	8.55%	7-Dec-18	\$15	First Mortgage	7-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	1-Oct-20	\$40	First Mortgage	1-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$35
FortisBC Inc.	7.81%	1-Dec-21	\$25	Unsecured Debenture	1-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$34
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DA7	\$25
Maritime Electric	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	7-May-26	\$40	First Mortgage	7-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$46
Terasen Gas Inc.	6.950%	21-Sep-29	\$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	\$150
Maritime Electric	8.92%	3-Jul-31	\$20	First Mortgage	3-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	1-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$72
Terasen Gas Inc.	6.500%	1-May-34	\$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	\$150
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debenture	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Terasen Gas Inc.	5.900%	26-Feb-35	\$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	\$150
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	9-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debenture	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100
Terasen Gas Inc.	5.550%	25-Sep-36	\$120	MTNs	25-Sep-06	136.0 bps	Make whole (+ 34 bps)	88078ZAE4	\$120
Newfoundland Power	5.901%	17-Aug-37	\$70	First Mortgage	17-Aug-07	NA	Make Whole (+35 bps)	EG7385503	\$70
Fortis Inc.	6.600%	1-Sep-37	US\$200	Senior Unsecured Note	6-Sep-07	NA	NA	NA	US\$200
Terasen Gas Inc.	6.000%	2-Oct-37	\$250	MTNs	2-Oct-07	148.0 bps	Make Whole (+37 bps)	88078ZAF1	\$250
Terasen Inc.	8.000%	19-Apr-40	\$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole (+ 55 bps)	05534KAA7	\$125
FortisAlberta	4.99%	3-Jan-47	\$110	Unsecured Debenture	3-Jan-07	97.0 bps	Make Whole (+ 24 bps)	34957ZAA2	\$110
FortisBC Inc.	5.90%	4-Jul-47	\$105	Unsecured Debenture	4-Jul-07	125.0 bps	Make Whole (+ 31 bps)	34957UAC9	\$105

Ownership Structure

Widely Held.

Credit Facilities (\$mm)

Company	Facility Size	Amount Available		Maturity	Type
		Q3/07	Q2/07		
Fortis Inc.*	\$2,119.2	\$1,126.7	\$1,034.8		Lines of Credit
*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.					

Corp. Lease Schedule (\$mm) at 12/31/2006

Year	Capital Lease Payments	Operating Lease Payments	Lease Receipts
2007	2.6	5.6	
2008	2.6	5.1	
2009	2.6	5.1	
2010	2.6	3.8	
2011	2.6	3.8	
Thereafter	55.4	16.3	
*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.			

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2006 (\$mm)	FY 2005 (\$mm)	FY 2006 (\$mm)	FY 2005 (\$mm)
Accrued Benefit Obligation	413.4	389.8	125.2	116.5
Plan Assets	390.6	349.9	-	-
Funded Status	(22.8)	(39.8)	(125.2)	(116.5)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	102.0	97.2	63.7	(53.6)
Discount Rate	5-5.25%	6-6.25%	6-6.25%	6-6.25%
Expected Long-term Rate of of Return on Assets	6.5-7.5%	7-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.0%	3.5-4.5%	3.5-4.5%	3.5-4.5%

Historical Ratings

Senior Unsecured Rating - Fortis								
DBRS			S&P			Moody's		
Rating	Trend	Date	Rating	Trend	Date	Rating	Trend	Date
BBB (high)	Stable	5-Nov-03	A-	Stable	19-Jun-07	Not Rated		
BBB (high)	Under Review - Developing	16-Sep-03	BBB	Credit Watch Positive	26-Feb-07			
BBB (high)	Stable	6-Oct-00	BBB	Stable	7-Dec-05			
			BBB	Negative	7-Jan-04			
			BBB	Credit Watch Negative	22-Sep-03			

Analyst's Certification

I, Laurie Conheady, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Dissemination of Research

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.19
Target Price: \$32.00

Member of: Top 15 Income Stock Selections

November 5, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

2008/09 Rate Settlement Agreement Filed

Impact

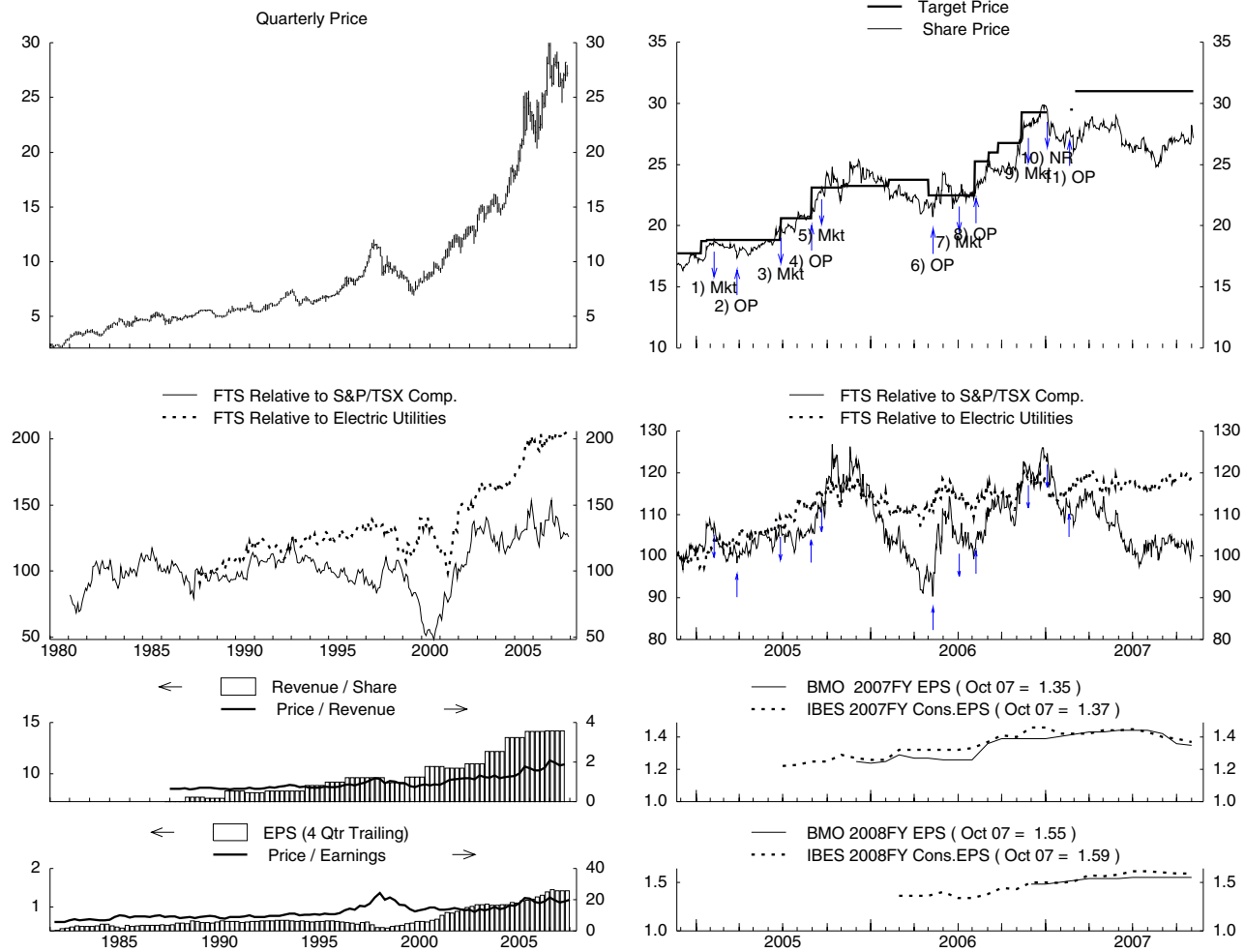
Neutral

Details & Analysis

FortisAlberta (100% - Fortis Inc.) has announced that it has filed a Negotiated Settlement Agreement (NSA) with the Alberta Energy and Utilities Board (AEUB) regarding its 2008 and 2009 revenue requirement application. The Settlement Agreement, if approved, would result in 2008 and 2009 distribution rate increases of 6.8% and 7.3%, respectively. We have not yet reviewed the NSA; however, we do not expect it to materially change our outlook for FortisAlberta in 2008 and 2009. Capital expenditures are expected to total \$600 million, prior to customer contributions, over the term of the NSA, consistent with our current outlook. The Settlement Agreement is supported by representatives of all segments of FortisAlberta's customer base, including residential, farm, commercial, and industrial classes. No change in view. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.42	20	0.84	3.0	59	16.54	1.7	9
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	8.6		11.4			17.2		
10 Year:	9.3		6.7			10.3		
20 Year:	5.1		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q2/2007.

FTS - Rating as of 23-Nov-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 2, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

November 12, 2007

Research Comment

Toronto, Ontario

Karen Taylor, CFA

(416) 359-4304

Karen.Taylor@bmo.com

Assoc: Benjamin Pham

Rate Filings - FortisAB and Maritime Electric; Outperform Rating Unchanged

Event

On October 18, Maritime Electric (100% - Fortis Inc.) filed an application for rates, tolls and charges for electric service for the period April 1, 2008, to March 31, 2009, with the Island Regulatory and Appeals Commission (IRAC). The key performance metrics of that application are set out herein and are reflected in our estimates. On November 2, FortisAlberta (100% - Fortis Inc.) filed a Settlement Brief with the Alberta Energy and Utilities Board (AEUB) seeking approval of a Negotiated Settlement Agreement for 2008 and 2009 distribution tariffs. The key components of this Negotiated Settlement Agreement are set out herein and are reflected in our estimates.

Impact

Neutral.

Forecasts

We have incorporated each application/filing in our estimates for Maritime Electric and FortisAlberta. Our diluted 2007 and 2008 EPS estimates decline by \$0.01 per share to \$1.34 and \$1.51, respectively. Our diluted 2009 EPS estimate of \$1.53 is unchanged.

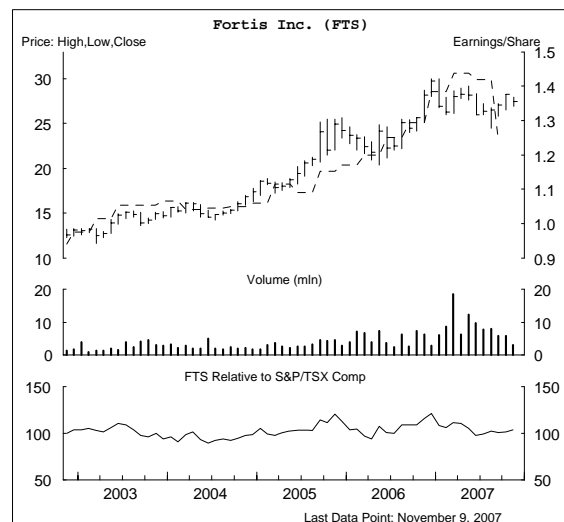
Valuation

Our target price reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%), 2.0x 2009E BVPS of \$19.10 (12.5%) and a target yield of 3.00 (75%), assuming 2009 dividends per share of \$0.96.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (9-Nov) \$27.50 **52-Week High** \$30.00
Target Price \$32.00 **52-Week Low** \$24.50



(FY-Dec.)	2006A	2007E	2008E	2009E
EPS	\$1.33	\$1.34↓	\$1.51↓	\$1.53
P/E		20.5x	18.2x	18.0x
CFPS	\$2.70	\$3.71	\$3.76	\$3.80
P/CFPS		7.4x	7.3x	7.2x
Div.	\$0.67	\$0.82	\$0.92	\$0.96
EV (\$mm)	\$5,758	\$9,868	\$10,907	\$11,405
EBITDA (\$mm)	\$531	\$895	\$1,136	\$1,185
EV/EBITDA	10.9x	11.0x	9.6x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.20a	\$0.42↓
2008E	\$0.58↓	\$0.29↓	\$0.21↓	\$0.44↓
Dividend	\$0.84			3.1%
Book Value	\$16.47			Price/Book
Shares O/S (mm)	154.9			1.7x
Float O/S (mm)	154.9			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,895			\$4,260
Net Debt (\$mm)	\$6,197.2			Float Cap (\$mm)
				\$4,260
				Wkly \$ Vol (mm)
				\$51.7
				Next Rep. Date
				1-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.37; 2008E: \$1.58; 2009E: \$1.60

Changes

Annual EPS
 2007E \$1.35 to \$1.34
 2008E \$1.52 to \$1.51

Quarterly EPS
 Q4/07E \$0.43 to \$0.42

Q1/08E \$0.59 to \$0.58
 Q2/08E \$0.29 to \$0.29
 Q3/08E \$0.22 to \$0.21
 Q4/08E \$0.45 to \$0.44

Details & Analysis

On October 18, Maritime Electric (100% - Fortis Inc.) filed an application for rates, tolls and charges for electric service for the period April 1, 2008, to March 31, 2009, with the Island Regulatory and Appeals Commission (IRAC). The key performance metrics of that application are set out below and are reflected in our estimates. On November 2, FortisAlberta (100% - Fortis Inc.) filed a Settlement Brief with the Alberta Energy and Utilities Board (AEUB) seeking approval of a Negotiated Settlement Agreement for 2008 and 2009 distribution tariffs. The key components of this Negotiated Settlement Agreement are set out below and are reflected in our estimates.

FortisAlberta Negotiated Settlement Agreement (NSA)

The Negotiated Settlement Agreement contains the following key highlights:

- 2008 and 2009 distribution revenue requirement of \$256.2 million and \$280.8 million, respectively.
- Under the NSA, the annualized rate increases for 2008 and 2009 are 6.8% and 7.3%, respectively.
- Estimated 2008 and 2009 capital expenditures are \$257.3 million and \$297.0 million, respectively, versus \$274.6 million and \$315.2 million as per the June 1, 2007, Distribution Tariff Application (DTA) filed with the AEUB.
- There were no matters arising from the 2008/09 DTA left unresolved among the settlement parties; all elements of the 2008/09 NSA have been accepted on a unanimous basis by the signatory parties.
- Mid-year 2008 and 2009 rate bases are \$1,125.5 million and \$1,335.8 million versus \$1,144.4 million and \$1,373.5 million as per the June 1, 2007 DTA.
- Thirty-seven per cent deemed equity and an allowed ROE for 2008 and 2009 to be determined based on the AEUB's generic cost of capital decision, set annually.

Maritime Electric Application for Rates, Tolls and Charges April 1, 2008, to March 31, 2009

The Application contains the following key highlights:

- Increase in basic rates of 1.8% on April 1, 2008.
- Total rate increase of 9.7% for Rural Residential customers reflecting higher forecast energy costs and the continued operation of the Energy Cost Adjustment Mechanism.
- The utility expects to file a report in mid-2008 to re-base the Energy Cost Adjustment Mechanism (ECAM) to bring the base rate of \$0.0673/kWh more in line with current market based pricing. The ECAM is designed to collect energy costs above or below the base rate and deposit the balance (positive or negative) on the Balance Sheet for collection

for/return to customers over a rolling 12-month basis. Current supply costs are above the current base rate and resulted in a large receivable on the utility's financial statements, creating significant pressure on the capital structure, as these costs must be funded through debt (short-term borrowing) until they are recovered from customers.

- Energy costs incurred but not recovered from customers prior to 2004 total \$15.284 million as at December 31, 2006. In accordance with a prior regulatory decision, the utility is proposing to amortize \$2 million of the deferred Costs Recoverable From Customers in 2008.
- Return on equity of 10% in 2008 and deemed equity of 40–45%. Actual common equity in 2008 is estimated to be 41.3% versus 41.1% in 2007 and 40.8% in 2006.
- Capital expenditures of \$18.412 million, as previously approved by the IRAC.
- Average year-end utility rate base of \$276.823 million in 2008 versus \$254.362 million in 2007.

Estimates

We have incorporated each application/filing in our estimates for Maritime Electric and FortisAlberta. Our diluted 2007 and 2008 EPS estimates decline by \$0.01 per share to \$1.34 and \$1.51, respectively. Our diluted 2009 EPS estimate of \$1.53 is unchanged.

Valuation

Our target price reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%), 2.0x 2009E BVPS of \$19.10 (12.5%) and a target yield of 3.00 (75%), assuming 2009 dividends per share of \$0.96.

Recommendation

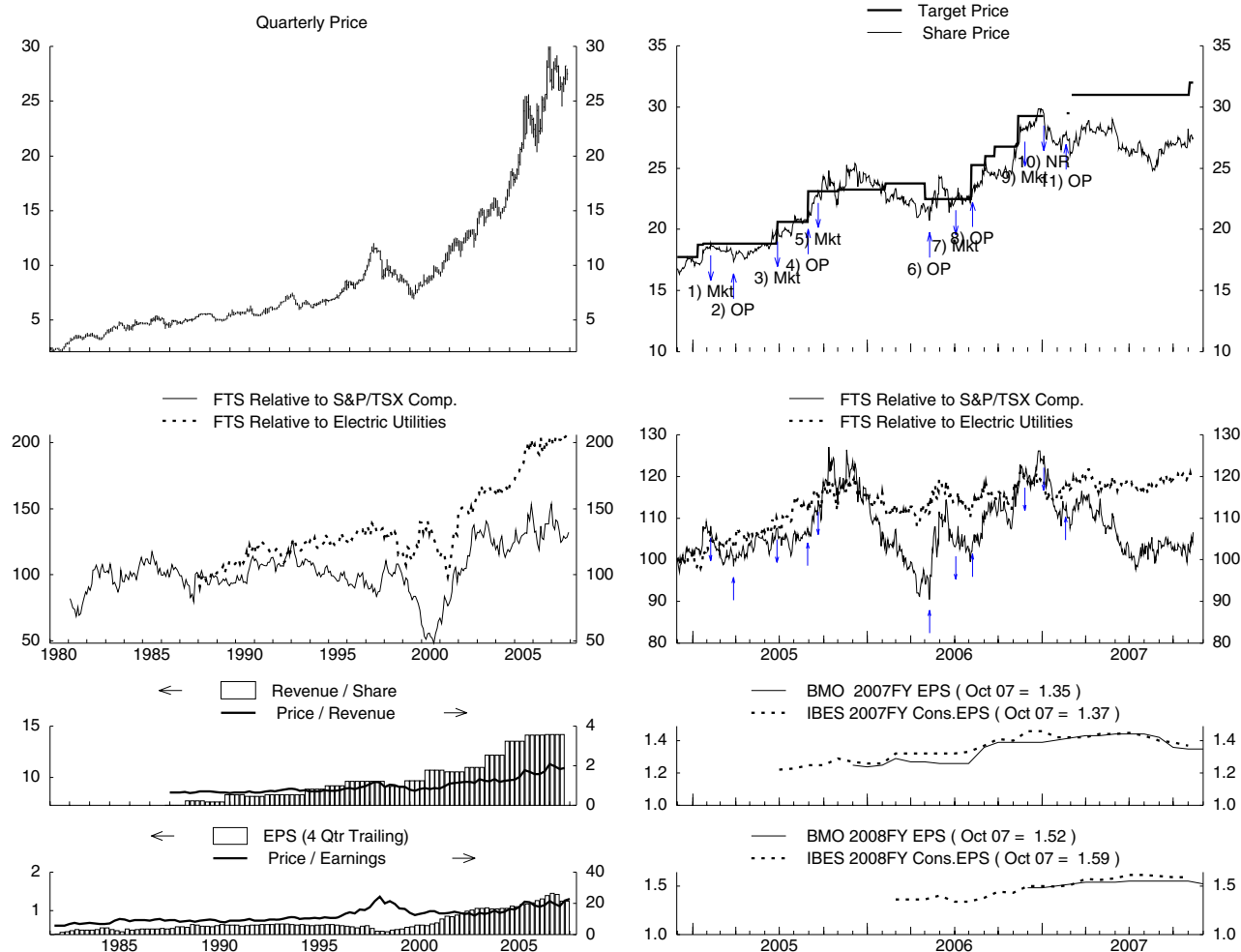
We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Table 1. Consolidated Summary Sheet

12-Nov-07								
Current Price:	\$27.31							Karen J. Taylor
12-Month Target Price:	\$32.00							BMO Capital Markets
ROR:	20.5%							
						Recommendation:		Outperform
	Year Ending December 31							
	2002	2003	2004	2005	2006	2007E	2008E	2009E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.34	\$1.51	\$1.53
Segmented EPS								
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.15	\$0.15
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.18	\$0.09
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.23	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.60	\$0.49	\$0.56
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59	\$0.58
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.43)	(\$0.39)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92	\$0.96
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.4%	59.7%	61.5%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0	158.3
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.20	17.84	19.10
Market Valuation								
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-	-
Price: Current	-	-	-	-	-	\$27.31	-	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-	-
P/E Ratio: Current	-	-	-	-	-	20.1	17.8	17.6
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.59	1.53	1.43
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-	-
Yield: Current	-	-	-	-	-	3.00%	3.35%	3.50%
Balance Sheet (\$mm)								
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	124.5	673.8	1,225.5
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,238.7	5,142.0	4,951.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0	60.0
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.6	2,645.1	2,750.2	3,104.7
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,318.9	9,872.1	10,587.6
Balance Sheet (%)								
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.3%	6.8%	11.6%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.2%	52.1%	46.8%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%	4.5%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%	1.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%	6.1%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%	0.6%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.4%	27.9%	29.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	180.7	236.0	245.7
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	492.6	572.3	597.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	23	0.84	3.0	67	16.47	1.7	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 30-Nov-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 9, 2007

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.09
Target Price: \$32.00

Member of: Top 15 Income Stock Selections

November 16, 2007

Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

BCUC Conditionally Approves LNG Storage Facility

Impact

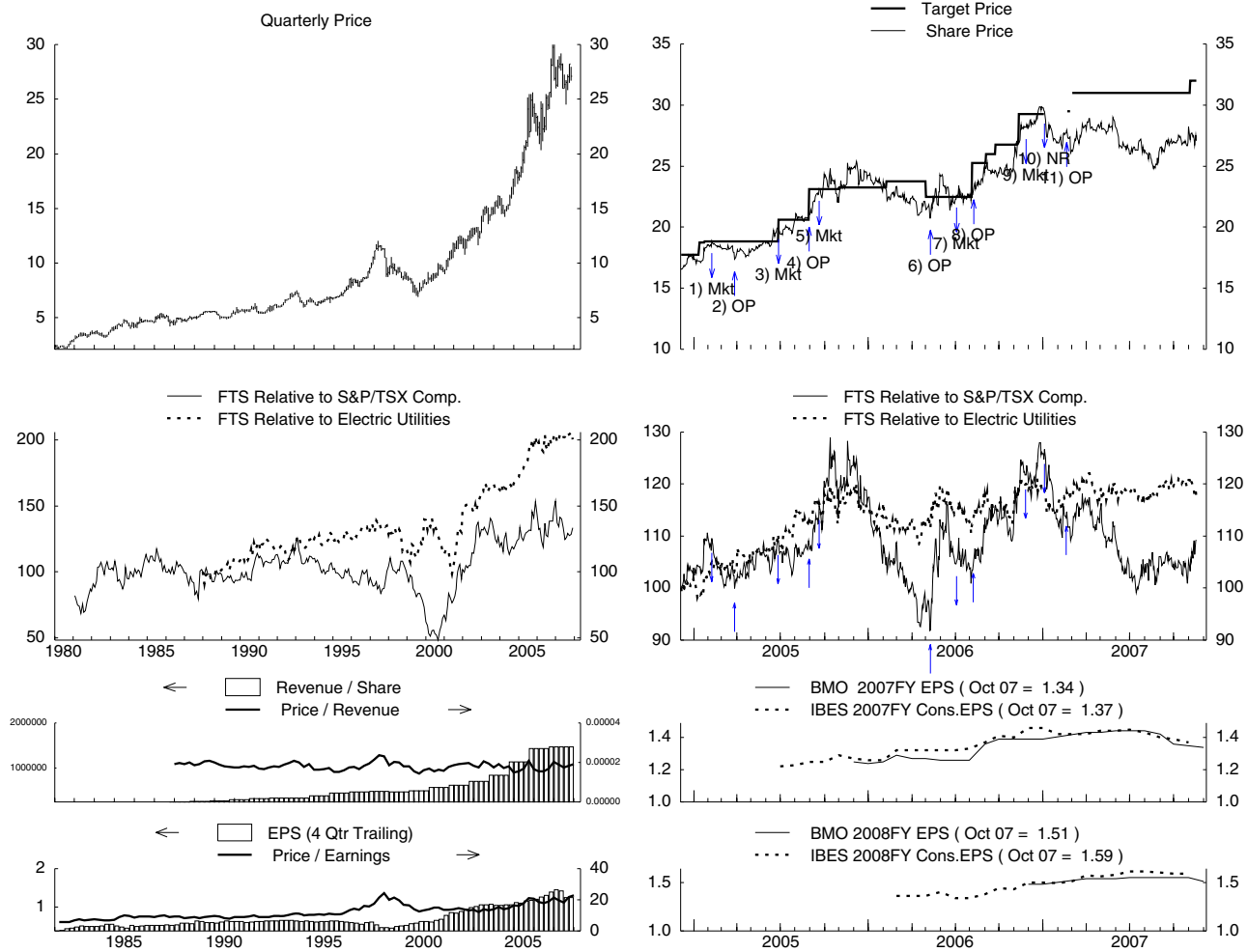
Neutral

Details & Analysis

The British Columbia Utilities Commission (BCUC) has issued an Order conditionally approving an application by Terasen Gas (Vancouver Island) Inc. (TGVI, 100% - Fortis Inc.) to build, own and operate a \$200 million liquefied natural gas (LNG) storage facility, and an application by Terasen Gas Inc. (TGI, 100% - Fortis Inc.) to execute a storage and delivery agreement relating the facility. The proposed LNG storage facility has a target in-service date of late 2011 and construction is expected to commence in April 2008. The Commission denied TGVI's application for a 50 basis point premium to its return on equity for the project. We note that: (i) the project is fully reflected in our outlook for Fortis Inc.; and (ii) we did not assume that the ROE premium would be approved. No change in view. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	23	0.84	3.0	67	16.47	1.7	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

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4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 15, 2007

Company Risk Disclosure

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
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Dissemination of Research

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

November 30, 2007

Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

2008 ROE Updated; Outperform Rating Unchanged

Event

On November 22, the British Columbia Utilities Commission (BCUC) issued a Decision in which it established the return on Common Equity for Low-Risk Benchmark Utility for the Year 2008. A number of the wholly owned utility operations of Fortis Inc. are subject to this determination, as follows: (i) Terasen Gas Inc. is the Benchmark Utility and is therefore permitted an allowed ROE for 2008 of 8.62%; (ii) Terasen Gas Vancouver Island is allowed the Benchmark Return plus a 70 basis point risk premium or 9.32% for 2008; and (iii) FortisBC is allowed the Benchmark Return plus a 40 basis point risk premium or 9.02% for 2008. The utility operation of FortisAlberta is also subject to a Generic Cost of Capital determination; however, this metric is to be established by the Alberta Energy and Utility Board (AEUB) and has not yet been released. We believe that the AEUB's Generic Cost of Capital for 2008 is likely to be approximately 8.75%.

Impact

Neutral.

Forecasts

We have reflected the updated allowed ROEs in our outlook for Fortis. In most cases, utility performance is subject to Settlement Agreements and incentive returns are assumed. Our diluted 2008 and 2009 EPS estimates are therefore unchanged.

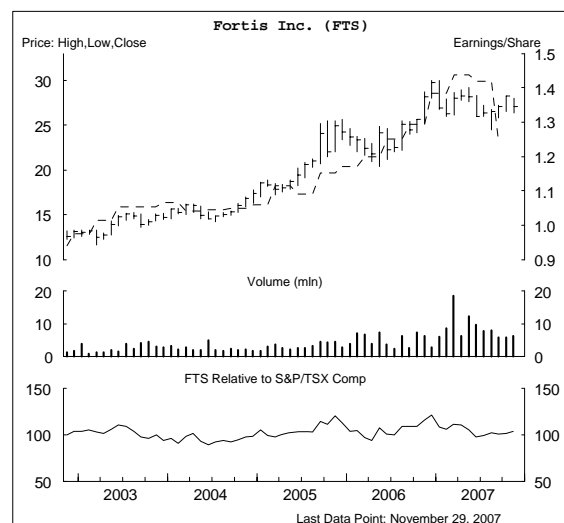
Valuation

Our target price reflects a weighted valuation approach: 18x diluted 2009 EPS of \$1.53 (12.5%), 2.0x 2009E BVPS of \$19.10 (12.5%) and a target yield of 3.00% (75%), assuming 2009 dividends per share of \$0.96.

Recommendation

We believe that the shares are attractively valued at current levels. Our rating is Outperform.

Price (29-Nov) \$27.05
Target Price \$32.00
52-Week High \$30.00
52-Week Low \$24.50



(FY-Dec.)	2006A	2007E	2008E	2009E
EPS	\$1.33	\$1.34	\$1.51	\$1.53
P/E		20.2x	17.9x	17.7x
CFPS	\$2.70	\$3.70	\$3.72	\$3.77
P/CFPS		7.3x	7.3x	7.2x
Div.	\$0.67	\$0.82	\$0.92	\$0.96
EV (\$mm)	\$5,758	\$9,799	\$10,812	\$11,291
EBITDA (\$mm)	\$531	\$894	\$1,134	\$1,180
EV/EBITDA	10.9x	11.0x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.20a	\$0.42
2008E	\$0.58	\$0.29	\$0.21	\$0.44
Dividend	\$0.84			
Book Value	\$16.47			
Shares O/S (mm)	154.9			
Float O/S (mm)	154.9			
Wkly Vol (000s)	1,879			
Net Debt (\$mm)	\$6,198.8			
Yield				3.1%
Price/Book				1.6x
Mkt. Cap (\$mm)				\$4,190
Float Cap (\$mm)				\$4,190
Wkly \$ Vol (mm)				\$51.2
Next Rep. Date				1-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

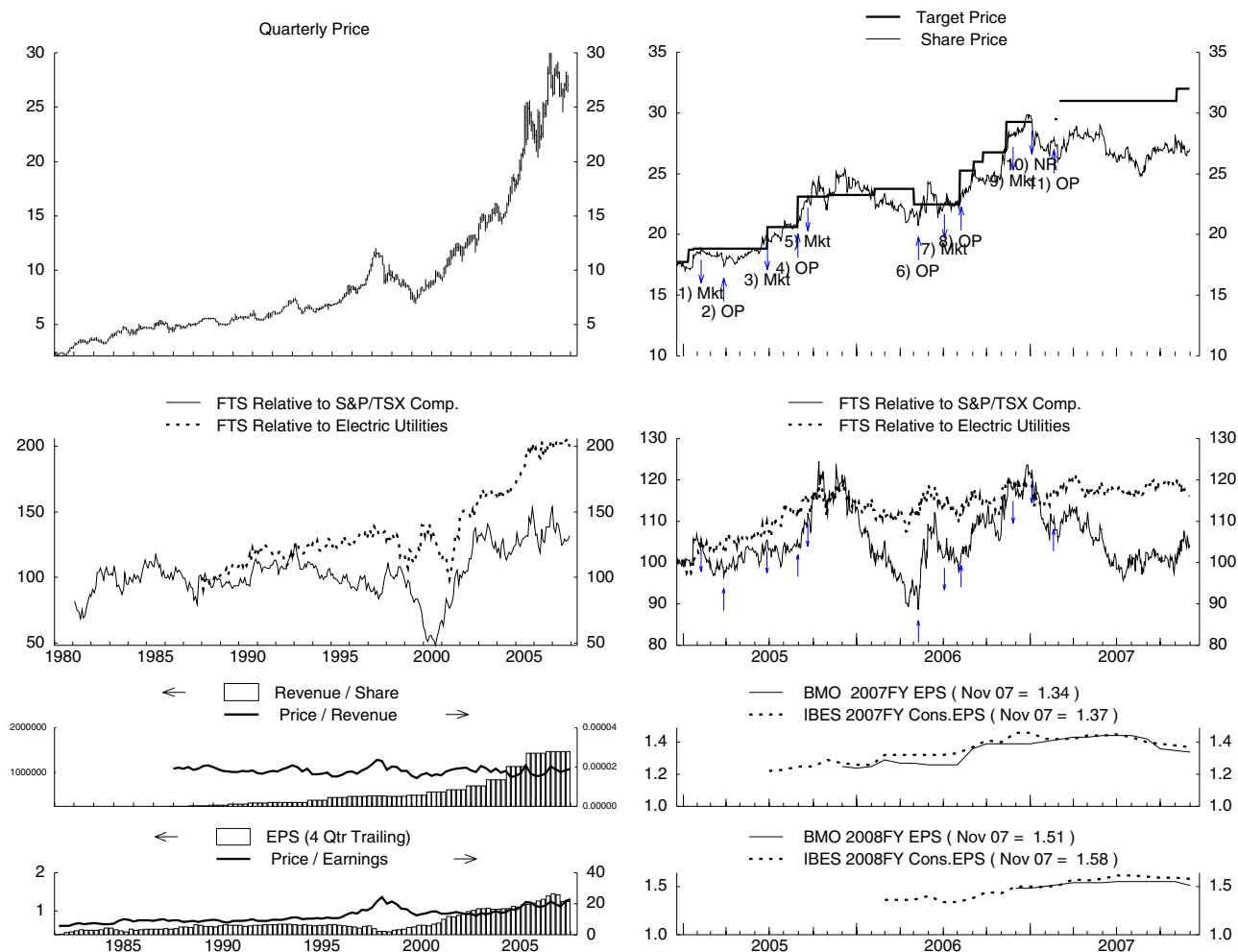
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.37; 2008E: \$1.58; 2009E: \$1.60

Table 1. Consolidated Summary Sheet

30-Nov-07								Karen J. Taylor
Current Price:	\$27.02	BMO Capital Markets						
12-Month Target Price:	\$32.00							
ROR:	21.8%	Recommendation:					Outperform	
	Year Ending December 31							
	2002	2003	2004	2005	2006	2007E	2008E	2009E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.34	\$1.51	\$1.53
Segmented EPS								
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.08
CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.15	\$0.15
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.18	\$0.09
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.23	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.60	\$0.49	\$0.56
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59	\$0.58
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.43)	(\$0.39)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$0.92	\$0.96
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.4%	59.7%	61.5%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0	158.3
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.20	17.84	19.10
Market Valuation								
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-	-
Price: Current	-	-	-	-	-	\$27.02	-	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-	-
P/E Ratio: Current	-	-	-	-	-	19.9	17.6	17.4
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.57	1.51	1.41
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-	-
Yield: Current	-	-	-	-	-	3.03%	3.39%	3.53%
Balance Sheet (\$mm)								
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	124.5	673.8	1,225.5
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,238.7	5,142.0	4,951.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0	60.0
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.6	2,645.1	2,750.2	3,104.7
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,318.9	9,872.1	10,587.6
Balance Sheet (%)								
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.3%	6.8%	11.6%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.2%	52.1%	46.8%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%	4.5%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%	1.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%	6.1%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%	0.6%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.4%	27.9%	29.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	180.7	236.0	245.7
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	492.6	572.3	597.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (NC.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	23	0.84	3.0	67	16.47	1.7	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 20-Dec-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 29, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	49%	49%
Hold	Market Perform	50%	46%	45%
Sell	Underperform	8%	5%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.11
Target Price: \$32.00

Member of: Top 15 Income Stock Selections

December 11, 2007
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Quarterly Dividend Increased 19%

Impact

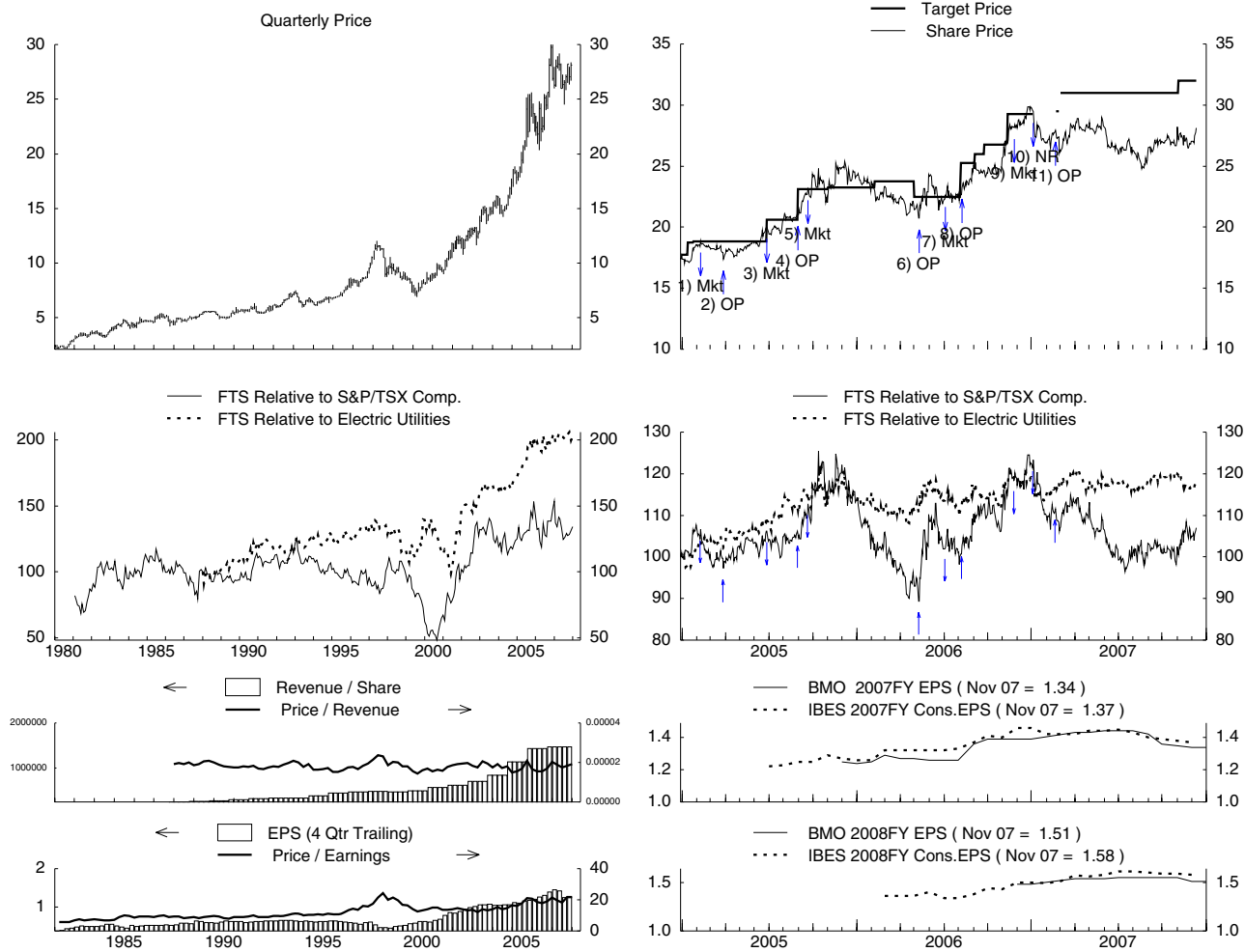
Positive

Details & Analysis

Fortis Inc. has announced that it is increasing its quarterly dividend by 19% to \$0.25 per share versus \$0.21 per share currently. The dividend is payable on March 1, 2008, to shareholders of record at the close of business on February 8, 2008. The dividend increase is one quarter earlier than expected and \$0.015 higher than our estimate of the increased dividend of \$0.235 per share. No change in view. We continue to rate the shares Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (NC.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	22	0.84	3.1	67	16.47	1.6	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

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11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 10, 2007

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., collectively ("BMO NB"). BMO NB is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. "BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal and BMO NB in Canada, and BMO Capital Markets Corp. in the U.S. BMO Capital Markets Corp. is an affiliate of BMO NB. BMO NB and BMO Capital Markets Corp. are subsidiaries of Bank of Montreal. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO NB research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein. The reader should assume that BMO NB, BMO Capital Markets Corp., Bank of Montreal or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The opinions, estimates and projections contained in this report are those of BMO NB as of the date of this report and are subject to change without notice. BMO NB endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NB makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NB or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NB and its affiliates, which includes the overall profitability of investment banking services. BMO NB, or its affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NB. BMO NB or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO NB or its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%
Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

December 12, 2007
 Research Comment
 Toronto, Ontario

Karen Taylor, CFA
 (416) 359-4304
 Karen.Taylor@bmo.com
 Assoc: Benjamin Pham

Quarterly Dividend Increased 19%; Outperform Rating Unchanged

Event

Fortis Inc. has announced that it is increasing its quarterly dividend by 19% to \$0.25 per share versus \$0.21 per share currently. The dividend is payable on March 1, 2008, to shareholders of record at the close of business on February 8, 2008. The dividend increase is one quarter earlier than expected and \$0.015 higher than our estimate of the increased dividend of \$0.235 per share. The new annualized common share dividend is \$1.00 versus \$0.84 previously. We now expect a \$0.01 increase in the quarterly dividend to \$0.26 per share from the new rate of \$0.25 per share, beginning in the first quarter of 2009.

Impact

Positive.

Forecasts

Our diluted 2007, 2008, and 2009 EPS estimates of \$1.34, \$1.51 and \$1.53, respectively, are unchanged.

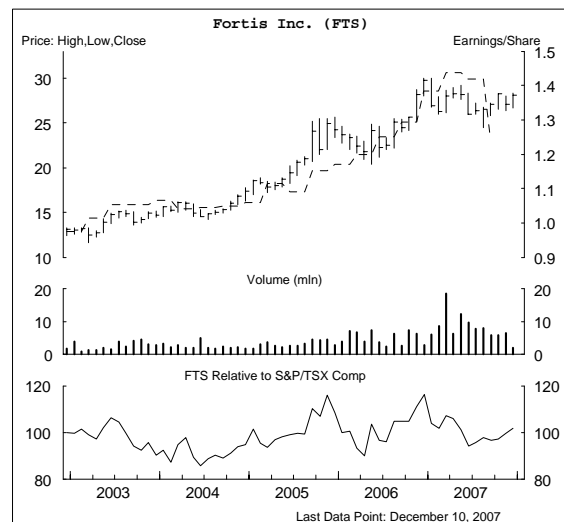
Valuation

Our revised target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009 EPS of \$1.53 (12.5%), 1.75x 2009E BVPS of \$18.94 (12.5%) and a target yield of 3.15% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe that the shares are attractively valued at current levels. We continue to rate the shares Outperform.

Price (10-Dec) \$28.11
Target Price \$32.50↑
52-Week High \$30.00
52-Week Low \$24.50



(FY-Dec.)	2006A	2007E	2008E	2009E
EPS	\$1.33	\$1.34	\$1.51	\$1.53
P/E		21.0x	18.6x	18.4x
CFPS	\$2.70	\$3.70	\$3.72	\$3.77
P/CFPS		7.6x	7.6x	7.5x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,758	\$9,984	\$11,026	\$11,511
EBITDA (\$mm)	\$531	\$893	\$1,134	\$1,180
EV/EBITDA	10.9x	11.2x	9.7x	9.8x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40a	\$0.31a	\$0.20a	\$0.42
2008E	\$0.58	\$0.29	\$0.21	\$0.44
Dividend	\$1.00			3.6%
Book Value	\$16.47			Price/Book 1.7x
Shares O/S (mm)	154.9			Mkt. Cap (\$mm) \$4,354
Float O/S (mm)	154.9			Float Cap (\$mm) \$4,354
Wkly Vol (000s)	1,905			Wkly \$ Vol (mm) \$51.9
Net Debt (\$mm)	\$6,198.8			Next Rep. Date 1-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.36; 2008E: \$1.58; 2009E: \$1.60

Changes

Target
 \$32.00 to \$32.50

Table 1. Consolidated Summary Sheet

11-Dec-07

Current Price: \$28.34

12-Month Target Price: \$32.50

ROR: 18.2%

Karen J. Taylor

BMO Capital Markets

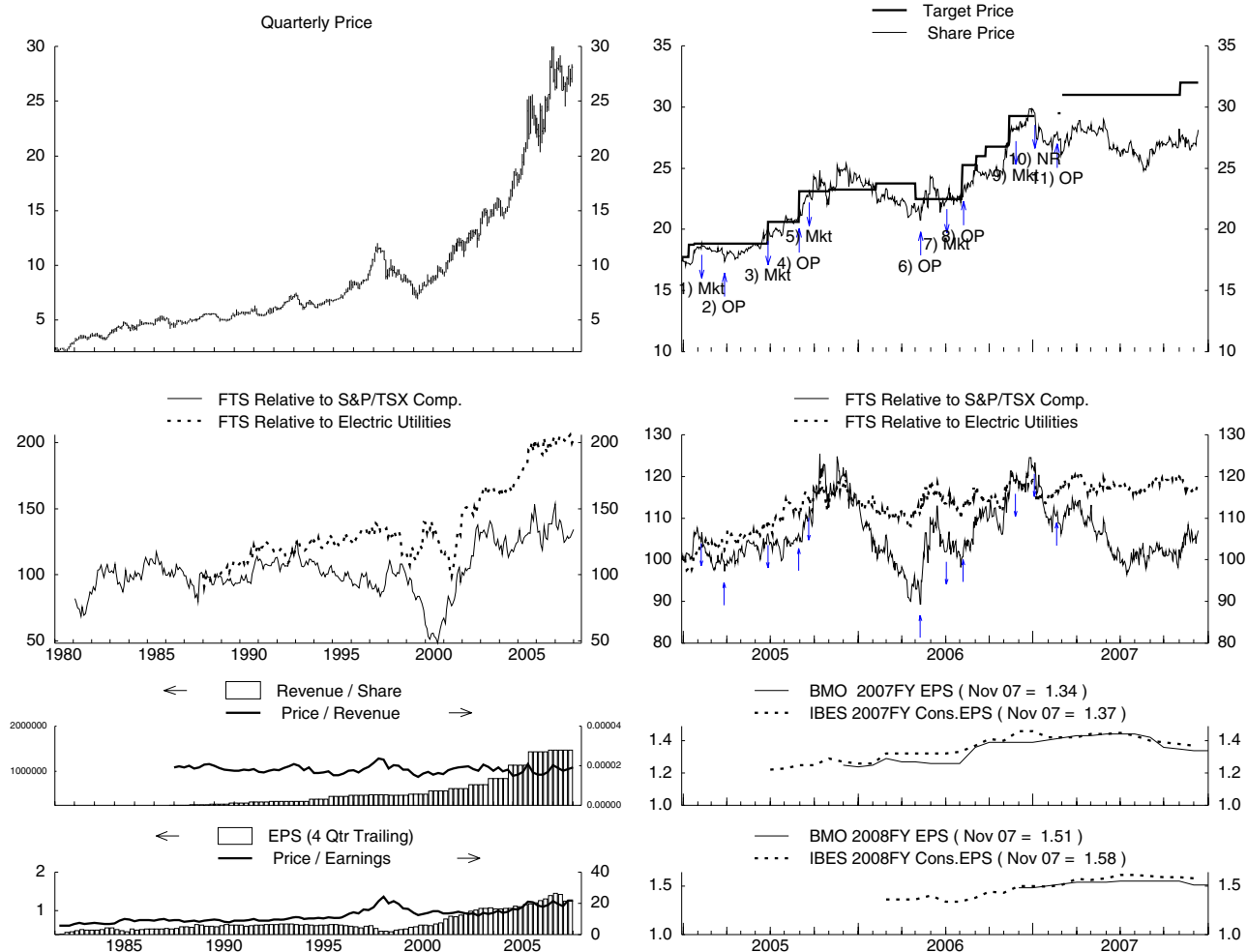
Recommendation:

Outperform

	Year Ending December 31							
	2002	2003	2004	2005	2006	2007E	2008E	2009E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.34	\$1.51	\$1.53
Segmented EPS								
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.08
CNP/Cornwall Elec/ Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.14	\$0.15	\$0.15
Fortis Trust/ Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.18	\$0.09
Belize,BECOL,CUP/ Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.25	\$0.23	\$0.24
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.60	\$0.49	\$0.56
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26	\$0.59	\$0.58
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.43)	(\$0.39)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.4%	65.2%	67.0%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	133.1	154.0	158.3
Net Book Value	8.72	8.98	10.47	11.76	12.19	17.20	17.76	18.94
Market Valuation								
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	-	-	-
Price: Current	-	-	-	-	-	\$28.34	-	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	-	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	-	-	-
P/E Ratio: Current	-	-	-	-	-	20.9	18.5	18.3
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.65	1.60	1.50
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	-	-	-
Yield: Current	-	-	-	-	-	2.89%	3.53%	3.67%
Balance Sheet (\$mm)								
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	124.5	686.9	1,252.1
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	5,238.7	5,142.0	4,951.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	475.0	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	130.5	130.5	130.5
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0	60.0
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.6	2,645.1	2,737.1	3,078.1
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,318.9	9,872.1	10,587.7
Balance Sheet (%)								
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	1.3%	7.0%	11.8%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	56.2%	52.1%	46.8%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	5.1%	4.8%	4.5%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.4%	1.3%	1.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.5%	6.1%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%	0.6%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	28.4%	27.7%	29.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	63.3	73.6	89.0	119.3	143.2	180.7	236.0	245.7
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	492.6	572.3	597.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (NC.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	22	0.84	3.1	67	16.47	1.6	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 29-Dec-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 10, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%
Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis

(FTS-TSX)

November 29, 2007
Research Fact Sheet
Gas & Electric

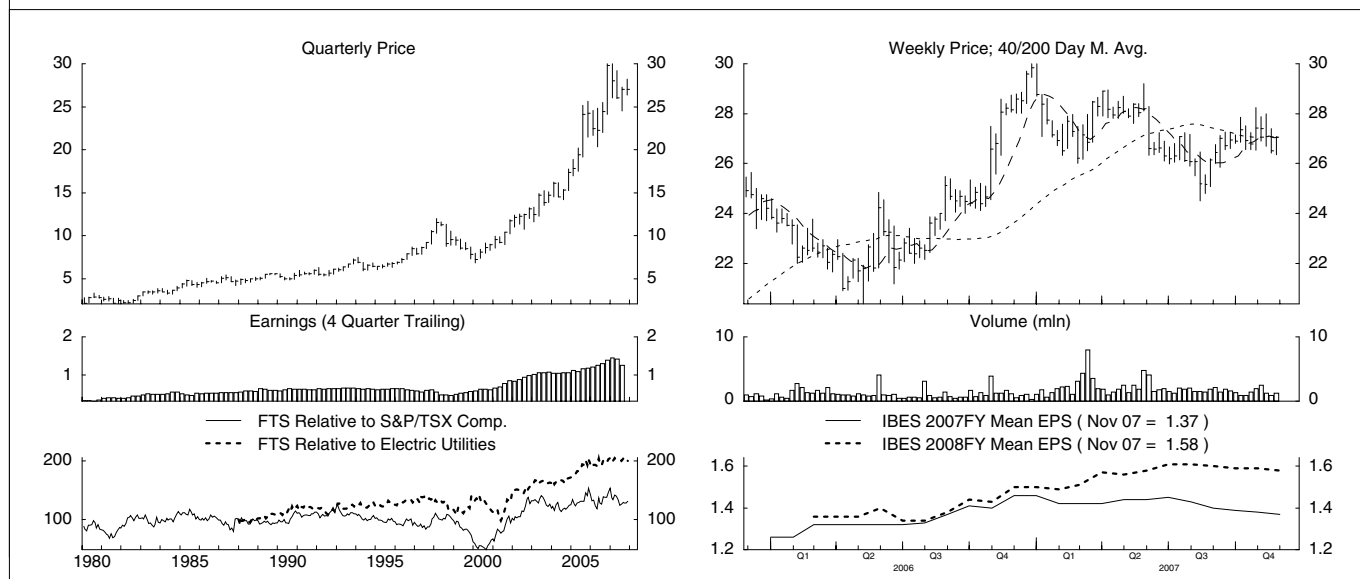
Stock Rating: Outperform
Industry Rating: Market Perform

Karen Taylor, CFA
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Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Price (29-Nov)	\$27.05	52-Week High	\$30.00	
Target Price	\$32.00	52-Week Low	\$24.50	
Dividend	\$0.84	Book Value	\$16.47	
Yield	3.1%	Price/Book	1.6x	
Shares O/S (mm)	154.9	Mkt. Cap (\$mm)	\$4,190	
Float O/S (mm)	154.9	Float Cap (\$mm)	\$4,190	
Wkly Vol (000s)	1,879	Wkly \$ Vol (mm)	\$51.3	
Net Debt (\$mm)	\$6,199	Next Rep. Date	1-Feb (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007E	\$0.40 a	\$0.31 a	\$0.20 a	\$0.42
2008E	\$0.58	\$0.29	\$0.21	\$0.44

(FY-Dec.)	2006A	2007E	2008E	2009E
EPS	\$1.33	\$1.34	\$1.51	\$1.53
P/E		20.2x	17.9x	17.7x
CFPS	\$2.70	\$3.70	\$3.72	\$3.77
P/CFPS		7.3x	7.3x	7.2x
Div.	\$0.67	\$0.82	\$0.92	\$0.96
EV (\$mm)	\$5,758	\$9,799	\$10,812	\$11,291
EBITDA (\$mm)	\$531	\$894	\$1,134	\$1,180
EV/EBITDA	10.9x	11.0x	9.5x	9.6x
ROE (%)	11.3%	6.8%	8.6%	7.9%
Book Value (\$)	\$12.19	\$17.20	\$17.84	\$19.10
D/Tot. Cap. (%)	63.4%	65.1%	66.0%	65.0%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (54%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos),

FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis reported Q3/07 EPS of \$0.20 versus our expectation of \$0.19 and a mean estimate of \$0.21. We note the following: the contributions from FortisAlberta and FortisBC were moderately higher than expected, due to higher taxation recoveries at FortisAlberta and stronger-than-expected customer growth at FortisBC. These gains were partially offset by: (i) lower contribution from the non-

regulated power generation segment, arising from lower quarter-over-quarter hydrological conditions in Ontario, Upper State New York and Belize; and (ii) higher-than-expected unallocated Corporate costs.

Corporate Developments – On November 15, The British Columbia Utilities Commission (BCUC) issued an Order conditionally approving an application by Terasen Gas (Vancouver Island) Inc. (TGVI, 100% - Fortis Inc.) to build, own and operate a \$200 million liquefied natural gas (LNG) storage facility, and an application by Terasen Gas Inc. (100% - Fortis Inc.) to execute a storage and delivery agreement relating to the facility. The proposed LNG storage facility has a target in-service date of late 2011 and construction is expected to commence in April 2008. The Commission denied TGVI's application for a 50-basis-point premium to its return on equity for the project.

On October 11, Newfoundland Power filed a revised application for 2008 rates with the Newfoundland and

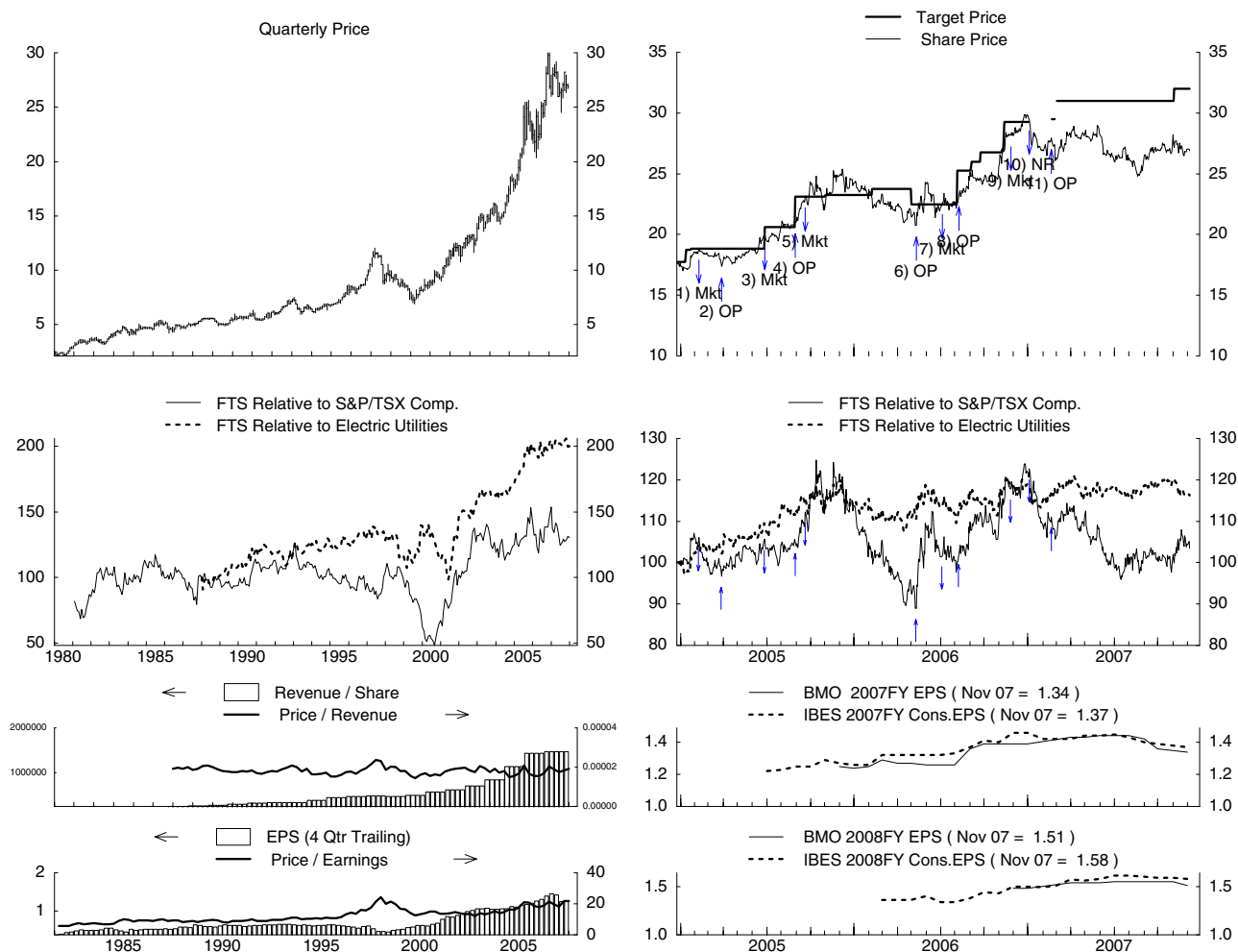
Labrador Board of Commissioners of Public Utilities. The revised application is the result of recent negotiations between the company and the Consumer Advocate, which determined that the applied-for ROE for 2008 should be 8.95% versus the previously applied-for ROE of 10.25% and an allowed ROE of 8.60% in 2007.

Forecasts – Our diluted 2007, 2008 and 2009 EPS estimates are \$1.34, \$1.51 and \$1.53, respectively.

Valuation – Our target price of \$32.00 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%), 2.0x 2009E BVPS of \$19.10 (12.5%) and a target yield of 3.00% (75%), assuming 2009 dividends per share of \$0.96.

Recommendation – We believe the shares are attractively valued at current levels. Our rating is Outperform. Member of Top 15 Income stock selections.

Fortis Inc. (FTS)



FYE (NC.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	22	0.84	3.1	67	16.47	1.6	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 24-Dec-04 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
8 8-Aug-06	Mkt to OP	\$23.24
9 24-Nov-06	OP to Mkt	\$28.20
10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 5, 2007

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	First Call Universe **
Buy	Outperform	38%	42%	49%
Hold	Market Perform	53%	52%	46%

Sell Underperform 9% 6% 5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.25
Target Price: \$32.50

Member of: Top 15 Income Stock Selections

December 21, 2007

Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Newfoundland Power 2008 Rates Approved

Impact

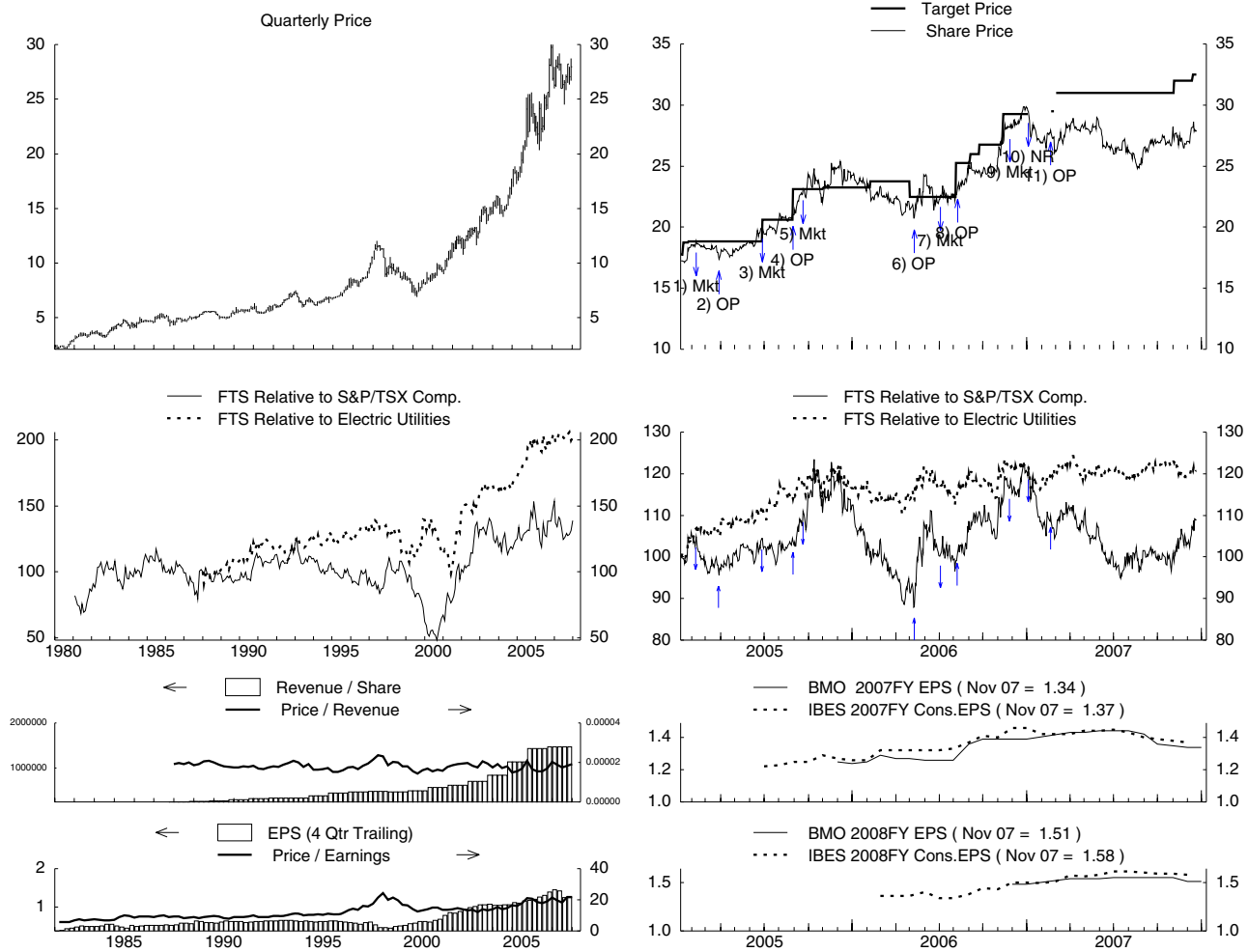
Neutral

Details & Analysis

The Newfoundland & Labrador Board of Commissioners of Public Utilities issued its Decision and Order regarding Newfoundland Power Inc.'s (100% - Fortis Inc.) 2008 General Rate Application. The Board approved the settlement agreement filed by Newfoundland Power as filed and ordered the utility to file its next general rate application by June 30, 2010 using a 2011 test year. Approval of the Settlement Agreement by the board was in line with expectations and our outlook fully reflects the key financial terms of the Settlement Agreement. No change in view. We rate the shares of Fortis Inc. Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (NC.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	22	0.84	3.1	67	16.47	1.6	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.8		11.4			17.1		
10 Year:	7.9		6.7			10.2		
20 Year:	4.4		5.1			7.8		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 7-Jan-05 = OP

Date	Rating Change	Share Price
1 8-Feb-05	OP to Mkt	\$18.88
2 28-Mar-05	Mkt to OP	\$17.38
3 27-Jun-05	OP to Mkt	\$20.01
4 30-Aug-05	Mkt to OP	\$21.01
5 20-Sep-05	OP to Mkt	\$23.18
6 10-May-06	Mkt to OP	\$20.75
7 4-Jul-06	OP to Mkt	\$22.60
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10 3-Jan-07	Mkt to NR	\$29.51
11 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 19, 2007

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Analyst's Certification

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%

Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.85
Target Price: \$32.50

Member of: Top 15 Income Stock Selections

February 7, 2008

Brief Research Note
Gas & Electric

Karen Taylor, CFA

(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

Q4/07 EPS in Line With Expectations

Impact

Neutral

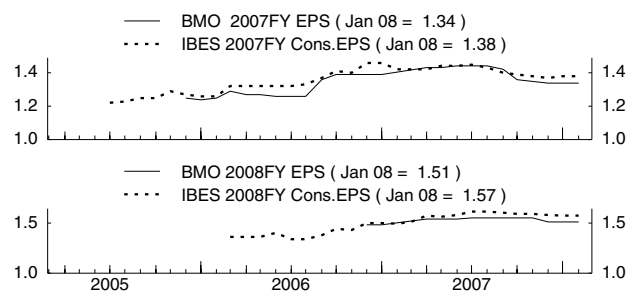
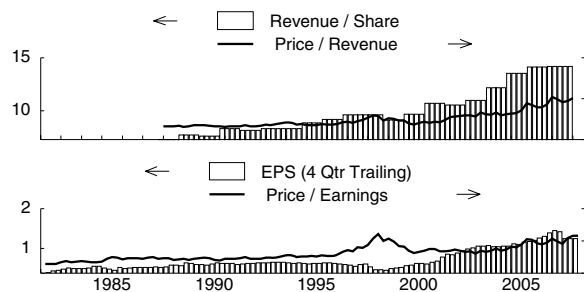
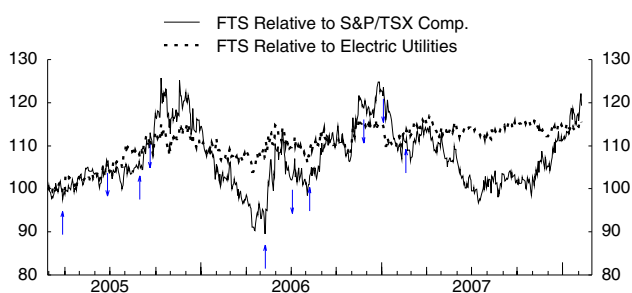
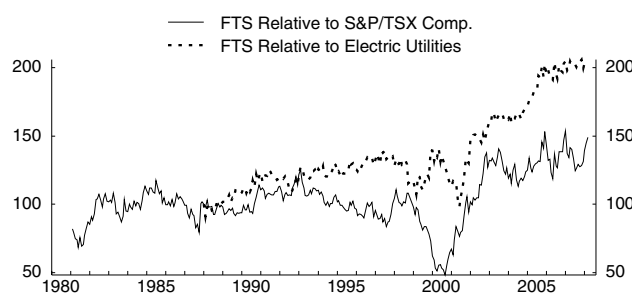
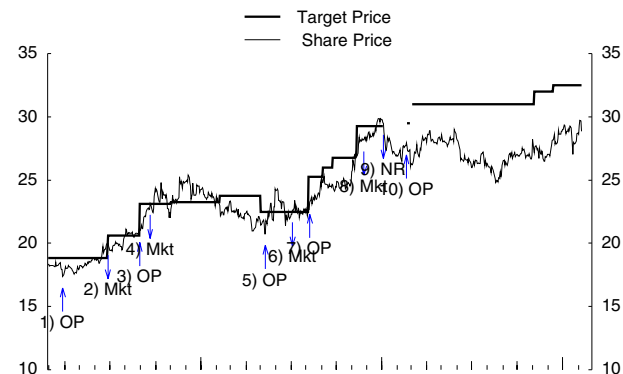
Details & Analysis

Fortis Inc. reported EPS of \$0.51. After adjusting for: (i) a \$7 million gain on sale of surplus land in Terasen Gas; (ii) a \$4 million benefit from the reduction in future income tax rates in Fortis Properties; and (iii) a \$2 million gain related to a refund received that was associated with an interconnection arrangement in Fortis Ontario, EPS were \$0.42, in line with our estimate of \$0.42 and slightly below the mean estimate of \$0.45. For fiscal 2007, the company reported EPS of \$1.40. After adjusting for a \$2.4 million turbine impairment charge recorded in Q1 and the previously mentioned one-time items reported in Q4, comparable 2007 EPS were \$1.33 versus our estimate of \$1.36 and a mean estimate of \$1.38. We continue to review the comprehensive release. We rate the shares Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.



Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	23	0.84	2.9	67	16.47	1.7	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.0		11.4			14.1		
10 Year:	7.6		6.7			9.9		
20 Year:	4.5		5.1			7.4		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 25-Feb-05 = Mkt

Date	Rating Change	Share Price
1 28-Mar-05	Mkt to OP	\$17.38
2 27-Jun-05	OP to Mkt	\$20.01
3 30-Aug-05	Mkt to OP	\$21.01
4 20-Sep-05	OP to Mkt	\$23.18
5 10-May-06	Mkt to OP	\$20.75
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9 3-Jan-07	Mkt to NR	\$29.51
10 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: February 6, 2008



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Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%

Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform**Industry Rating:** Outperform**Member of:** Top 15 Income Stock Selections**February 8, 2008**

Research Comment

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Q4/07 EPS Largely in Line; Outperform Rating Unchanged

Event

Fortis Inc. reported Q4/07 EPS of \$0.51. After adjusting for a number of one-time adjustments, Q4/07 EPS were \$0.46, moderately higher than our estimate of \$0.42 and slightly higher than a mean estimate of \$0.45. The variance between expected and actual performance is largely attributable to higher-than-expected performance from Terasen Gas, Fortis Alberta, and Fortis Properties, which was offset by slightly lower-than-expected performance from Other Canadian Utilities. For fiscal 2007, the company reported basic EPS of \$1.40. After adjusting for a number of one-time items, comparable 2007 basic EPS were \$1.36, in line with our estimate of basic EPS \$1.36 and slightly lower than a mean estimate of \$1.38. Diluted 2007 EPS of \$1.29 was slightly lower than our expectation of \$1.34.

Impact

Neutral.

Forecasts

We have updated our outlook to reflect actual 2007 performance and the information contained in the quarterly release. Our diluted 2008 and 2009 EPS estimates of \$1.51 and \$1.53, respectively, are unchanged.

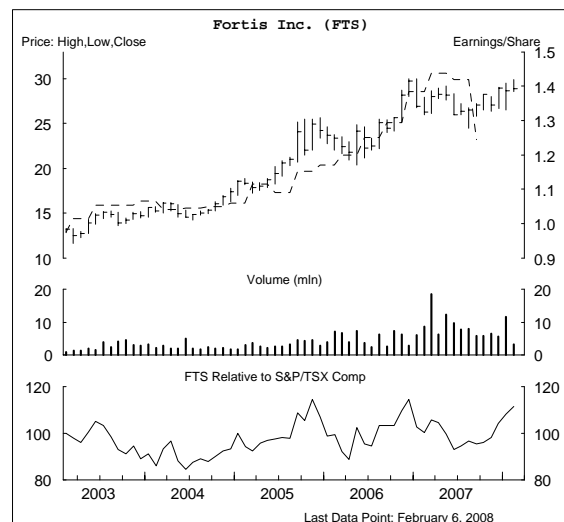
Valuation

Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009 EPS of \$1.53 (25%), 1.75x 2009E BVPS of \$18.44 (12.5%), and a target yield of 3.15% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe that the shares are attractively valued at current levels. We rate the shares Outperform.

Price (7-Feb) \$28.85 **52-Week High** \$29.89
Target Price \$32.50 **52-Week Low** \$24.50



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.51	\$1.53
P/E			19.1x	18.9x
CFPS	\$2.70	\$3.70	\$3.72	\$3.77
P/CFPS			7.8x	7.6x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,758	\$9,824	\$11,102	\$11,603
EBITDA (\$mm)	\$531	\$893	\$1,134	\$1,181
EV/EBITDA	10.9x	11.0x	9.8x	9.8x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58	\$0.29	\$0.21	\$0.44
Dividend	\$1.00			Yield 3.5%
Book Value	\$16.69			Price/Book 1.6x
Shares O/S (mm)	155.5			Mkt. Cap (\$mm) \$4,487
Float O/S (mm)	155.5			Float Cap (\$mm) \$4,487
Wkly Vol (000s)	2,040			Wkly \$ Vol (mm) \$55.9
Net Debt (\$mm)	\$6,198.8			Next Rep. Date 2-May (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2007E: \$1.38; 2008E: \$1.57; 2009E: \$1.62

Details & Analysis

Fortis Inc. reported Q4/07 EPS of \$0.51. After adjusting for a number of one-time adjustments, Q4/07 EPS was \$0.46, moderately higher than our Q4/07 estimate of \$0.42 slightly higher than a mean estimate of \$0.45. The variance between expected and actual performance is largely attributable to higher-than-expected performance from Terasen Gas, Fortis Alberta, and Fortis Properties, which was offset by slightly lower-than-expected performance from Other Canadian Utilities. For fiscal 2007, the company reported basic EPS of \$1.40. After adjusting for a number of one-time items, comparable 2007 basic EPS were \$1.36, in line with our estimate of basic EPS \$1.36 and slightly lower than a mean estimate of \$1.38.

We believe that the following points are relevant about quarterly performance and our outlook:

- One-time items in Q4/07 included: (i) \$7 million gain on sale of surplus land in Terasen Gas; (ii) \$2 million benefit related to a refund received that was associated with an interconnection arrangement in FortisOntario; and (iii) \$4 million benefit arising from the reduction in future income tax rates in Fortis Properties.
- Reported Q4/07 corporate costs included a number of non-recurring items: (i) \$2.0 million taxation assessment relating to Terasen Inc. and Fortis Inc.; (ii) Purchase price adjustment with respect to the acquisition of Terasen of \$2.0 million a.t.; and (iii) cost to unwind an interest rate swap related to a high interest rate loan at BECOL of approximately \$0.7 million a.t. Adjusted corporate costs of approximately \$17.3 million in Q4/07 were in line with expectations. We continue to assume approximately \$16.5 million of cost per quarter in 2008 or \$66 million and approximately \$62.3 million in 2009.
- In the quarterly release, management set out its capital budget for 2008 of \$890 million, comprised of: \$250 million for Terasen Gas; \$400 million for Fortis Alberta/BC; \$53 million for Newfoundland Power; \$38 million for Other Regulated Utilities Canadian; \$101 million for Regulated Caribbean Utilities; and \$48 million for Non-regulated. Management also highlighted the composition of the capital budget as follows: 50% - growth capital; 35% - sustaining capital expenditures, directed to ensure continued and enhanced performance, reliability and safety of generation and transmission & distribution assets; and 15% - other investment in facilities, equipment, vehicles, information technology systems, and other assets. We have assumed capital expenditures of approximately \$890 million in 2008 and approximately \$866 million in 2009.
- In the short-term, we believe that the company's primary focus will be on the integration of Terasen Inc. and the resumption of that entities' role as a core business, with a potential focus on renewed growth. These assets were acquired by Fortis Inc. on May 17, 2007. The segment contribution from Terasen Inc. was \$52 million for Q4/07, which was higher than our estimate of \$36.9 million, primarily due to the seasonality of these operations. We note that Terasen's quarterly earnings profile is: 55% - Q1; 5% - Q2; (5%) - Q3; and 45% - Q4. We expect earnings from this segment to be approximately \$91 million in 2008 and 2009, reflecting a full-year of contribution from Terasen Inc. in 2008.
- In 2008, Terasen Gas (Vancouver Island) Inc. (TGVI; 100% - Fortis Inc) is expected to spend approximately \$50 million on the construction of its \$200 million liquefied natural gas (LNG) storage facility. In November 2007, TGVI received conditional approval from the British Columbia and Utilities Commission for the construction of the facility. The LNG storage facility has a target in-service date of late 2011 and construction is expected to begin in April 2008. The project is fully reflected in our outlook for Fortis.

- Belize Electricity Ltd. (BEL, 70.1% - Fortis Inc) has resolved all its outstanding concerns in respect of the June 26, 2007, decision of the Belize Public Utilities Commission (PUC), including the order by the PUC to disallow certain electricity costs paid to Comision Federal de Electricidad. While we note that these issues have been resolved by the introduction and enactment of specific legislation, we understand that a general election process is underway and that a change of government may occur. We do not expect a potential change in government to have a material adverse effect on the consolidated operations of Fortis Inc., due to the diversity of the company's utility operations in Canada and the Caribbean.
- Quarterly and annual performance by segment is set out in Table 1.

Table 1. Quarterly and Annual Segment Performance

Contribution by Segment	Millions												
	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	Q4/07	2007	2008E	2009E
Newfoundland Power	29.4	10.7	8.0	2.6	8.8	30.1	10.5	8.0	2.7	9.0	30.0	32.7	33.0
Maritime Electric	9.1	2.1	2.2	3.1	2.4	9.8	2.6	2.8	3.0	1.5	9.9	11.4	13.1
Fortis Ontario	2.7	1.0	0.5	1.6	1.0	4.0	1.3	1.2	1.4	0.3	4.1	6.0	7.5
FortisAlberta	30.3	9.5	11.3	12.3	8.3	41.4	11.9	15.5	14.7	6.0	48.0	41.6	49.4
FortisBC	24.6	11.8	3.4	5.7	6.4	27.3	11.7	6.5	6.2	7.0	31.0	34.5	38.5
Belize Electricity	8.1	1.5	2.3	3.8	2.8	10.4	2.7	2.9	3.0	2.0	10.6	9.9	10.4
Caribbean Utilities	10.3	1.6	2.1	3.2	2.8	9.7	2.0	2.3	4.1	3.0	11.4	11.8	12.7
Turks & Caicos	0.0	0.0	0.0	0.7	2.8	3.4	1.8	2.4	2.7	4.0	10.9	12.2	14.2
Fortis Generation	21.6	5.4	6.0	7.8	6.8	26.0	7.3	4.9	5.0	7.0	24.0	27.7	13.6
Fortis Properties	14.1	1.5	5.0	6.3	2.8	15.6	1.8	6.0	8.0	4.0	20.0	25.3	27.2
Terasen Inc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	(3.7)	45.0	42.9	91.0	91.2
Corporate	(30.9)	(8.5)	(6.7)	(8.3)	(11.0)	(34.5)	(9.7)	(12.6)	(16.3)	(17.3)	(56.2)	(66.0)	(62.3)
Earnings Before Non-Recurring items	119.3	36.6	34.1	38.7	33.8	143.1	43.9	41.5	30.8	71.5	186.8	238.0	248.4
Average Shares	101.8	103.3	103.4	103.6	104.0	103.6	109.4	131.1	154.5	155.4	137.6	155.7	160.1
Net Earnings to Common (Basic)	\$1.17	\$0.35	\$0.33	\$0.37	\$0.33	\$1.38	\$0.40	\$0.31	\$0.20	\$0.46	\$1.36	\$1.53	\$1.55
Net Earnings to Common (Diluted)	\$1.10					\$1.33					\$1.28	\$1.51	\$1.53

Source: BMO Capital Markets

- Table 2 sets out the production and revenue by geographic area for Fortis' non-regulated hydro-electric business.

Table 2. Fortis Generation – Actual Fiscal and Quarterly Performance

Fortis Generation	Millions														
	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	Q4/07
Operating Revenue	69.2	17.0	19.2	21.7	26.0	83.9	19.3	19.3	19.3	20.2	78.1	21.2	17.6	16.9	19
Energy Supply Costs	5.8	1.9	1.8	0.9	1.6	6.2	1.9	1.4	1.4	1.5	6.2	2.1	1.7	1.5	3.0
Operating Expenses	16.0	4.8	4.4	2.5	6.1	17.8	4.0	3.9	3.2	4.0	15.1	4.1	3.5	3.6	3.0
Depreciation	10.3	2.6	2.5	2.6	2.6	10.3	2.7	2.6	2.6	2.6	10.5	2.6	2.8	2.5	2.0
Operating Income	37.1	7.7	10.5	15.7	15.7	49.6	10.7	11.4	12.1	12.1	46.3	12.4	9.6	9.3	11.0
Interest Expense	15.4	3.9	4.0	3.5	2.7	14.1	2.7	2.6	2.5	2.3	10.1	2.4	2.4	2.4	2.0
Income Taxes	6.9	1.4	2.4	4.4	3.5	11.7	2.2	2.3	1.6	1.4	7.5	2.4	2.1	1.7	2.0
Non-controlling Interest	1.9	0.3	0.9	0.0	1.0	2.2	0.4	0.5	0.2	1.6	2.7	0.3	0.2	0.2	0.0
Net Earnings	12.8	2.1	3.2	7.8	8.5	21.6	5.4	6.0	7.8	6.8	26.0	7.3	4.9	5.0	7.0

Energy Sales (GWh)	Millions														
	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	Q4/07
Central Newfoundland	152	35	48	26	50	159	38	39	32	59	168	34	32	31	40
Ontario	721	184	176	166	182	708	187	177	172	186	722	184	177	167	179
Belize	63	7	7	18	36	68	27	33	65	53	178	44	26	45	52
British Columbia	23	5	11	15	8	39	3	13	9	4	30	3	16	10	5
Upper New York State	70	17	16	7	35	75	29	28	10	38	105	26	23	1	27
Total	1,029	248	258	232	311	1,049	284	290	288	340	1,203	291	274	254	303

Fortis Generation	\$/MWh														
	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07	Q3/07	Q4/07
Operating Revenue	67.3	68.5	74.4	93.5	83.6	80.0	68.0	66.6	66.9	59.3	64.9	72.9	64.2	66.5	62.7
Energy Supply Costs	5.6	7.7	7.0	3.9	5.1	5.9	6.7	4.8	4.9	4.4	5.2	7.2	6.2	5.9	9.9
Operating Expenses	15.6	19.4	17.1	10.8	19.6	17.0	14.1	13.4	11.1	11.8	12.6	14.1	12.8	14.2	9.9
Depreciation	10.0	10.5	9.7	11.2	8.4	9.8	9.5	9.0	9.0	7.6	8.7	8.9	10.2	9.8	6.6
Operating Income	36.1	31.0	40.7	67.7	50.5	47.3	37.7	39.3	42.0	35.5	38.5	42.6	35.0	36.6	36.3
Interest Expense	15.0	15.7	15.5	15.1	8.7	13.4	9.5	9.0	8.7	6.8	8.4	8.2	8.8	9.4	6.6
Income Taxes	6.7	5.6	9.3	19.0	11.3	11.2	7.7	7.9	5.5	4.1	6.2	8.2	7.7	6.7	6.6
Non-controlling Interest	1.9	1.2	3.5	0.0	3.2	2.1	1.4	1.7	0.7	4.7	2.2	1.0	0.7	0.8	0.0
Net Earnings	12.4	8.5	12.4	33.6	27.3	20.6	19.0	20.7	27.0	20.0	21.6	25.1	17.9	19.7	23.1

Source: BMO Capital Markets

Estimates

We have updated our outlook to reflect actual 2007 performance and the information contained in the quarterly release. Our diluted 2008 and 2009 EPS estimates of \$1.51 and \$1.53, respectively, are unchanged.

Valuation

Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009 EPS of \$1.53 (25%), 1.75x 2009E BVPS of \$18.44 (12.5%), and a target yield of 3.15% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe that the shares are attractively valued at current levels. We rate the shares Outperform.

Table 3. Consolidated Summary Sheet

7-Feb-08

Current Price: \$29.24

12-Month Target Price: \$32.50

ROR: 14.6%

Karen J. Taylor

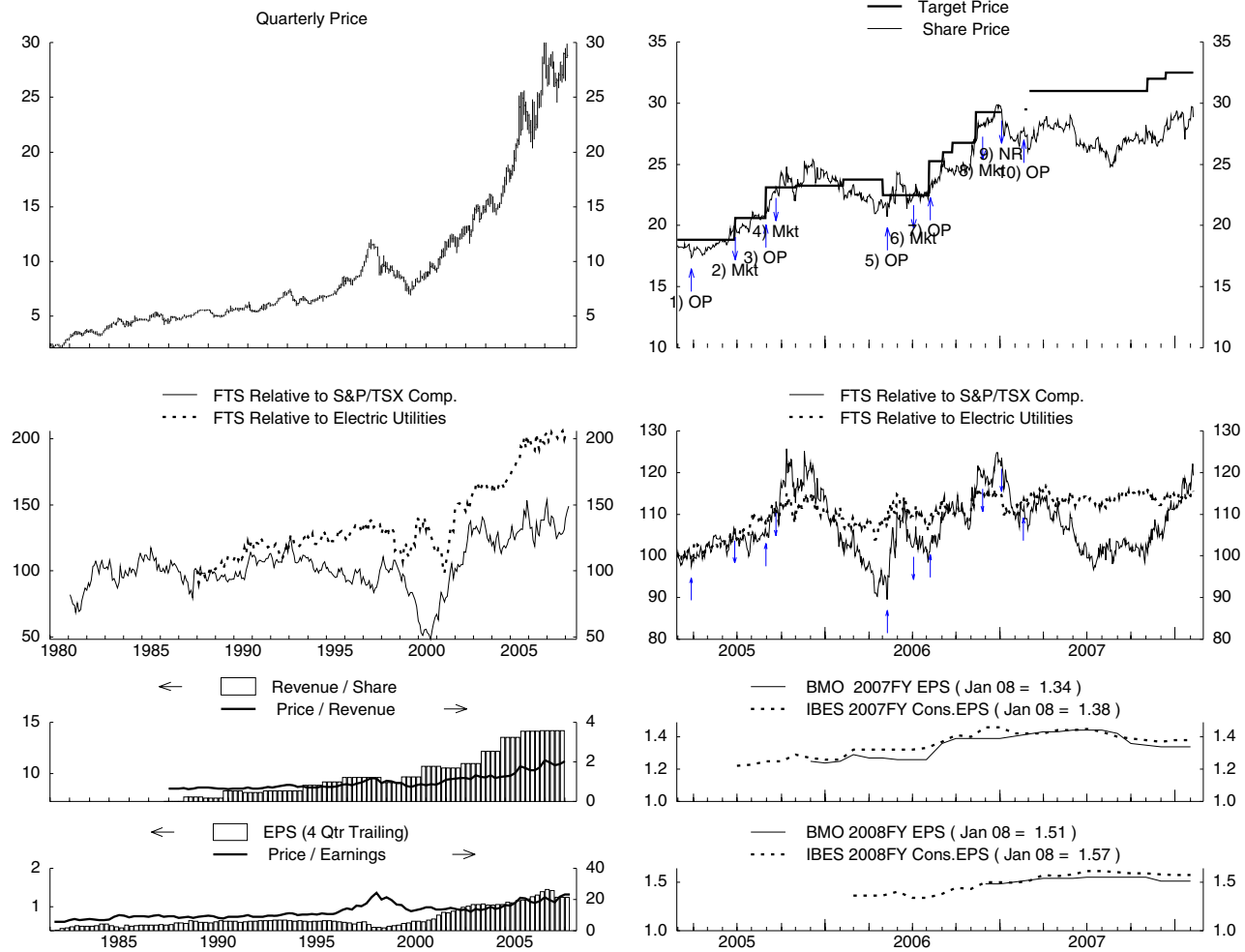
BMO Capital Markets

Recommendation: Outperform

	Year Ending December 31							
	2002	2003	2004	2005	2006	2007	2008E	2009E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.51	\$1.53
Segmented EPS								
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08
CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.04	\$0.05
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.16	\$0.17
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.18	\$0.08
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.22	\$0.23
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.49	\$0.55
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.58	\$0.57
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.42)	(\$0.39)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.4%	65.4%	67.0%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	155.7	160.1
Net Book Value	8.72	8.98	10.47	11.76	12.19	16.69	17.24	18.44
Market Valuation								
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-
Price: Current	-	-	-	-	-	-	\$29.24	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.1	18.8
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.70	1.59
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-
Yield: Current	-	-	-	-	-	-	3.42%	3.56%
Balance Sheet (\$mm)								
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	286.7	851.0
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	5,142.0	4,951.3
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0	60.0
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.5</u>	<u>2,595.1</u>	<u>2,687.4</u>	<u>3,029.4</u>
	1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,333.8	9,406.7	10,122.3
Balance Sheet (%)								
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.3%	3.0%	8.4%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.7%	54.7%	48.9%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.2%	1.2%	1.1%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.8%	6.3%
Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%	0.6%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.8%</u>	<u>28.6%</u>	<u>29.9%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement								
Net Profit to Common	63.3	73.6	89.0	119.3	143.1	186.8	238.0	248.4
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	574.4	600.1

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
Current*	1.24	23	0.84	2.9	67	16.47	1.7	8
Average:		13		5.2	64		1.4	11.3
Growth(%):								
5 Year:	5.0		11.4			14.1		
10 Year:	7.6		6.7			9.9		
20 Year:	4.5		5.1			7.4		

* Current EPS is the 4 Quarter Trailing to Q3/2007.

FTS - Rating as of 25-Feb-05 = Mkt

Date	Rating Change	Share Price
1 28-Mar-05	Mkt to OP	\$17.38
2 27-Jun-05	OP to Mkt	\$20.01
3 30-Aug-05	Mkt to OP	\$21.01
4 20-Sep-05	OP to Mkt	\$23.18
5 10-May-06	Mkt to OP	\$20.75
6 4-Jul-06	OP to Mkt	\$22.60
7 8-Aug-06	Mkt to OP	\$23.24
8 24-Nov-06	OP to Mkt	\$28.20
9 3-Jan-07	Mkt to NR	\$29.51
10 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: February 6, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., collectively ("BMO NB"). BMO NB is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. "BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO NB in Canada, BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Capital Markets Ltd. and BMO Capital Markets Corp. are affiliates of BMO NB. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO NB research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein. The opinions, estimates and projections contained in this report are those of BMO NB as of the date of this report and are subject to change without notice. BMO NB endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NB makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NB or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NB and its affiliates, which includes the overall profitability of investment banking services. BMO NB, or its affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NB. BMO NB or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO NB or its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp., Bank of Montreal or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Company Specific Disclosure

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%
Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$29.26
Target Price: \$32.50

Member of: Top 15 Income Stock Selections

February 13, 2008
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

AUC Approves FortisAlberta's 2008/09 Revenue Requirements

Impact

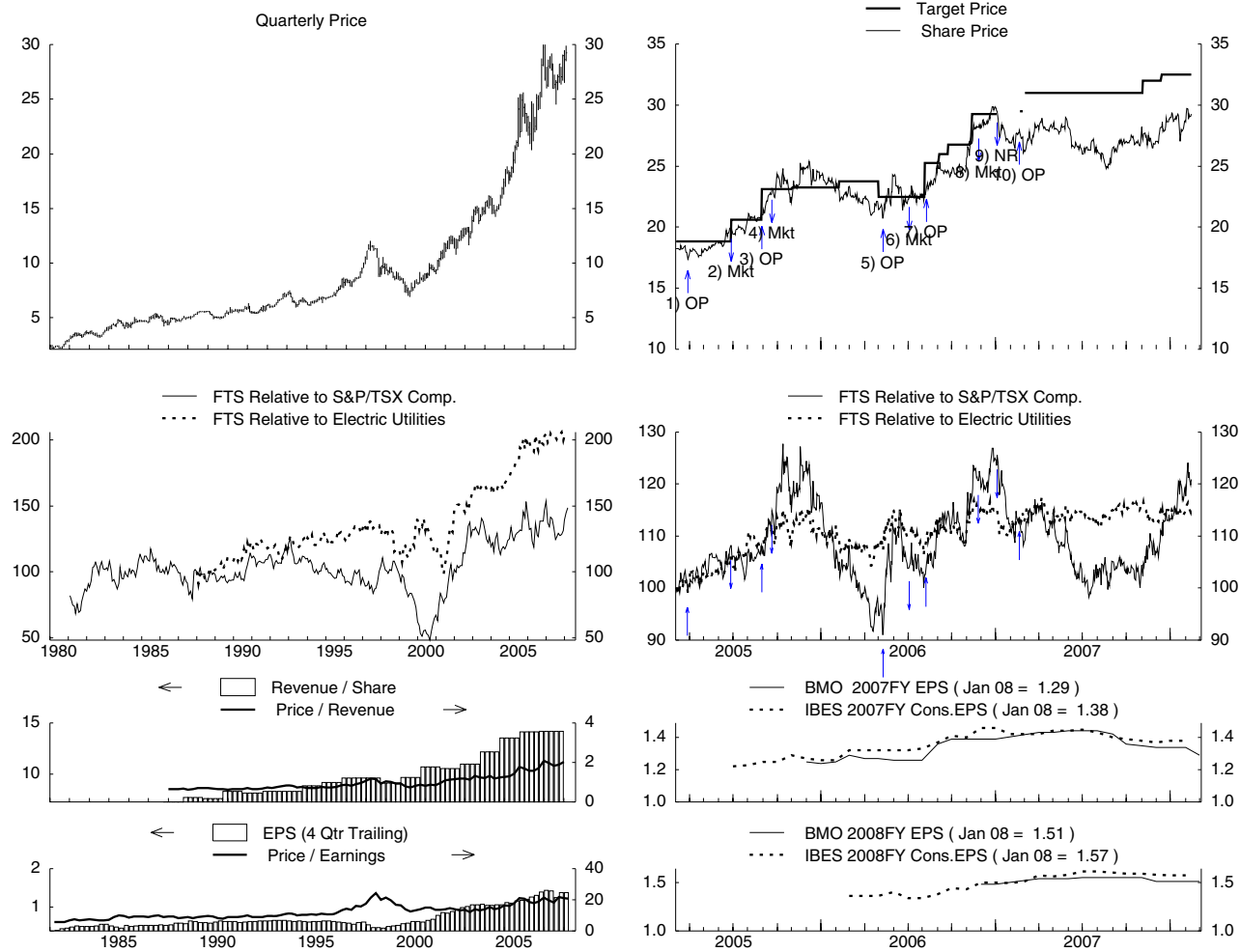
Neutral

Details & Analysis

On February 12, the Alberta Utilities Commission (AUC) approved the negotiated settlement agreement filed by FortisAlberta Inc. (100% - Fortis Inc.) on November 2, 2007, relating to its 2008/09 Distribution Tariff Application. Approval of the negotiated settlement agreement by the AUC is in line with expectations, and our outlook fully reflects the key financial terms of the settlement agreement. No change in view. We continue to rate the shares Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
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1988	0.56	9	0.34	6.8	60	4.16	1.2	14
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2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	0.84	2.9	61	16.69	1.7	8
Average:		14		5.1	64		1.5	11.3
Growth(%):								
5 Year:	7.1		11.4			14.5		
10 Year:	8.7		6.7			10.1		
20 Year:	5.0		5.1			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 3-Mar-05 = Mkt

Date	Rating Change	Share Price
1 28-Mar-05	Mkt to OP	\$17.38
2 27-Jun-05	OP to Mkt	\$20.01
3 30-Aug-05	Mkt to OP	\$21.01
4 20-Sep-05	OP to Mkt	\$23.18
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8 24-Nov-06	OP to Mkt	\$28.20
9 3-Jan-07	Mkt to NR	\$29.51
10 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: February 12, 2008

Company Risk Disclosure

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%

Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$29.00
Target Price: \$32.50

Member of: Top 15 Income Stock Selections

February 19, 2008
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

IRAC Approves 1.8% Rate Increase

Impact

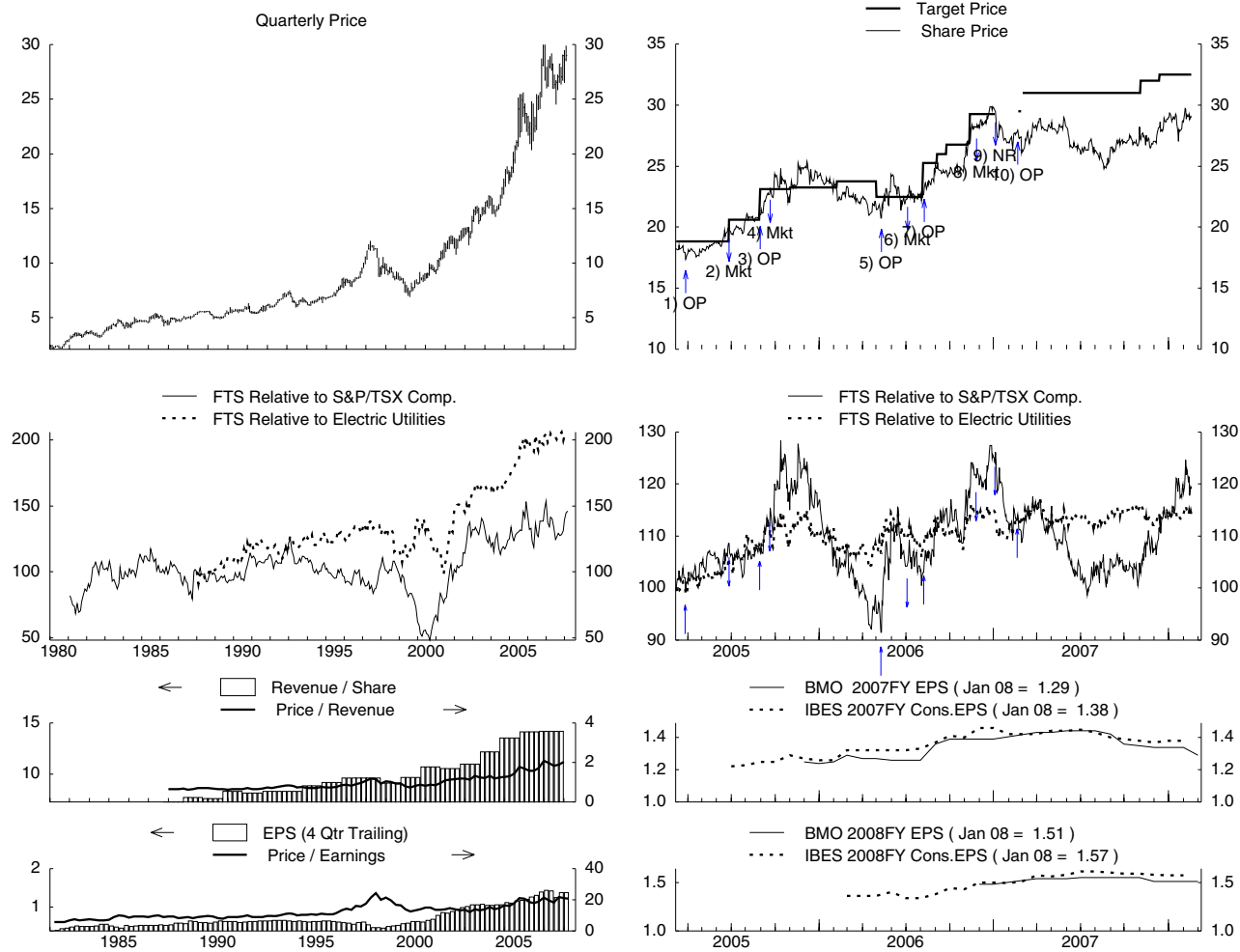
Neutral

Details & Analysis

On January 24, the Island Regulatory and Appeals Commission (IRAC) approved Maritime Electric's (100% - Fortis Inc.) October 18, 2007, application for an increase in basic utility rates of 1.8%, effective April 1, 2008 (see our comment dated November 12, 2007). The decision contains the following highlights: (i) the requested maximum allowed return on equity of 10.0% is approved for 2008. Actual common equity in 2008 is estimated to be 41.3%; and (ii) the IRAC has ordered the company to file a report by September 1 providing recommendations for rebasing the Energy Cost Adjustment Mechanism to bring the base rate of \$0.0673/kWh more in line with current market-based pricing. Approval of the application by the IRAC is in line with expectations and the key components of the application are currently reflected in our estimates. We continue to rate the shares of Fortis Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	0.84	2.9	61	16.69	1.7	8
Average:		14		5.1	64		1.5	11.3
Growth(%):								
5 Year:	7.1		11.4			14.5		
10 Year:	8.7		6.7			10.1		
20 Year:	5.0		5.1			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 8-Mar-05 = Mkt

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Last Daily Data Point: February 15, 2008

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Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

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Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	38%	42%	49%
Hold	Market Perform	53%	52%	46%
Sell	Underperform	9%	6%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$29.00
Target Price: \$32.50

Member of: Top 15 Income Stock Selections

February 19, 2008
Brief Research Note
Gas & Electric

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmo.com
Assoc: Benjamin Pham

IRAC Approves 1.8% Rate Increase

Impact

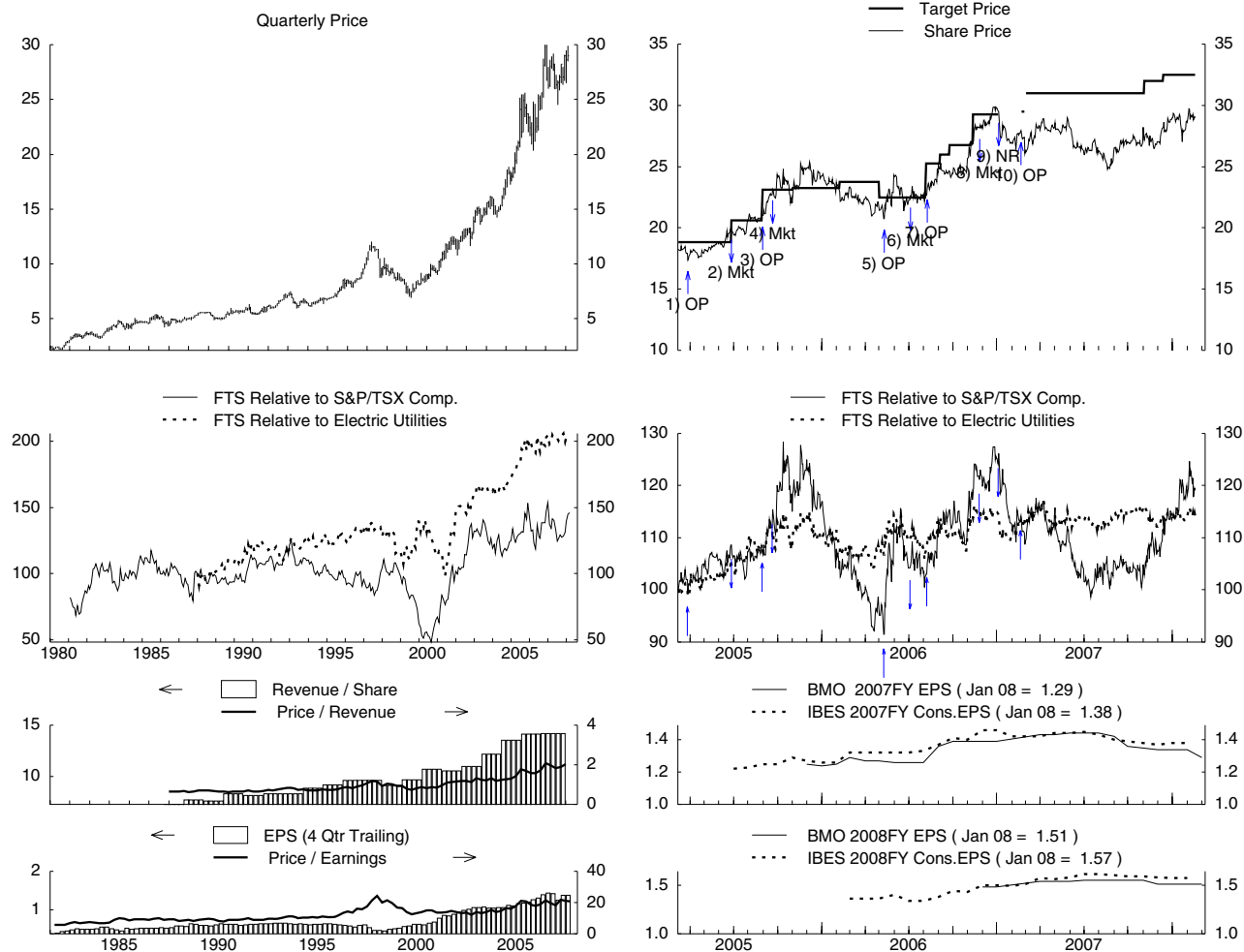
Neutral

Details & Analysis

On January 24, the Island Regulatory and Appeals Commission (IRAC) approved Maritime Electric's (100% - Fortis Inc.) October 18, 2007, application for an increase in basic utility rates of 1.8%, effective April 1, 2008 (see our comment dated November 12, 2007). The decision contains the following highlights: (i) the requested maximum allowed return on equity of 10.0% is approved for 2008. Actual common equity in 2008 is estimated to be 41.3%; and (ii) the IRAC has ordered the company to file a report by September 1 providing recommendations for rebasing the Energy Cost Adjustment Mechanism to bring the base rate of \$0.0673/kWh more in line with current market-based pricing. Approval of the application by the IRAC is in line with expectations and the key components of the application are currently reflected in our estimates. We continue to rate the shares of Fortis Outperform.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1985	0.51	8	0.27	6.2	53	3.49	1.2	15
1986	0.51	9	0.30	6.6	59	3.70	1.2	14
1987	0.52	9	0.31	6.5	60	3.92	1.2	14
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	0.84	2.9	61	16.69	1.7	8
Average:		14		5.1	64		1.5	11.3
Growth(%):								
5 Year:	7.1		11.4			14.5		
10 Year:	8.7		6.7			10.1		
20 Year:	5.0		5.1			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 8-Mar-05 = Mkt

Date	Rating Change	Share Price
1 28-Mar-05	Mkt to OP	\$17.38
2 27-Jun-05	OP to Mkt	\$20.01
3 30-Aug-05	Mkt to OP	\$21.01
4 20-Sep-05	OP to Mkt	\$23.18
5 10-May-06	Mkt to OP	\$20.75
6 4-Jul-06	OP to Mkt	\$22.60
7 8-Aug-06	Mkt to OP	\$23.24
8 24-Nov-06	OP to Mkt	\$28.20
9 3-Jan-07	Mkt to NR	\$29.51
10 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: February 15, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

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Dissemination of Research

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Conflict Statement

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Fortis

(FTS-TSX)

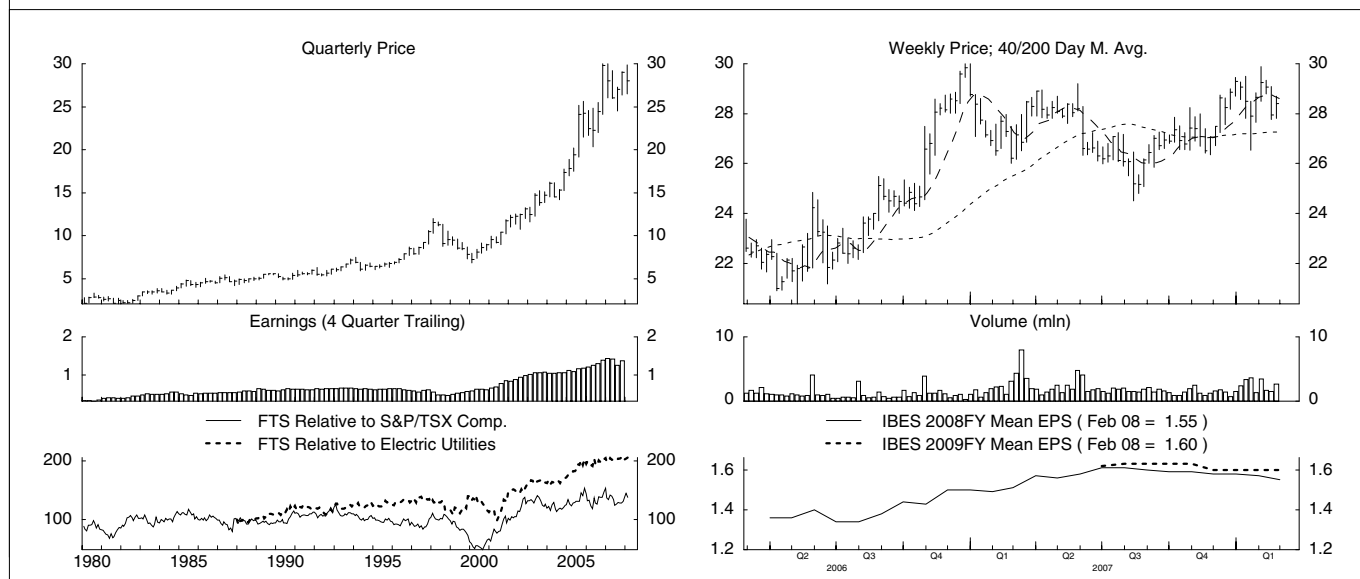
February 28, 2008
Research Fact Sheet
Gas & Electric

Stock Rating: Outperform
Industry Rating: Market Perform

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Benjamin Pham

				(FY-Dec.)	2006A	2007A	2008E	2009E	
Price (28-Feb)	\$28.40	52-Week High	\$29.89	EPS	\$1.33	\$1.29	\$1.51	\$1.53	
Target Price	\$32.50	52-Week Low	\$24.50	P/E			18.8x	18.6x	
Dividend	\$1.00	Book Value	\$16.69	CFPS	\$2.70	\$2.71	\$3.69	\$3.75	
Yield	3.5%	Price/Book	1.7x	P/CFPS			7.7x	7.6x	
Shares O/S (mm)	155.5	Mkt. Cap (\$mm)	\$4,417	Div.	\$0.67	\$0.82	\$1.00	\$1.04	
Float O/S (mm)	155.5	Float Cap (\$mm)	\$4,417	EV (\$mm)	\$5,758	\$9,814	\$10,666	\$11,164	
Wkly Vol (000s)	2,063	Wkly \$ Vol (mm)	\$56.3	EBITDA (\$mm)	\$531	\$810	\$1,133	\$1,160	
Net Debt (\$mm)	\$6,066	Next Rep. Date	2-May (E)	EV/EBITDA	10.9x	12.1x	9.4x	9.6x	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	11.3%	7.2%	8.8%	8.2%
2006A	\$0.35	\$0.33	\$0.37	\$0.33	Book Value (\$)	\$12.19	\$16.69	\$17.24	\$18.44
2007A	\$0.40	\$0.31	\$0.20	\$0.46	D/Tot. Cap. (%)	63.4%	63.6%	65.2%	64.2%
2008E	\$0.58	\$0.29	\$0.21	\$0.44	Req. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), FortisOntario (100%, Fort Erie, Ontario), Belize Electricity (68%, Belize), Caribbean Utilities (54%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos),

FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis Inc. reported Q4/07 EPS of \$0.51. After adjusting for a number of one-time items, Q4/07 EPS were \$0.46, moderately higher than our estimate of \$0.42 and slightly higher than a mean estimate of \$0.45. The variance between expected and actual performance is largely attributable to higher-than-expected performance from Terasen Gas, Fortis Alberta, and Fortis Properties, which

was offset by slightly lower-than-expected performance from Other Canadian Utilities. For 2007, the company reported basic EPS of \$1.40. After adjusting for a number of one-time items, comparable 2007 basic EPS were \$1.36, largely in line with our estimate of basic EPS of \$1.36 and slightly lower than a mean estimate of \$1.38. Diluted 2007 EPS of \$1.29 was slightly lower than our expectation of \$1.34.

Corporate Developments – On January 24, the Island Regulatory and Appeals Commission (IRAC) approved Maritime Electric's (100% - Fortis Inc.) October 18, 2007, application for an increase in basic utility rates of 1.8%, effective April 1, 2008 (see our comment dated November 12, 2007). The decision contains the following highlights: (i) the requested maximum allowed return on equity of 10.0% is approved for 2008. Actual common equity in 2008 is estimated to be 41.3%; and (ii) the IRAC has ordered the

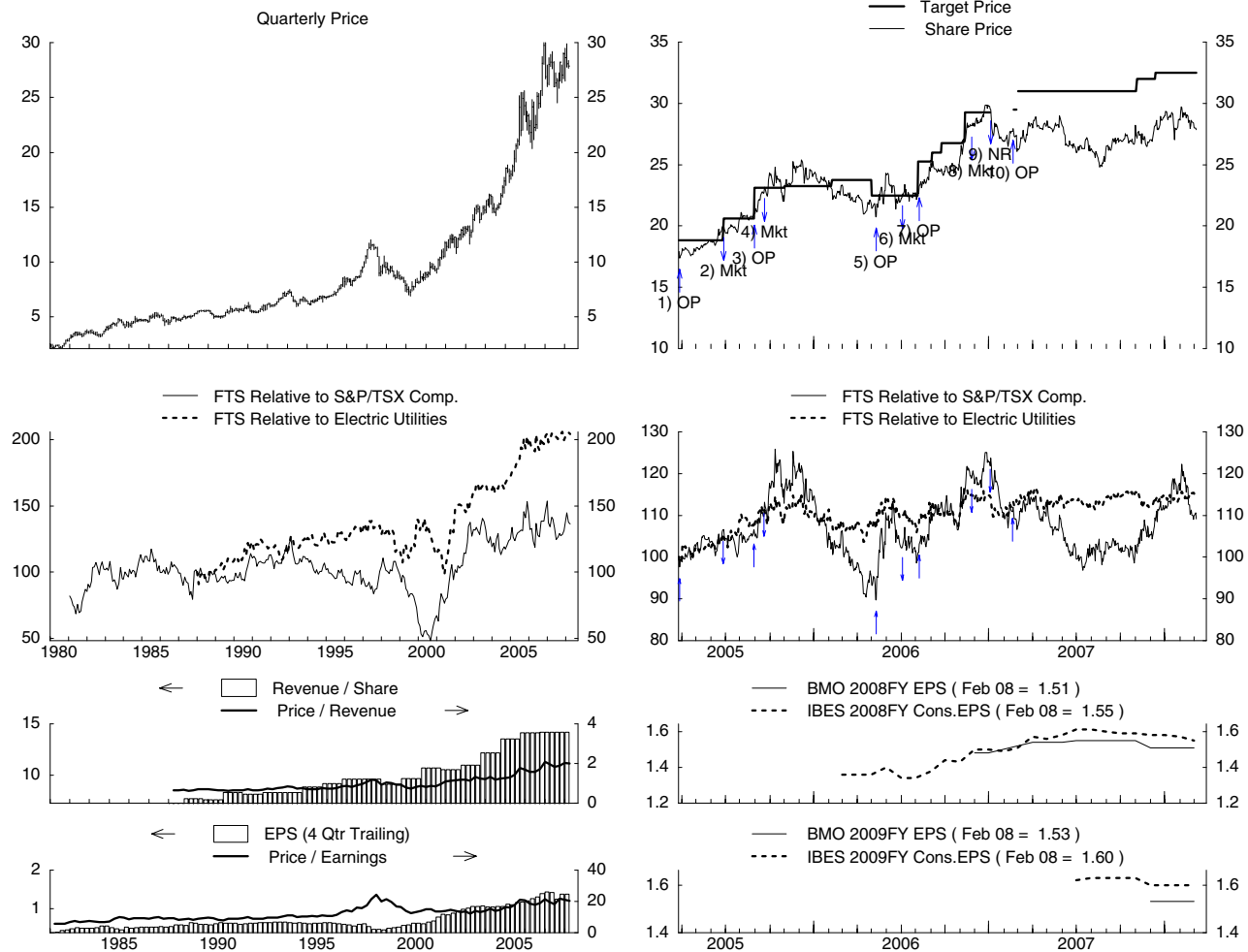
company to file a report by September 1 providing recommendations for rebasing the Energy Cost Adjustment Mechanism to bring the base rate of \$0.0673/kWh more in line with current market-based pricing. Approval of the application by the IRAC is in line with expectations and the key components of the application are currently reflected in our estimates.

Forecasts – Our diluted 2008 and 2009 EPS estimates are \$1.51 and \$1.53, respectively.

Valuation – Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009 EPS of \$1.53 (12.5%), 1.75x 2009E BVPS of \$18.44 (12.5%) and a target yield of 3.15% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation – We believe the shares are attractively valued at current levels. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	20	1.00	3.6	73	16.69	1.7	8
Average:		14		4.9	64		1.5	11.0
Growth(%):								
5 Year:	7.1		14.0			14.5		
10 Year:	8.7		8.3			10.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 25-Mar-05 = Mkt

Date	Rating Change	Share Price
1 28-Mar-05	Mkt to OP	\$17.38
2 27-Jun-05	OP to Mkt	\$20.01
3 30-Aug-05	Mkt to OP	\$21.01
4 20-Sep-05	OP to Mkt	\$23.18
5 10-May-06	Mkt to OP	\$20.75
6 4-Jul-06	OP to Mkt	\$22.60
7 8-Aug-06	Mkt to OP	\$23.24
8 24-Nov-06	OP to Mkt	\$28.20
9 3-Jan-07	Mkt to NR	\$29.51
10 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: March 5, 2008

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	First Call Universe **
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%

Sell Underperform 8% 4% 5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$29.20
Target Price: \$32.50

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

April 3, 2008

Brief Research Note
Gas & Electric

Michael McGowan, CA, CFA

(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Benjamin Pham

BCUC Approves LNG Storage Facility

Impact

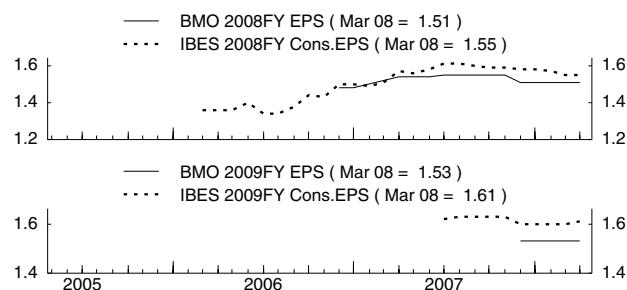
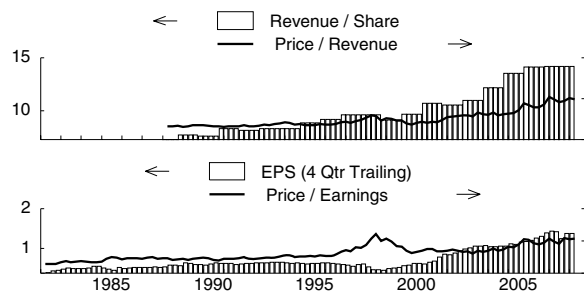
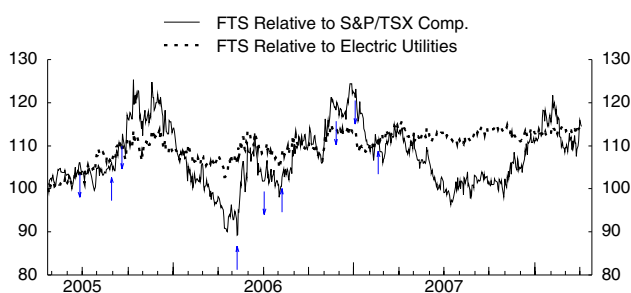
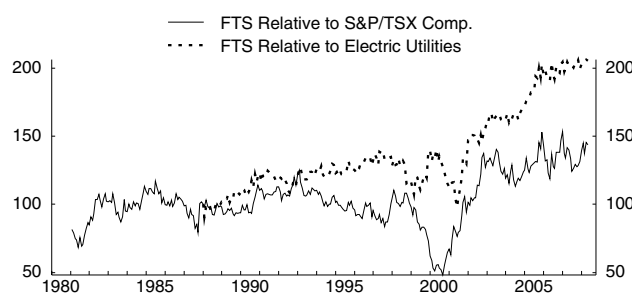
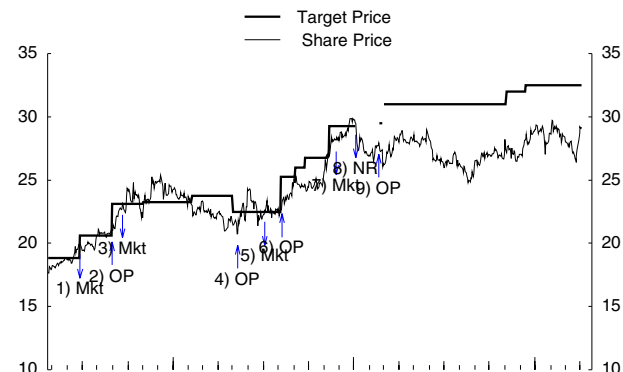
Neutral

Details & Analysis

Terasen Gas (Vancouver Island) Inc. (TGVI, 100% Fortis Inc.) has announced that it has received final approval from the British Columbia Utilities Commission (BCUC) to build own and operate a \$200 million liquefied natural gas (LNG) storage facility. The LNG facility will allow TGVI to store natural gas supplied by pipelines owned by Terasen Gas Inc. (TGI, 100% Fortis Inc.) as LNG in the summer months for use during high demand periods in the winter. TGVI expects to spend \$50 million on the project during 2008 and construction is expected to commence later this month. The project, which is scheduled to be completed by late 2011, is fully reflected in our outlook.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	1.00	3.4	73	16.69	1.8	8
Average:		14		4.9	64		1.5	11.0

Growth(%):

5 Year:	6.3	14.0	14.5
10 Year:	9.9	8.3	10.1
20 Year:	4.8	5.9	7.5

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 22-Apr-05 = OP

Date	Rating Change	Share Price
1 27-Jun-05	OP to Mkt	\$20.01
2 30-Aug-05	Mkt to OP	\$21.01
3 20-Sep-05	OP to Mkt	\$23.18
4 10-May-06	Mkt to OP	\$20.75
5 4-Jul-06	OP to Mkt	\$22.60
6 8-Aug-06	Mkt to OP	\$23.24
7 24-Nov-06	OP to Mkt	\$28.20
8 3-Jan-07	Mkt to NR	\$29.51
9 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 2, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%
Sell	Underperform	8%	4%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

April 14, 2008
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Benjamin Pham

Meetings With Management; Outperform Rating Maintained

Event

On April 8, we met with Fortis' management team to discuss the company's operations and growth prospects. Key themes discussed during the meeting included: (1) Fortis' recent acquisitions and its outlook regarding future deals; (2) rate base growth and the financing of the company's capital program; and (3) the company's exposure to proposed environmental legislation.

Impact

Neutral.

Forecasts

Our financial forecasts are unchanged.

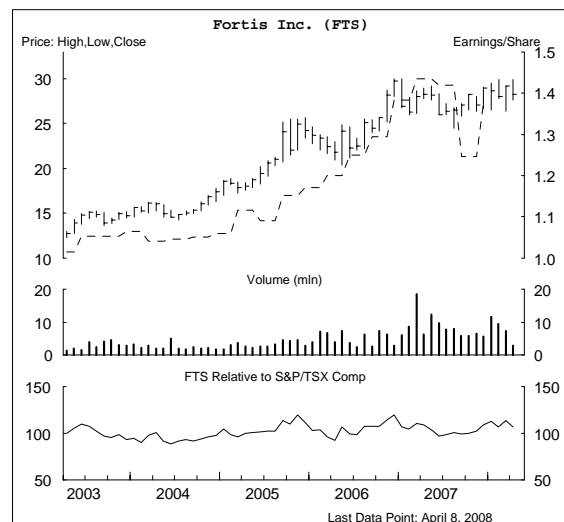
Valuation

Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%); 1.75x 2009E BVPS of \$18.44 (12.5%); and a target yield of 3.15% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe the shares are attractively valued. Our rating is Outperform.

Price (9-Apr) \$27.99 **52-Week High** \$29.94
Target Price \$32.50 **52-Week Low** \$24.50



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.51	\$1.53
P/E			18.5x	18.3x
CFPS	\$2.70	\$2.71	\$3.69	\$3.75
P/CFPS			7.6x	7.5x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,758	\$9,814	\$10,745	\$11,245
EBITDA (\$mm)	\$531	\$810	\$1,136	\$1,164
EV/EBITDA	10.9x	12.1x	9.5x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58	\$0.29	\$0.21	\$0.44
Dividend	\$1.00			3.6%
Book Value	\$16.69			Price/Book
Shares O/S (mm)	155.5			1.7x
Float O/S (mm)	155.5			Mkt. Cap (\$mm)
Wkly Vol (000s)	1,850			\$4,353
Net Debt (\$mm)	\$6,066.3			Float Cap (\$mm)
				\$4,353
				Wkly \$ Vol (mm)
				\$51.1
				Next Rep. Date
				02-May (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.56; 2009E: \$1.61

Details & Analysis

On April 8, we met with Fortis' management team to discuss the company's operations and growth prospects. Key themes discussed during the meeting included: (1) Fortis' recent acquisitions and its outlook regarding future deals; (2) rate base growth and the financing of the company's capital program; and (3) the company's exposure to proposed environmental legislation.

Management Reviewing Opportunities in the U.S.

Acquisitions are likely to continue to be a core part of Fortis' growth strategy, with a focus on acquiring regulated electric and gas transmission companies. During the meeting, management noted that future growth may involve the acquisition of U.S. utilities, as: (1) the number of potential acquisition targets in the U.S. is greater than in Canada; and (2) many of the remaining utilities in Canada are not of a sufficient size to meaningfully add EPS accretion.

Acquisitions Must Be Accretive and of a Meaningful Size to Increase Fortis' Scale and Scope

Although specific acquisition targets or regions of interest were not discussed, Fortis noted that it would consider acquiring assets that are a similar size to Terasen Inc.'s natural gas distribution business, the purchase of which Fortis completed on May 17, 2007 for consideration of \$3.7 billion, including the assumption of \$2.35 billion of debt. We believe Fortis acquired Terasen in order to gain experience operating regulated natural gas distribution utilities and to increase its presence in the Pacific Northwest.

We believe it is possible for Fortis to acquire the 46% of Caribbean Utilities that it does not own; or acquire Pacific Northern Gas ("PNG"; PNG-TSX), as PNG's regulated natural gas business could be seen to be complementary to Terasen's asset base. However, we believe Fortis will take a very patient approach in deciding whether to acquire either of these businesses. For example: (1) neither acquisition is likely to be materially accretive to Fortis' EPS; and (2) neither acquisition would materially expand the size and scope of Fortis' core regulated utility business.

We estimate that the acquisition of the remaining outstanding interest of Caribbean Utilities at a price of US\$12.00 per share (which is slightly below the closing price of US \$12.09/share on Friday, April 11, 2008) could be \$0.01-0.02 accretive to our 2009E Fortis EPS estimate. At higher prices, this acquisition becomes less accretive and we estimate that it would be neutral to our 2009E EPS estimate for Fortis at a price of US\$16.00/share.

We have performed a similar accretion estimate regarding the potential acquisition of Pacific Northern Gas, which closed at a price of approximately \$17.68 on Friday, April 11, 2009. We estimate that if Fortis acquired Pacific Northern Gas at a price of \$20.00 per share (which represents a premium of 13% to Friday's closing price), the transaction could add approximately \$0.02 to our 2009E Fortis EPS estimate.

Growth in Rate Base Expected to be Robust

Growth in Fortis' existing regulated utility business is expected to remain strong. Over the next four years, Fortis is planning to invest \$3 billion in its electric business and \$1 billion in its regulated gas distribution business. The company estimates that, absent an acquisition, it would likely need to issue \$300–400 million in new equity to finance this growth.

Our financial forecasts assume that Fortis issues \$260 million in equity at the end of 2008 to partially finance its capital plan.

Asset Mix Well-Suited to Benefit From More Stringent Environmental Regulations

Fortis' asset base consists primarily of natural gas distribution utilities, regulated electric utilities (primarily transmission and distribution), and unregulated hydroelectric generation. We believe Fortis is relatively well-positioned with respect to pending legislation associated with the Government of Canada's Greenhouse Gas Regulatory Framework, as the company has very little exposure to fossil fuel-fired power generation.

We believe Fortis may also benefit from renewable portfolio standards that mandate the construction of green power generation facilities, such as wind farms. In order to accommodate the large-scale deployment of intermittent green resources, transmission systems often need to be upgraded. As an operator of transmission systems, the deployment of additional green power generation facilities represents an opportunity for Fortis to add to its rate base through the reinforcement of transmission systems in the franchise and service areas in which it operates.

Estimates

Our financial forecasts are unchanged.

Valuation

Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.53 (12.5%); 1.75x 2009E BVPS of \$18.44 (12.5%); and a target yield of 3.15% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe the shares are attractively valued. Our rating is Outperform.

Table 1: Consolidated Summary

13-Apr-08

Current Price:

\$27.86

12-Month Target Price:

\$32.50

ROR:

20.2%

Michael McGowan

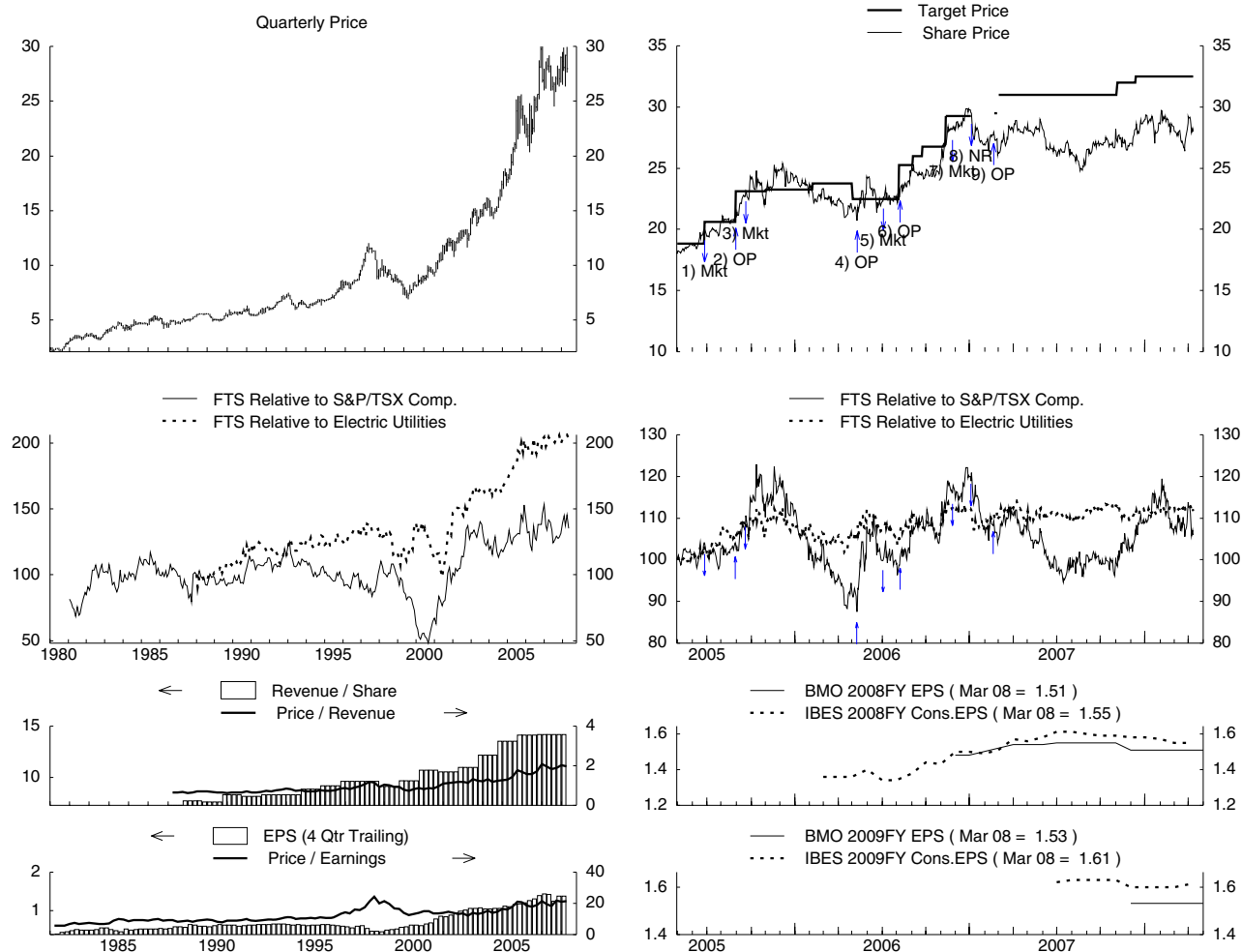
BMO Capital Markets

Recommendation:

Outperform

		Year Ending December 31							
		2002	2003	2004	2005	2006	2007	2008E	2009E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.51	\$1.53
Segmented EPS									
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.04	\$0.05
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.16	\$0.17
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.18	\$0.09
	Belize, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.22	\$0.24
	Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.49	\$0.55
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.58	\$0.57
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.42)	(\$0.39)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.3%	65.3%	66.9%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	155.7	160.1
Net Book Value		8.72	8.98	10.47	11.76	12.19	16.69	17.25	18.45
Market Valuation									
	Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-
	Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-
	Price: Current	-	-	-	-	-	-	\$27.86	-
	P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-
	P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-
	P/E Ratio: Current	-	-	-	-	-	-	18.2	17.9
	Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-
	Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-
	Price/Book Value: Current	-	-	-	-	-	-	1.62	1.51
	Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-
	Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-
	Yield: Current	-	-	-	-	-	-	3.59%	3.73%
Balance Sheet (\$mm)									
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	304.8	876.0
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	5,130.6	4,940.0
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0
	Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
	Convertible Debentures	15.8	24.9	23.2	22.6	61.6	64.5	60.0	60.0
	Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.6	2,595.5	2,688.2	3,030.4
		1,731.2	2,251.3	3,534.0	3,995.3	5,117.8	9,334.3	9,414.3	10,137.0
Balance Sheet (%)									
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.3%	3.2%	8.6%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.7%	54.5%	48.7%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.6%	1.2%	1.2%	1.1%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.8%	6.3%
	Convertible Debentures	0.9%	1.1%	0.7%	0.6%	1.2%	0.7%	0.6%	0.6%
	Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	27.8%	28.6%	29.9%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.2	238.4	248.7
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	574.7	600.3

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	1.00	3.4	73	16.69	1.8	8
Average:		14		4.9	64		1.5	11.0
Growth(%):								
5 Year:	6.3		14.0			14.5		
10 Year:	9.9		8.3			10.1		
20 Year:	4.8		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 29-Apr-05 = OP

Date	Rating Change	Share Price
1 27-Jun-05	OP to Mkt	\$20.01
2 30-Aug-05	Mkt to OP	\$21.01
3 20-Sep-05	OP to Mkt	\$23.18
4 10-May-06	Mkt to OP	\$20.75
5 4-Jul-06	OP to Mkt	\$22.60
6 8-Aug-06	Mkt to OP	\$23.24
7 24-Nov-06	OP to Mkt	\$28.20
8 3-Jan-07	Mkt to NR	\$29.51
9 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 9, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%
Sell	Underperform	8%	4%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.81
Target Price: \$32.50

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

May 1, 2008

Brief Research Note
Gas & Electric

Michael McGowan, CA, CFA

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Michael.McGowan@bmo.com
Assoc: Benjamin Pham

Q1/08 Slightly Above Expectations

Impact

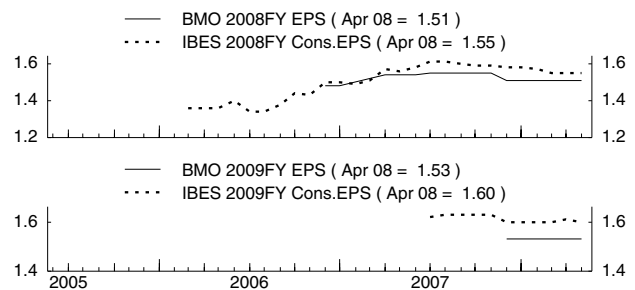
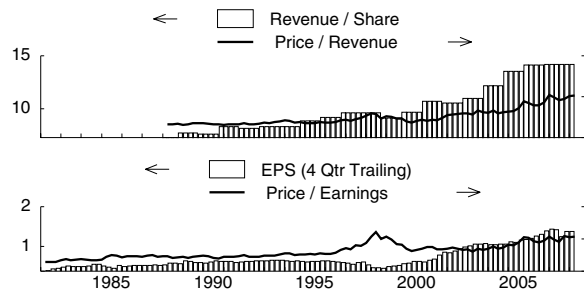
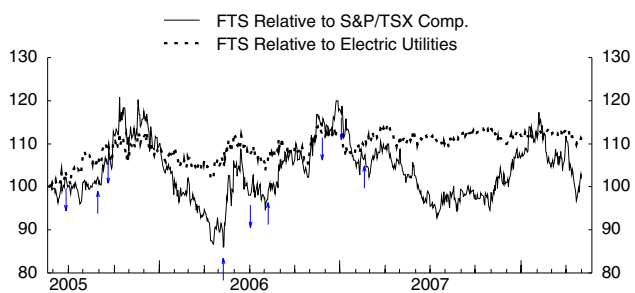
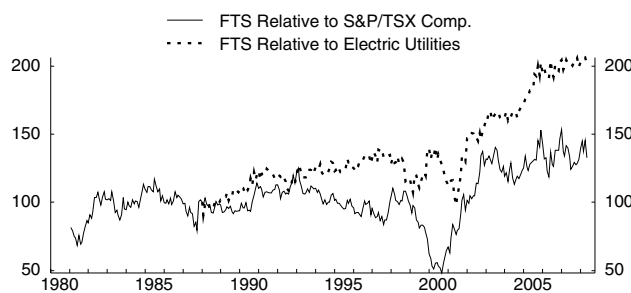
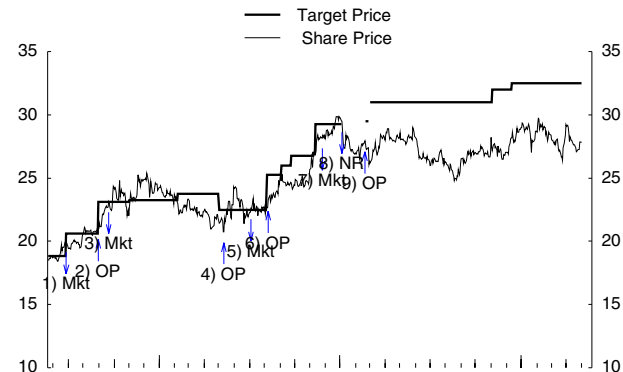
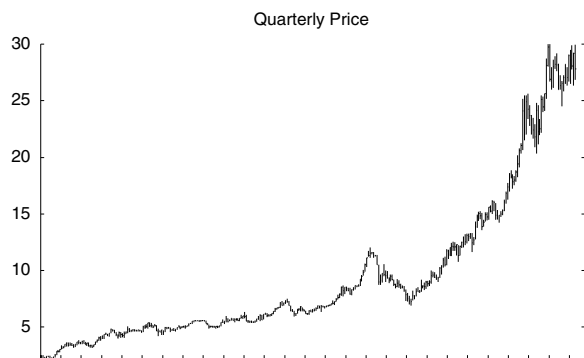
Neutral

Details & Analysis

Fortis reported Q1/08 EPS of \$0.58. After adjusting for a regulatory decision at Newfoundland Power that resulted in a change in the method in which purchased power expenses are allocated during the year and reduced Q1/08 earnings by \$6 million (\$0.04/share), comparable EPS of \$0.62 exceeded our estimate of \$0.58. The difference is largely related to earnings at Terasen Gas, which were \$8.1 million (\$0.05/share) higher than expected, and may reflect the seasonality of the gas distribution business in British Columbia. The earnings release noted that the newly elected government of Belize repealed regulations enacted in December 2007 that previously settled matters relating to customer rates. We do not expect this matter to materially affect Fortis' financial results (we estimate that contributions from Belize Electricity represent approximately 4% of Fortis' consolidated earnings) and note that in April, Belize Electricity filed its Annual Tariff Review, which requested a 13.4% increase in electricity rates. Estimated capital expenditures of \$900 million for 2008 are consistent with our outlook. We continue to review the release.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	1.00	3.4	73	16.69	1.8	8
Average:		14		4.9	64		1.5	11.0
Growth(%):								
5 Year:	6.3		14.0			14.5		
10 Year:	9.9		8.3			10.1		
20 Year:	4.8		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 20-May-05 = OP

Date	Rating Change	Share Price
1 27-Jun-05	OP to Mkt	\$20.01
2 30-Aug-05	Mkt to OP	\$21.01
3 20-Sep-05	OP to Mkt	\$23.18
4 10-May-06	Mkt to OP	\$20.75
5 4-Jul-06	OP to Mkt	\$22.60
6 8-Aug-06	Mkt to OP	\$23.24
7 24-Nov-06	OP to Mkt	\$28.20
8 3-Jan-07	Mkt to NR	\$29.51
9 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 30, 2008

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., collectively ("BMO NB"). BMO NB is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. "BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO NB in Canada, BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Capital Markets Ltd. and BMO Capital Markets Corp. are affiliates of BMO NB. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO NB research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein. The opinions, estimates and projections contained in this report are those of BMO NB as of the date of this report and are subject to change without notice. BMO NB endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NB makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NB or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NB and its affiliates, which includes the overall profitability of investment banking services. BMO NB, or its affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NB. BMO NB or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO NB or its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp., Bank of Montreal or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%
Sell	Underperform	8%	4%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Fortis Inc.

May 2, 2008
Research Comment
Corporate Debt – Utilities

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Q1/08 Results: Contributions From Terasen Enable Fortis to Achieve Record Earnings

Event: Fortis Inc. (Fortis) released Q1/08 financial results.

Impact: Neutral.

Key Points: Contributions from Terasen Gas companies and an improved performance at Caribbean Utilities, offset partly by lower earnings from Newfoundland Power, enabled Fortis to achieve record Q1/08 earnings and marginally exceed expectations. Benefiting from seasonal high cash flows of Terasen, Fortis' consolidated FFO of \$186 million in Q1/08 were more than double those realized a year earlier. The higher cash flows improved Fortis' cash flow leverage ratio but it remains relatively weak relative to peers. Fortis' access to liquidity is adequate for its needs and leverage in Q1/08 was unchanged from year-end 2007 at 63%.

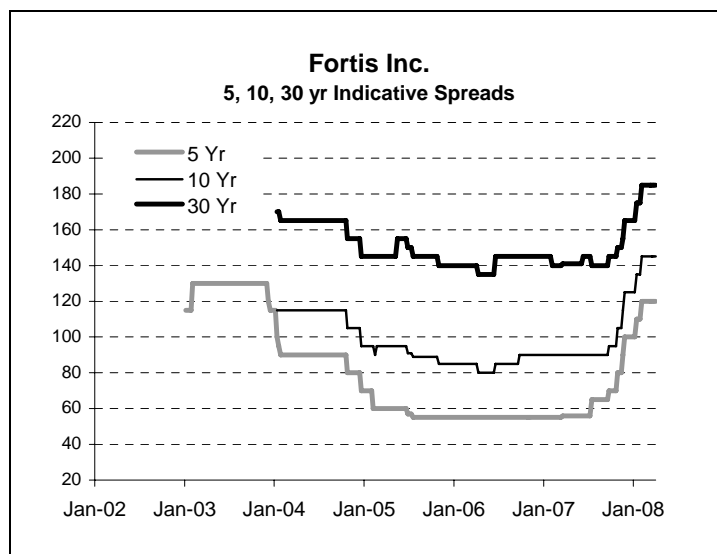
Credit and Spread Implications

Near Term: We do not expect Fortis' Q1/08 results to materially affect its spreads.

Medium Term: There is the potential for some volatility in Fortis' spreads relative to peers as it pursues further asset and business acquisitions, which may carry additional risk. If the volatility occurs, we believe it is likely to be temporary in nature, as Fortis has a demonstrated track record of managing its credit profile.

Recommendation

Fortis has only one Canadian dollar debt issue, a \$100 million debenture due 2010. Nevertheless, we view Fortis as a good buy and hold exposure. We believe the added diversity provided by the Terasen acquisition in 2007 has strengthened Fortis' credit profile and that its credit profile will continue to strengthen as further benefits of the acquisition are realized through integrating Terasen within the Fortis group. We view the conservative management of Fortis as very supportive of its credit quality, as well as that of its operating subsidiaries, especially those that rely on Fortis for ongoing financial and executive support.



Source: BMO Capital Markets

Relative Value

Sector Value: Along with other utilities, Fortis' 5-year indicative spreads have softened in the past few quarters; however, on a relative basis the spread widening has been greater for Fortis than for many of its peers. Compared to where Fortis' spreads were in relation to peers before the recent widening, they currently offer good value, especially when you consider that over this time the company's credit profile and ratings have strengthened.

Credit Curve: Fortis' single Canadian dollar debt issue limits the opportunity for investors to pursue relative value trades along the issuer's credit curve. The relatively illiquid nature of its paper is also a potential pricing consideration.

DBRS

BBB (High)
Stable

S&P

A-
Stable

Moody's

Not Rated

Details & Analysis

Earnings and Cash Flow

Contributions from Terasen Gas companies and an improved performance at Caribbean Utilities, offset partly by lower earnings from Newfoundland Power associated with a shift in the quarterly distribution of annual purchase power expense, enabled Fortis to achieve record first-quarter earnings. Net earnings applicable to common shares were 117% higher than those achieved in Q1/07. We note that the significant increase in earnings is amplified by the seasonality of Terasen's operations, which means it effectively realizes all its earnings in the first and fourth quarters of the year. Highlighting the contribution of its gas utilities, the Terasen Gas companies contributed 64% of Fortis' net earnings of \$91 million in Q1/08.

Summary of Earnings - Fortis Companies			
Quarter Ended March 31			
(\$mm)	Q1/08A	Q1/07A	Variance
Regulated Gas Utilities - Canadian			
Terasen Gas Companies	58	-	58
Regulated Electric Utilities - Canadian			
FortisAlberta	11	12	(1)
FortisBC	12	12	0
Newfoundland Power	6	11	(5)
Other Canadian Electric Utilities	4	4	0
Regulated Electric Utilities - Caribbean	7	4	3
Non-Regulated - Fortis Generation	6	7	(1)
Non-Regulated - Fortis Properties	3	2	1
Corporate and Other	(16)	(10)	(6)
Net Income	91	42	49

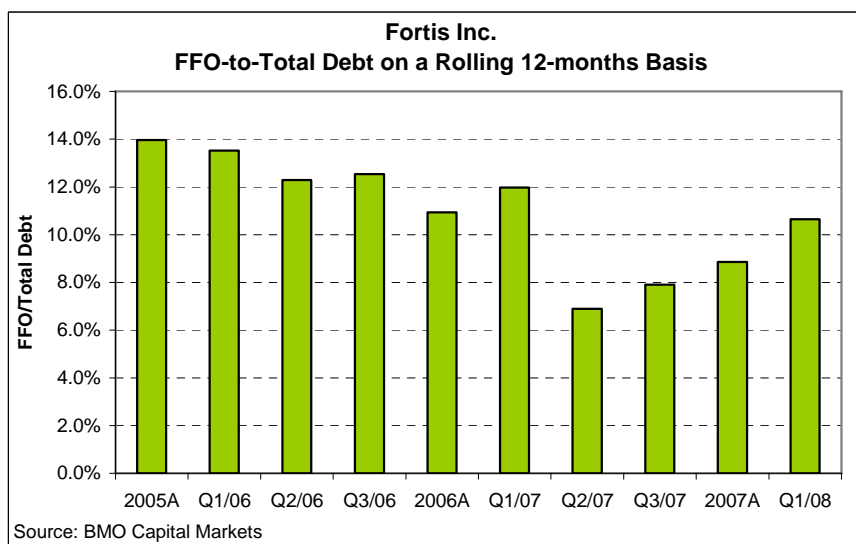
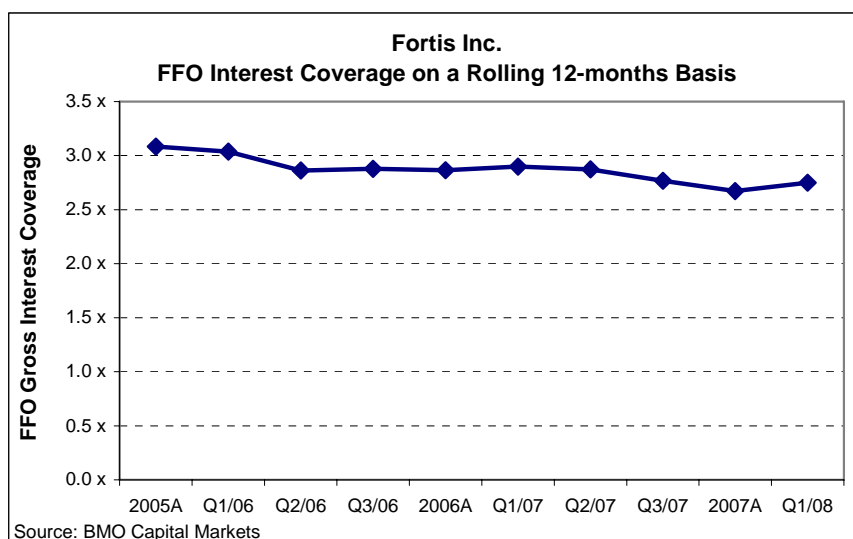
Source: Company Reports

On an earnings per share basis Fortis reported Q1/08 EPS of \$0.58. As per BMO Capital Markets equity research, after adjusting for a regulatory decision at Newfoundland Power that reduced Q1/08 earnings by \$6 million (\$0.04/share), comparable EPS of \$0.62 exceeded BMO Capital Markets equity research estimate of \$0.58. The difference is largely related to earnings at Terasen Gas, which were \$8.1 million (\$0.05/share) higher than expected, and may reflect the seasonality of the gas distribution business in British Columbia. For a more detailed review of Fortis' Q1/08 earnings results, refer to Michael McGowan's equity comment on Fortis published May 2, 2008.

Benefiting from the seasonal cash flows of Terasen Gas, Fortis' consolidated funds from operations (FFO) in Q1/08 of \$186 million were more than double the \$90 million realized in Q1/07. Despite the higher FFO, the company was unable to fund from internal cash flows its capital expenditure in the quarter (net of customer contributions) of \$153 million, and distributions of \$43 million. The result was negative free cash flow of \$10 million, with the small cash flow shortfall met through proceeds from the sale of capital assets of \$15 million.

Fortis' large capital expenditure program will dominate its capital outlays and financing activities for the next few years at least, with negative free cash flow expected to be the norm. In 2008, Fortis utilities are expected to undertake capital expenditure of \$900 million, and in the next five years, gross consolidated expenditure of more than \$4 billion is expected; \$3 billion of which is to be undertaken by its electric utilities and \$1 billion by its gas utilities.

As expected, the trend in Fortis' cash flow leverage ratio is one of improvement although it remains relatively weak. Reflecting increasing cash flow contributions from Terasen, unadjusted FFO-to-total debt on a rolling 12-months basis to the end of Q1/08 was 11%, up from single-digit levels throughout 2007. Despite the improvement, we expect the ratio to remain on the low side for some time as the company continues to partially debt finance expansion of its electricity network asset bases with a delay in receipt of regulated cash flows from the assets constructed. FFO gross interest coverage was 2.7x for the 12 months to March 31, 2008, relatively unchanged from year-end 2007.



Recent Developments

Recent developments with respect to Fortis have generally involved regulatory developments at its operating subsidiaries. The developments are not expected to have a material positive or negative effect on the company's credit profile. The major developments include:

- On April 1, 2008, Terasen Gas (Vancouver Island) Inc. received final regulatory approval for the construction of a liquefied natural gas facility on Vancouver Island. Total estimated cost of the project is approximately \$200 million;
- In February 2008, FortisAlberta received regulatory approval for its negotiated agreement associated with its 2008/2009 revenue requirements. The decision will result in distribution rate increases of 6.8% effective January 1, 2008, and 7.3% effective January 1, 2009;
- In February 2008, FortisAlberta's regulator, the Alberta Utilities Commission, initiated a proceeding to address whether its cost of capital adjustment formula continues to yield a fair return on equity and whether capital structures for all applicable utilities in Alberta should be addressed on a generic basis; and
- In April 2008, a new exclusive 20-year T&D licence and a new 21.5-year non-exclusive generation licence were granted to Caribbean Utilities.

Capital Structure and Liquidity

Fortis's consolidated debt varied little in Q1/08 with outstanding debt of \$5.5 billion largely unchanged from year-end 2007. Debt repayments of \$249 million in the quarter, the bulk of which were associated with repayments under committed credit facilities, were offset by proceeds from debt issues of \$250 million. The vast majority of Fortis' consolidated debt, about 95%, continues to reside at the company's various subsidiaries. Debt at the holding company level comprises:

- a \$100 million of senior unsecured debentures maturing 2010
- US\$150 million senior unsecured notes maturing 2014
- US\$200 million senior unsecured notes maturing 2037
- US\$50 million of outstanding unsecured subordinated convertible debentures due between 2012 and 2016 (US\$60 million initially issued)

Leverage, as measured by total debt-to-total capital and treating the company's preference shares as equity, is slightly above the company's target level of 60%. At the end of Q1/08, leverage was 63%, down a percentage point from 64% at year-end 2007.

On a consolidated basis Fortis' liquidity remains adequate for its operational, capital requirement and refinancing needs. At the end of Q1/08, the company has \$1.33 billion of available capacity under its \$2.24 billion of credit facilities after drawdowns and outstanding letters of credit. The available capacity was \$261 million more than at year-end 2007. In addition, the company had cash and cash equivalents of \$67 million, up from \$58 million at December 31, 2007.

Maturing debt commitments and amortizing debt repayments are manageable, with the company facing maturing debt of \$188 million at Terasen Gas in June 2008, and a \$200 million maturing debt issue at Terasen Inc. in December 2008 that is expected to be repaid on maturity. In the most recent quarter, Terasen Gas (Vancouver Island) Inc. undertook a \$250 million MTN debt issue.

Subsequent to quarter-end, Maritime Electric and FortisAlberta undertook issues of \$60 million and \$100 million, respectively.

Credit Ratings

The corporate credit and senior unsecured debt issue ratings on Fortis remained Stable. The stability of the ratings reflects in part an improvement in its credit quality after its acquisition of Terasen Inc. and its subsidiaries in May 2007.

The last rating action on Fortis by **Standard & Poor's** was the upgrade of its corporate credit and senior unsecured debt ratings one and two notches, respectively on June 19, 2007. At the time the agency advised that the basis for the rating upgrade was the improved diversity resulting from the acquisition of Terasen Inc., the operation of each regulated subsidiary as a separate stand-alone entity with debt non-recourse to Fortis, a commitment to maintaining low levels of debt at the Fortis holding company level, 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.

DBRS last confirmed its ratings on Fortis on November 30, 2007 based on its strong credit metrics and low business risk profile driven by its diverse ownership of regulated operating subsidiaries. DBRS viewed the acquisition of Terasen as neutral to slightly positive to the credit profile of Fortis with the improvement in its business risk profile attributable to the stable cash flow and earnings of the established, mature regulated gas utilities, as well as increased diversification the acquisition provides. The agency advises that Fortis' consolidated coverage metrics may be modestly affected by the accelerated capital expenditures of a number of its utility subsidiaries, as earnings and cash flows do not begin until projects are completed and rolled into the rate base of utilities.

Recommendation

Fortis has only one Canadian dollar debt issue, a \$100 million debenture due 2010. Nevertheless, we view Fortis as a good buy and hold exposure. We believe the added diversity provided by the Terasen acquisition in 2007 has strengthened Fortis' credit profile and that its credit profile will continue to strengthen as further benefits of the acquisition are realized through integrating Terasen within the Fortis group. Moreover, we view the conservative management of Fortis as very supportive of its credit quality, as well as that of its operating subsidiaries, especially those that rely on Fortis for ongoing financial and executive support.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding (\$mm)
Terasen Gas Inc.	6.200%	2-Jun-08	\$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	\$188
Terasen Inc.	6.300%	1-Dec-08	\$200	MTNs	30-Nov-01	NA	Make Whole (+ 27 bps)	11058ZAA8	\$200
Terasen Gas Inc.	10.750%	8-Jun-09	\$60	Debentures	8-Jun-89	NA	Make Whole (+ 40 bps)	457452AH3	\$60
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	1-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$5
Maritime Electric Co. Ltd.	12.00%	1-May-10	\$15	First Mortgage	1-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
FortisBC Inc.	9.44%	31-Oct-13	\$5	WPP Mortgage	NA	NA	NA	NA	\$5
Newfoundland Power	10.55%	1-Aug-14	\$40	First Mortgage	9-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
Terasen Inc.	5.560%	15-Sep-14	\$125	MTNs	15-Dec-04	93.0 bps	Make Whole (+ 23 bps)	88079ZAB9	\$125
Fortis Inc.	5.74%	31-Oct-14	US\$150	Senior Note	28-Oct-04	NA	NA	NA	US\$150
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debenture	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
Terasen Gas Inc.	11.800%	30-Sep-15	\$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	\$75
FortisBC Inc.	8.77%	1-Feb-16	\$25	Unsecured Debenture	1-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	2-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric Co. Ltd.	11.50%	15-Aug-16	\$12	First Mortgage	1-Jan-91	NA	NA	NA	\$12
Terasen Gas Inc.	10.300%	30-Sep-16	\$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	\$200
Maritime Electric Co. Ltd.	8.55%	7-Dec-18	\$15	First Mortgage	7-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	1-Oct-20	\$40	First Mortgage	1-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$35
FortisBC Inc.	7.81%	1-Dec-21	\$25	Unsecured Debenture	1-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$34
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DAA7	\$25
Maritime Electric Co. Ltd.	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	7-May-26	\$40	First Mortgage	7-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric Co. Ltd.	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$46
Terasen Gas Inc.	6.950%	21-Sep-29	\$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	\$150
Maritime Electric Co. Ltd.	8.92%	3-Jul-31	\$20	First Mortgage	3-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	1-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$72
Terasen Gas Inc.	6.500%	1-May-34	\$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	\$150
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debenture	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Terasen Gas Inc.	5.900%	26-Feb-35	\$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	\$150
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	9-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debenture	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100
Terasen Gas Inc.	5.550%	25-Sep-36	\$120	MTNs	25-Sep-06	136.0 bps	Make whole (+ 34 bps)	88078ZAE4	\$120
Newfoundland Power	5.901%	17-Aug-37	\$70	First Mortgage	17-Aug-07	NA	Make Whole (+35 bps)	EG7385503	\$70
Fortis Inc.	6.600%	1-Sep-37	US\$200	Senior Unsecured Note	6-Sep-07	NA	NA	NA	US\$200
Terasen Gas Inc.	6.000%	2-Oct-37	\$250	MTNs	2-Oct-07	148.0 bps	Make Whole (+37 bps)	88078ZAF1	\$250
Terasen Gas (Vancouver Island) Inc.	6.050%	15-Feb-38	\$250	Unsecured Debenture	15-Feb-08	183.0 bps	Make Whole (+46 bps)	NA	\$250
Maritime Electric Co. Ltd.	6.054%	2-Apr-38	\$60	First Mortgage	2-Apr-08	205.0 bps	Make Whole (+50 bps)	570311AA8	\$60
FortisAlberta	5.850%	15-Apr-38	\$100	Unsecured Debenture	15-Apr-08	180.0 bps	Make Whole (+45 bps)	34957ZAB0	\$100
Terasen Inc.	8.000%	19-Apr-40	\$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole (+ 55 bps)	05534KAA7	\$125
FortisAlberta	4.99%	3-Jan-47	\$110	Unsecured Debenture	3-Jan-07	97.0 bps	Make Whole (+ 24 bps)	34957ZAA2	\$110
FortisBC Inc.	5.90%	4-Jul-47	\$105	Unsecured Debenture	4-Jul-07	125.0 bps	Make Whole (+ 31 bps)	34957UAC9	\$105

Ownership Structure

Widely Held.

Fortis Inc. (continued)

Credit Facilities (\$mm)

Company	Facility Size	Amount Available		Maturity	Type
		Q1/08	Q4/07		
Fortis Inc.*	\$2,241.0	\$1,331.0	\$1,070.0		Lines of Credit

*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.

Corp. Lease Schedule (\$mm) at 12/31/2007

Year	Capital Lease Payments	Operating Lease Payments	Lease Receipts
2008	3.0	21.0	
2009	2.5	17.5	
2010	2.5	17.5	
2011	2.5	16.0	
2012	2.5	16.0	
Thereafter	53.0	108.0	

*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2007 (\$mm)	FY 2006 (\$mm)	FY 2007 (\$mm)	FY 2006 (\$mm)
Accrued Benefit Obligation	667.0	413.4	233.0	125.2
Plan Assets	674.0	390.6	-	-
Funded Status	7.0	(22.8)	(233.0)	(125.2)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	120.0	93.0	150.0	63.7
Discount Rate	5.0-5.25%	5.0-5.25%	5.0-5.25%	5.0-5.25%
Expected Long-term Rate of of Return on Assets	6.5-7.5%	6.5-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.3%	3.5-4.0%	3.5-4.3%	3.5-4.0%

Historical Ratings

Senior Unsecured Rating - Fortis

DBRS			S&P			Moody's		
Rating	Trend	Date	Rating	Trend	Date	Rating	Trend	Date
BBB (high)	Stable	5-Nov-03	A-	Stable	19-Jun-07	Not Rated		
BBB (high)	Under Review - Developing	16-Sep-03	BBB	Credit Watch Positive	26-Feb-07			
BBB (high)	Stable	6-Oct-00	BBB	Stable	7-Dec-05			
			BBB	Negative	7-Jan-04			
			BBB	Credit Watch Negative	22-Sep-03			

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

May 2, 2008
 Research Comment
 Toronto, Ontario

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Q1/08 Slightly Above Expectations; Outperform Rating Maintained

Event

Fortis reported Q1/08 EPS of \$0.58. Comparable EPS of \$0.62 exceeded our estimate of \$0.58 after adjusting for a regulatory decision at Newfoundland Power. The decision resulted in a change in the way purchased power expenses are allocated during the year and reduced Q1/08 earnings by \$6 million (\$0.04/share). The difference is largely related to earnings at Terasen Gas, which were \$8.1 million (\$0.05/share) higher than expected. We have stated Q1/08 EPS as \$0.58, inclusive of the regulatory accounting adjustment at Newfoundland Power.

Impact

Neutral.

Forecasts

We have updated our estimates to reflect slightly better-than-expected performance at Terasen Gas. In addition, we have updated our quarterly estimates to reflect the revised accounting for purchased electricity at Newfoundland Power. Our diluted EPS estimates increase to \$1.53 from \$1.51 in 2008 and to \$1.55 from \$1.53 in 2009.

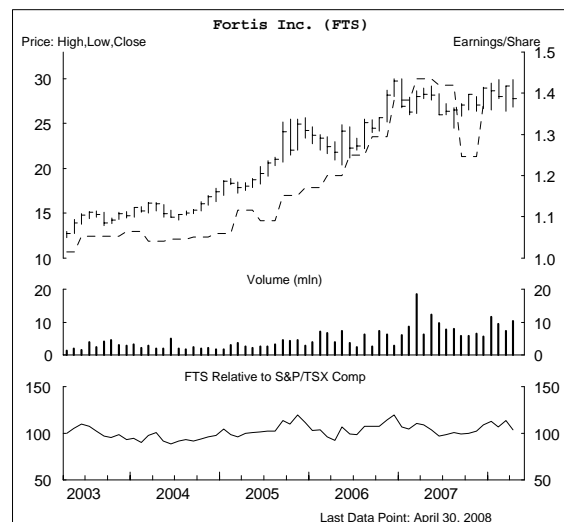
Valuation

Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.55 (12.5%); 1.75x 2009E BVPS of \$18.63 (12.5%); and a target yield of 3.15% (75%) applied to our 2009E dividend per share estimate of \$1.04.

Recommendation

We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and low-risk business model that focuses on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform.

Price (1-May) \$27.96 **52-Week High** \$29.94
Target Price \$32.50 **52-Week Low** \$24.50



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.53↑	\$1.55↑
P/E			18.3x	18.0x
CFPS	\$2.70	\$2.71	\$3.69	\$3.75
P/CFPS			7.6x	7.5x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,515	\$10,869
EBITDA (\$mm)	\$531	\$810	\$1,104	\$1,136
EV/EBITDA	10.9x	12.1x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.29	\$0.21	\$0.44
Dividend	\$1.00	Yield		3.6%
Book Value	\$16.69	Price/Book		1.7x
Shares O/S (mm)	155.5	Mkt. Cap (\$mm)		\$4,348
Float O/S (mm)	155.5	Float Cap (\$mm)		\$4,348
Wkly Vol (000s)	1,906	Wkly \$ Vol (mm)		\$52.6
Net Debt (\$mm)	\$6,046.8	Next Rep. Date		08-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.55; 2009E: \$1.60

Changes

Annual EPS
 2008E \$1.51 to \$1.53
 2009E \$1.53 to \$1.55

Details & Analysis

Fortis reported Q1/08 EPS of \$0.58. Comparable EPS of \$0.62 exceeded our estimate of \$0.58 after adjusting for a regulatory decision at Newfoundland Power. The decision resulted in a change in the way purchased power expenses are allocated during the year and reduced Q1/08 earnings by \$6 million (\$0.04/share). The difference is largely related to earnings at Terasen Gas, which were \$8.1 million (\$0.05/share) higher than expected. We have stated Q1/08 EPS as \$0.58, inclusive of the regulatory accounting adjustment at Newfoundland Power.

Operating Results Generally Consistent With Expectations

The operating performance of Fortis' business segments was generally in line with our expectations. Notable variances from our estimates include:

- The earnings contribution from Terasen Gas of \$58 million, which was \$8.1 million higher than our estimate of \$49.9 million. We believe the variance between annual and expected results is partially explained by the seasonality of the gas distribution business in British Columbia. Actual results were consistent with management's expectations.
- The earnings contribution from Newfoundland Power of \$6 million, which was \$5.5 million lower than our estimate of \$11 million. The difference between actual and estimated results was primarily due to the regulatory decision that modified the way purchased power expenses are allocated between quarters. This decision reduced earnings at Newfoundland power by \$6 million in Q1/08.

Pursuant to the decision, Newfoundland Power will now account for purchased power at cost whereas under the previous accounting treatment, purchased power expense was based on an estimated annual rate. The \$6 million reduction in earnings experienced by Newfoundland Power in Q1/08 is expected to reverse in the second and third quarters.

- The earnings contribution from the power generation segment, which was \$6 million vs. our estimate of \$8.9 million. The variance between expected and actual results was caused by lower-than-expected realized power prices at Ontario (\$49.93/MWh vs. our estimate of \$60.00/MWh) and below average hydrology in Belize, which negatively affected power generation.
- Corporate expenses of \$16 million, which were approximately \$2 million lower than our expectations.

Growth Profile Remains Consistent With Our Outlook

Growth in Fortis' existing regulated utility business is expected to remain strong. Over the next four years, Fortis plans to invest \$3 billion in its electric businesses and \$1 billion in its regulated gas distribution businesses.

Near-Term Rate Proceedings at Belize Electricity Limited May be Contentious

The earnings release noted two developments at Belize Electricity Limited (BEL; 70.1% Fortis Inc.) that may increase the near-term regulatory risk at this business segment. First, the newly elected government of Belize repealed amendments to the *Electricity (Tariffs, Charges and Quality of Services Standards) Byelaws* that became effective in December 2007. These amendments resolved concerns that BEL had regarding a rate decision released on June 26, 2007 which disallowed certain electricity costs paid to the Comision Federal de Electricidad.

It is our understanding that pursuant to current electricity bylaws in Belize, fuel costs in excess of approved rates are collected in a deferral account (referred to as the Cost of Power Rate Stabilization Account “CPRSA”). We also understand that BEL is entitled to file an application for a rate increase when balances in the deferral account increase by more than BZ\$3 million above the deferral balances approved in the most recent review proceeding.

In March 2008, BEL made such an application to the Belize Public Utilities Commission (“PUC”), as amounts accrued in the CPRSA had grown by \$6.65 million from July 1, 2008 – June 30, 2009. The PUC denied the request on the grounds that in the interim, the BEL could decrease its operating expenses and capital expenditures to offset the impact on cash flow.

On April 2, 2008, BEL filed its annual tariff application, which will be used to set rates for the period July 1, 2008 – June 30, 2009. BEL’s application requests a 13.5% increase in rates, including the recovery of balances included in the CPRSA. Per our review of the rate filing, the CPRSA balance was BZ\$24.5 million (US\$12.5 million) at the end of February 2008. The current rate filing includes a request to recover deferred fuel costs through a surcharge of BZ 4.5 cents per kWh. An initial decision on the BEL’s 2008/2009 rate filing is expected on May 2, 2008, with a final decision to be issued by June 26, 2008.

Although we believe that the rate-setting process at BEL may be contentious in the short term, we do not expect that rate proceedings at BEL will have a material impact on Fortis’ consolidated results. We estimate that the earnings contribution from BEL represents approximately 4% of Fortis’ consolidated earnings.

Estimates

We have updated our estimates to reflect slightly better-than-expected performance at Terasen Gas. In addition, we have updated our quarterly estimates to reflect the revised accounting for purchased electricity at Newfoundland Power. Our diluted EPS estimates increase to \$1.53 from \$1.51 in 2008 and to \$1.55 from \$1.53 in 2009

Valuation

Our target price of \$32.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.55 (12.5%); 1.75x 2009E BVPS of \$18.63; and a target yield of 3.15% (75%) applied to our 2009E dividend per share estimate of \$1.04.

Recommendation

We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and low-risk business model that focuses on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform.

Table 1: Consolidated Summary

01-May-08

Current Price:

\$28.13

12-Month Target Price:

\$32.50

ROR:

19.1%

Michael McGowan

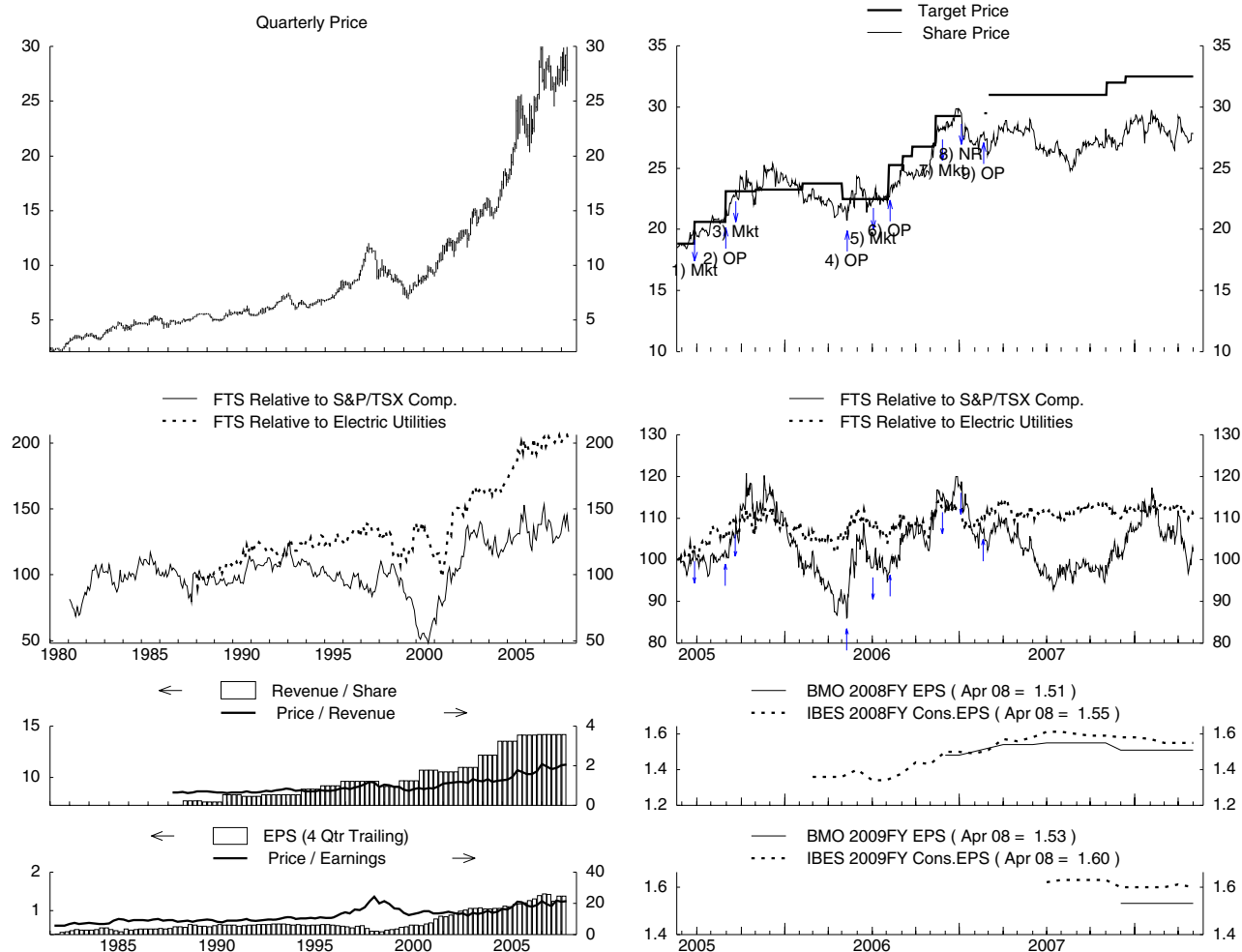
BMO Capital Markets

Recommendation:

Outperform

		Year Ending December 31							
		2002	2003	2004	2005	2006	2007	2008E	2009E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.55	\$1.58
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.53	\$1.55
Segmented EPS									
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.20
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.05
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.17	\$0.19
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13
	Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.22	\$0.23
	Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.48	\$0.54
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.62	\$0.61
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.47)	(\$0.45)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	64.5%	65.8%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	156.5	161.7
Net Book Value		8.72	8.98	10.47	11.76	12.19	16.69	17.42	18.63
Market Valuation									
	Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-
	Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-
	Price: Current	-	-	-	-	-	-	\$28.13	-
	P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-
	P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-
	P/E Ratio: Current	-	-	-	-	-	-	18.1	17.8
	Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-
	Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-
	Price/Book Value: Current	-	-	-	-	-	-	1.62	1.51
	Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-
	Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-
	Yield: Current	-	-	-	-	-	-	3.55%	3.70%
Balance Sheet (\$mm)									
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	369.6	650.4
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	5,061.0	5,008.4
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0
	Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
	Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	50.0	50.0
	Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,596.0</u>	<u>2,742.1</u>	<u>3,089.4</u>
		1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,453.3	10,028.8
Balance Sheet (%)									
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	3.9%	6.5%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	53.5%	49.9%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.8%	6.4%
	Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%
	Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.9%</u>	<u>29.0%</u>	<u>30.8%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	242.7	255.4
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	579.0	607.1

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.38	21	1.00	3.4	73	16.69	1.8	8
Average:		14		4.9	64		1.5	11.0
Growth(%):								
5 Year:	6.3		14.0			14.5		
10 Year:	9.9		8.3			10.1		
20 Year:	4.8		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q4/2007.

FTS - Rating as of 20-May-05 = OP

Date	Rating Change	Share Price
1 27-Jun-05	OP to Mkt	\$20.01
2 30-Aug-05	Mkt to OP	\$21.01
3 20-Sep-05	OP to Mkt	\$23.18
4 10-May-06	Mkt to OP	\$20.75
5 4-Jul-06	OP to Mkt	\$22.60
6 8-Aug-06	Mkt to OP	\$23.24
7 24-Nov-06	OP to Mkt	\$28.20
8 3-Jan-07	Mkt to NR	\$29.51
9 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 30, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%
Sell	Underperform	8%	4%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.28
Target Price: \$32.50

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

May 5, 2008
Brief Research Note
Gas & Electric

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Michael.McGowan@bmo.com
Assoc: Benjamin Pham

Belize PUC Releases Rate Decision

Impact

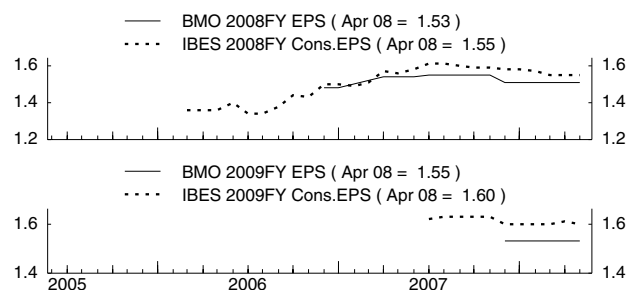
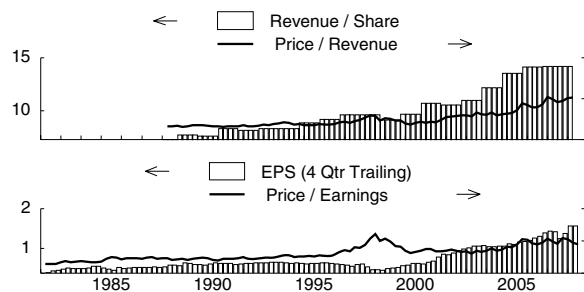
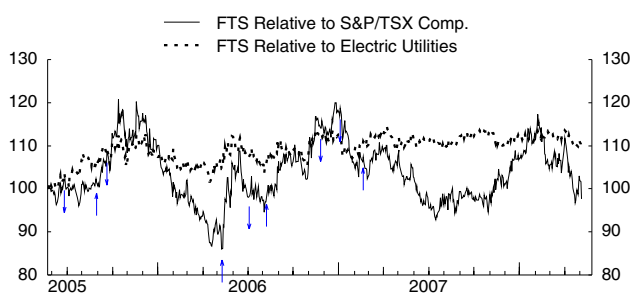
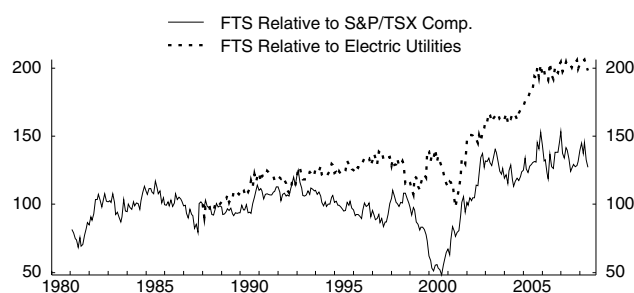
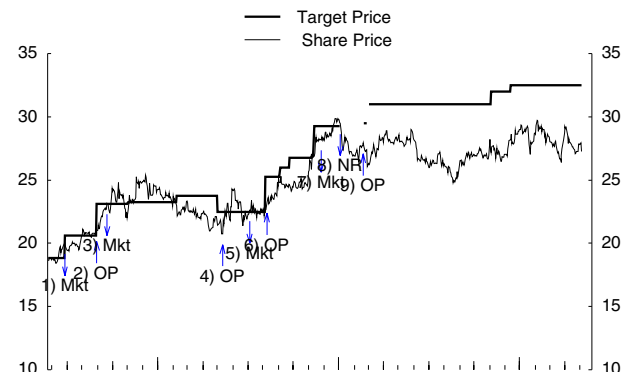
Potentially Negative

Details & Analysis

On May 2 the Belize Public Utilities Commission (PUC) released its initial decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. BEL's application requested that average electricity rates be increased by 13.4% (to \$0.50/kWh from \$0.441/kWh) largely in order to mitigate the effect that rising commodity prices have had on purchased power expenses, and recover BZ\$24.5 million (U.S. \$12.3 million) in purchased power costs that have been deferred. The PUC's decision effectively denied BEL's request by: (1) approving an average cost of power of \$0.441/kWh (which is identical to the current rate); (2) reducing the balance in the purchased power deferral account by an unspecified amount; and (3) modifying BEL's rate structure in a manner that appears to allow for an increase in the recovery of purchased power expenses and a decrease in other costs of service such as depreciation expense and the regulated return on BEL's assets. We will follow up with management to discuss: (1) its strategy to collect unrecovered costs related to prior purchased power amounts; (2) its response to the PUC's decision; and (3) the impact, if any, on its hydroelectric generation facilities located in Belize.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.55	18	1.00	3.6	64	16.69	1.7	9
Average:		14		4.9	64		1.5	11.0
Growth(%):								
5 Year:	8.9		14.0			14.5		
10 Year:	11.2		8.3			10.1		
20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 24-May-05 = OP

Date	Rating Change	Share Price
1 27-Jun-05	OP to Mkt	\$20.01
2 30-Aug-05	Mkt to OP	\$21.01
3 20-Sep-05	OP to Mkt	\$23.18
4 10-May-06	Mkt to OP	\$20.75
5 4-Jul-06	OP to Mkt	\$22.60
6 8-Aug-06	Mkt to OP	\$23.24
7 24-Nov-06	OP to Mkt	\$28.20
8 3-Jan-07	Mkt to NR	\$29.51
9 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: May 2, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%
Sell	Underperform	8%	4%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

May 7, 2008
 Research Comment
 Toronto, Ontario

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Updating Outlook to Reflect Rate Proceedings in Belize; Outperform Rating Maintained

Event

On May 2 the Belize Public Utilities Commission (PUC) released its initial decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. BEL's application requested that average electricity rates be increased by 13.4% (to BZ\$0.50/kWh from BZ\$0.441/kWh) largely in order to mitigate the effect that rising commodity prices have had on purchased power expenses, and recover BZ\$24.5 million (U.S. \$12.3 million) in purchased power costs that have been deferred. The PUC's decision effectively denied BEL's request by approving an average cost of power of BZ\$0.441/kWh (which is identical to the current rate).

Impact

Slightly Negative. Although earnings from BEL represent only 4% of Fortis' consolidated earnings, we believe the rate proceedings at BEL may increase near-term regulatory risk. We do not expect the rate proceedings at BEL to affect earnings from Fortis' Belizean hydroelectric facilities.

Forecasts

Our financial forecasts are unchanged.

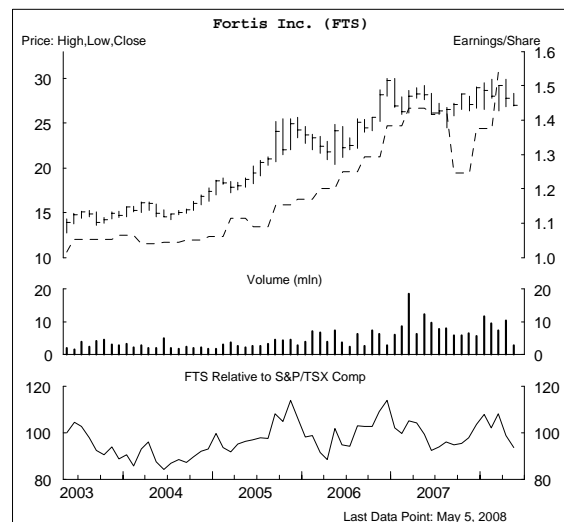
Valuation

Our revised target price of \$31.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.55 (12.5%); 1.75x 2009E BVPS of \$18.44 (12.5%); and a target yield of 3.25% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and relatively low-risk business model that focuses on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform.

Price (6-May) \$27.10
Target Price \$31.50↓
52-Week High \$29.94
52-Week Low \$24.50



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.53	\$1.55
P/E			17.7x	17.5x
CFPS				
P/CFPS	\$2.70	\$2.71	\$3.69	\$3.75
			7.4x	7.2x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,477	\$10,845
EBITDA (\$mm)	\$531	\$810	\$1,107	\$1,135
EV/EBITDA	10.9x	12.1x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.29	\$0.21	\$0.44
Dividend	\$1.00			
Book Value	\$16.69			
Yield				3.7%
Price/Book				1.6x
Shares O/S (mm)	155.5			
Mkt. Cap (\$mm)				\$4,215
Float O/S (mm)	155.5			
Float Cap (\$mm)				\$4,215
Wkly Vol (000s)	1,919			
Wkly \$ Vol (mm)				\$52.9
Net Debt (\$mm)	\$6,046.8			
Next Rep. Date				08-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.56; 2009E: \$1.61

Changes

Target
 \$32.50 to \$31.50

Details & Analysis

On May 2 the Belize Public Utilities Commission (PUC) released its initial decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. BEL's application requested that average electricity rates be increased by 13.4% (to BZ\$0.50/kWh from BZ\$0.441/kWh) largely in order to mitigate the effect that rising commodity prices have had on purchased power expenses, and recover BZ\$24.5 million (U.S. \$12.3 million) in purchased power costs that have been deferred. The PUC's decision effectively denied BEL's request by approving an average cost of power of BZ\$0.441/kWh (which is identical to the current rate).

Other notable aspects from the PUC's initial decision include:

- Reducing the balance in purchased power deferral account (referred to as the Cost of Power Rate Stabilization Account "CPRSA") by an amount that was unspecified in the initial decision. Reports in the Belizean press have indicated that the PUC may have reduced the beginning balance in the CPRSA from BZ\$18.9 million (US\$9.4 million) to approximately BZ\$0.7 million (US \$0.35 million).
- Disallowing the inclusion of fuel deferrals for January, February and March into the CPRSA. We believe approximately BZ\$6 million (US\$3 million) of fuel costs were deferred during January and February of 2008. Actual deferred fuel costs for March were not disclosed.
- Modifying BEL's rate structure in a manner that appears to allow for an increase in the recovery of purchased power expenses and a decrease in other costs of service such as depreciation expense and the regulated return on BEL's assets. A comparison of the rate increase requested by BEL and the preliminary rates approved by the regulator are set out in Table 1.

Table 1: Requested Rate Increase vs. Preliminary Decision (BZ cents per kWh)

	Current Rate	BEL Requested	PUC Approved	Approved vs. Requested	Approved vs. Current Rate
Reference Cost of Power	\$0.253	\$0.287	\$0.307	\$0.020	\$0.054
Value Added Delivery	\$0.168	\$0.168	\$0.130	(\$0.038)	(\$0.038)
Rate Stabilization Recovery	\$0.020	\$0.045	\$0.004	(\$0.041)	(\$0.016)
Total	\$0.441	\$0.500	\$0.441	(\$0.059)	\$0.000

Source: Belize Public Utilities Commission, Company Reports, BMO Capital Markets

The PUC's decision appears to allow BEL to recover higher fuel costs in rates (which would reduce the need for fuel deferrals), while effectively reducing Fortis's allowed rate of return. Comments made by the Chairman of the Belize PUC indicate that the PUC may be seeking to reduce BEL's regulated return on assets to 8.5% from the current allowed range of 10 -15%.

It is our understanding that BEL will file an objection to the PUC's initial decision and the PUC will now appoint an independent expert to review BEL's application and the PUC's decision. We understand that the expert's report is due on June 11 and the PUC will release its final rate decision on June 26.

In a research comment published on May 2, we noted that although the rate-setting process at BEL may be contentious in the short term, we do not expect that rate proceedings at BEL to have a material effect on Fortis' consolidated results.

We estimate that BEL represents approximately 4% of Fortis' consolidated earnings and do not expect that the rate proceedings between BEL and the PUC to affect the financial results from Fortis' Belizean hydroelectric facilities.

Estimates

Our financial forecasts are unchanged.

Valuation

Our revised target price of \$31.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.55 (12.5%); 1.75x 2009E BVPS of \$18.44 (12.5%); and a target yield of 3.25% (75%), assuming 2009 dividends per share of \$1.04.

We have increased our target yield to 3.25% from 3.15% to reflect slightly higher regulatory risk at Belize Electricity Limited.

Recommendation

We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and relatively low-risk business model that focuses on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform.

Table 1: Consolidated Summary

06-May-08

Current Price:

\$27.10

12-Month Target Price:

\$31.50

ROR:

19.9%

Michael McGowan

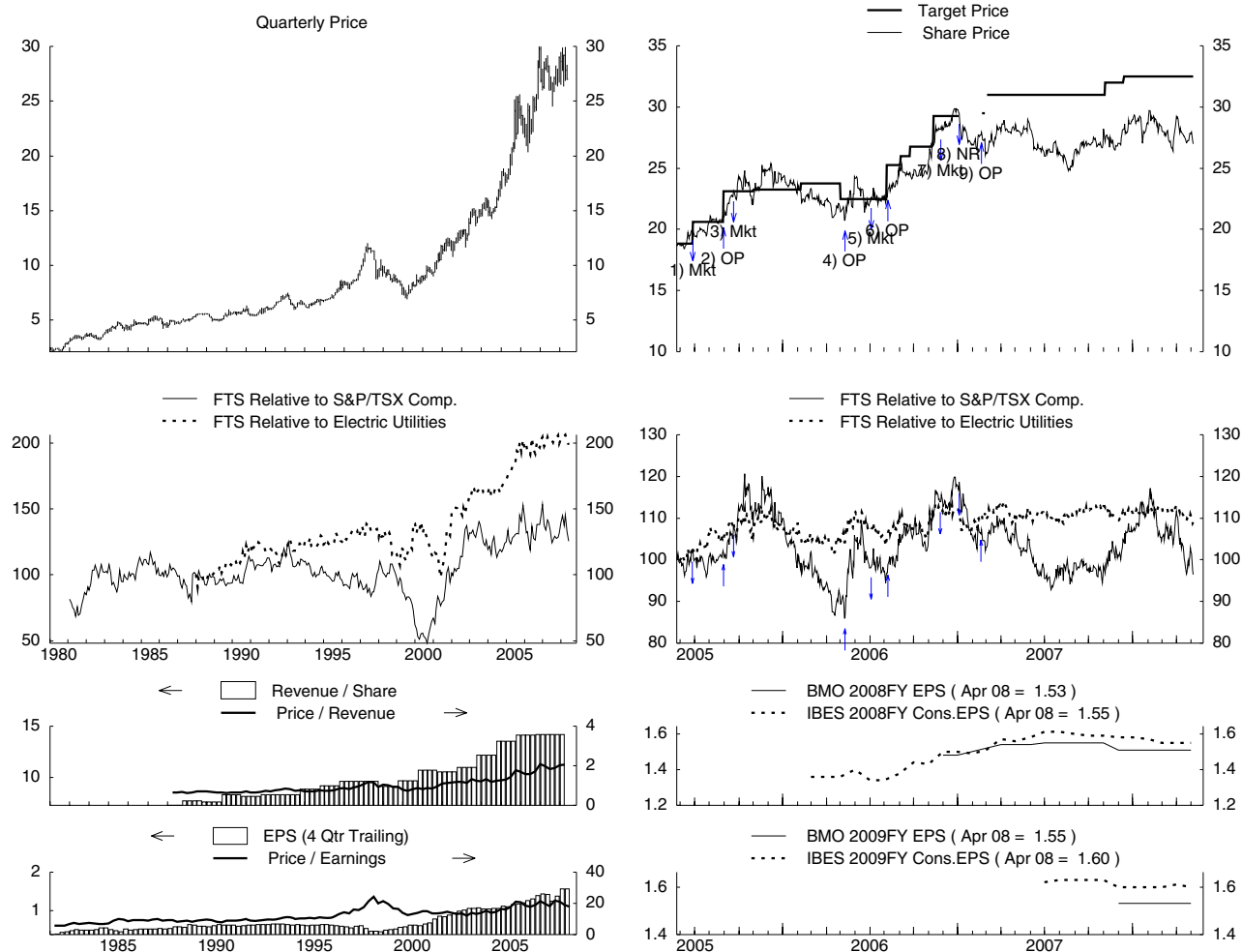
BMO Capital Markets

Recommendation:

Outperform

		Year Ending December 31							
		2002	2003	2004	2005	2006	2007	2008E	2009E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.55	\$1.58
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.53	\$1.55
Segmented EPS									
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.20
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.05
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.17	\$0.19
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13
	Belize, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.22	\$0.23
	Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.48	\$0.54
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.62	\$0.61
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.47)	(\$0.45)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	64.5%	65.8%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	156.5	161.7
Net Book Value		8.72	8.98	10.47	11.76	12.19	16.69	17.42	18.63
Market Valuation									
	Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-
	Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-
	Price: Current	-	-	-	-	-	-	\$27.10	-
	P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-
	P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-
	P/E Ratio: Current	-	-	-	-	-	-	17.5	17.2
	Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-
	Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-
	Price/Book Value: Current	-	-	-	-	-	-	1.56	1.45
	Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-
	Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-
	Yield: Current	-	-	-	-	-	-	3.69%	3.84%
Balance Sheet (\$mm)									
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	369.6	650.4
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	5,061.0	5,008.4
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0
	Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	640.6	640.6
	Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	50.0	50.0
	Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,596.0</u>	<u>2,742.1</u>	<u>3,089.4</u>
		1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,453.3	10,028.8
Balance Sheet (%)									
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	3.9%	6.5%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	53.5%	49.9%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	6.8%	6.4%
	Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%
	Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.9%</u>	<u>29.0%</u>	<u>30.8%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	242.7	255.4
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	579.0	607.1

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
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2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	12.19	2.4	11
Current*	1.55	18	1.00	3.6	64	16.69	1.7	9
Average:		14		4.9	64		1.5	11.0
Growth(%):								
5 Year:	8.9		14.0			14.5		
10 Year:	11.2		8.3			10.1		
20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 25-May-05 = OP

Date	Rating Change	Share Price
1 27-Jun-05	OP to Mkt	\$20.01
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3 20-Sep-05	OP to Mkt	\$23.18
4 10-May-06	Mkt to OP	\$20.75
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Last Daily Data Point: May 5, 2008

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	First Call Universe**
Buy	Outperform	42%	47%	49%
Hold	Market Perform	50%	49%	46%
Sell	Underperform	8%	4%	5%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

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OP = Outperform - Forecast to outperform the market;

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NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

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Fortis

(FTS-TSX)

June 12, 2008

Research Fact Sheet
Gas & Electric

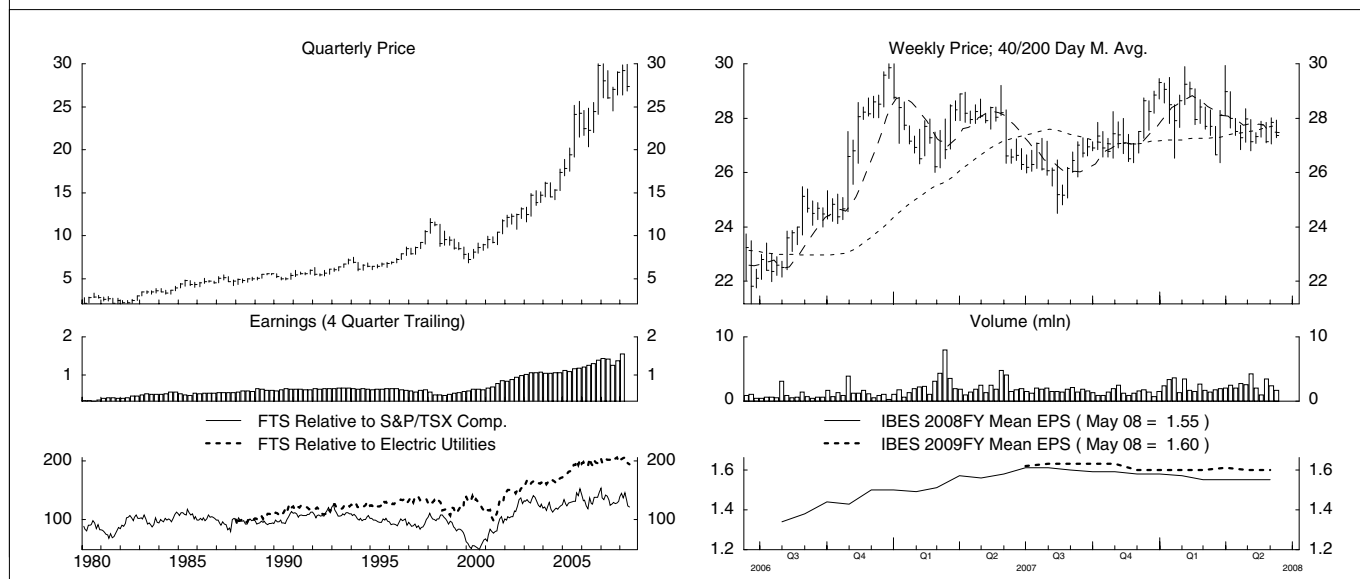
Stock Rating: Outperform
Industry Rating: Market Perform

Michael McGowan, CA, CFA

(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Benjamin Pham

					(FY-Dec.)	2006A	2007A	2008E	2009E
Price (12-Jun)	\$27.36	52-Week High	\$29.94		EPS	\$1.33	\$1.29	\$1.53	\$1.55
Target Price	\$31.50	52-Week Low	\$24.50		P/E			17.9x	17.7x
Dividend	\$1.00	Book Value	\$16.69		CFPS	\$2.70	\$2.71	\$3.70	\$3.76
Yield	3.7%	Price/Book	1.6x		P/CFPS			7.4x	7.3x
Shares O/S (mm)	155.5	Mkt. Cap (\$mm)	\$4,255		Div.	\$0.67	\$0.82	\$1.00	\$1.04
Float O/S (mm)	155.5	Float Cap (\$mm)	\$4,255		EV (\$mm)	\$5,760	\$9,795	\$10,529	\$10,900
Wkly Vol (000s)	1,875	Wkly \$ Vol (mm)	\$51.7		EBITDA (\$mm)	\$531	\$810	\$1,106	\$1,132
Net Debt (\$mm)	\$6,047	Next Rep. Date	8-Aug (E)		EV/EBITDA	10.9x	12.1x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	11.3%	7.2%	8.8%	8.2%
2006A	\$0.35	\$0.33	\$0.37	\$0.33	Book Value (\$)	\$12.19	\$16.69	\$17.41	\$18.63
2007A	\$0.40	\$0.31	\$0.20	\$0.46	D/Tot. Cap. (%)	65.9%	64.7%	66.0%	64.5%
2008E	\$0.58 a	\$0.31	\$0.23	\$0.44	Req. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Fort Erie, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (54%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos),

FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis reported Q1/08 EPS of \$0.58. Comparable EPS of \$0.62 exceeded our estimate of \$0.58 after adjusting for a regulatory decision at Newfoundland Power. The decision resulted in a change in the way purchased power expenses are allocated during the year and reduced Q1/08 earnings by \$6 million (\$0.04/share). The remaining difference between actual and expected results

was largely related to earnings at Terasen Gas, which were \$8.1 million (\$0.05/share) higher than expected. We have stated Q1/08 EPS as \$0.58, inclusive of the regulatory accounting adjustment at Newfoundland Power.

Corporate Developments – On May 2, the Belize Public Utilities Commission (PUC) released its initial decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. The PUC effectively denied BEL's request to increase average electricity rates by 13.4%, or \$0.50/kWh, and recover BZ\$24.5 million (U.S. \$12.3 million) in deferred purchased power costs by: (1) approving the current average cost of power of \$0.441/kWh; (2) reducing the balance in the purchased power deferral account by an unspecified amount; and (3) modifying BEL's rate structure in a manner that appears to allow for an increase in the recovery of purchased power expenses and a decrease in other costs of

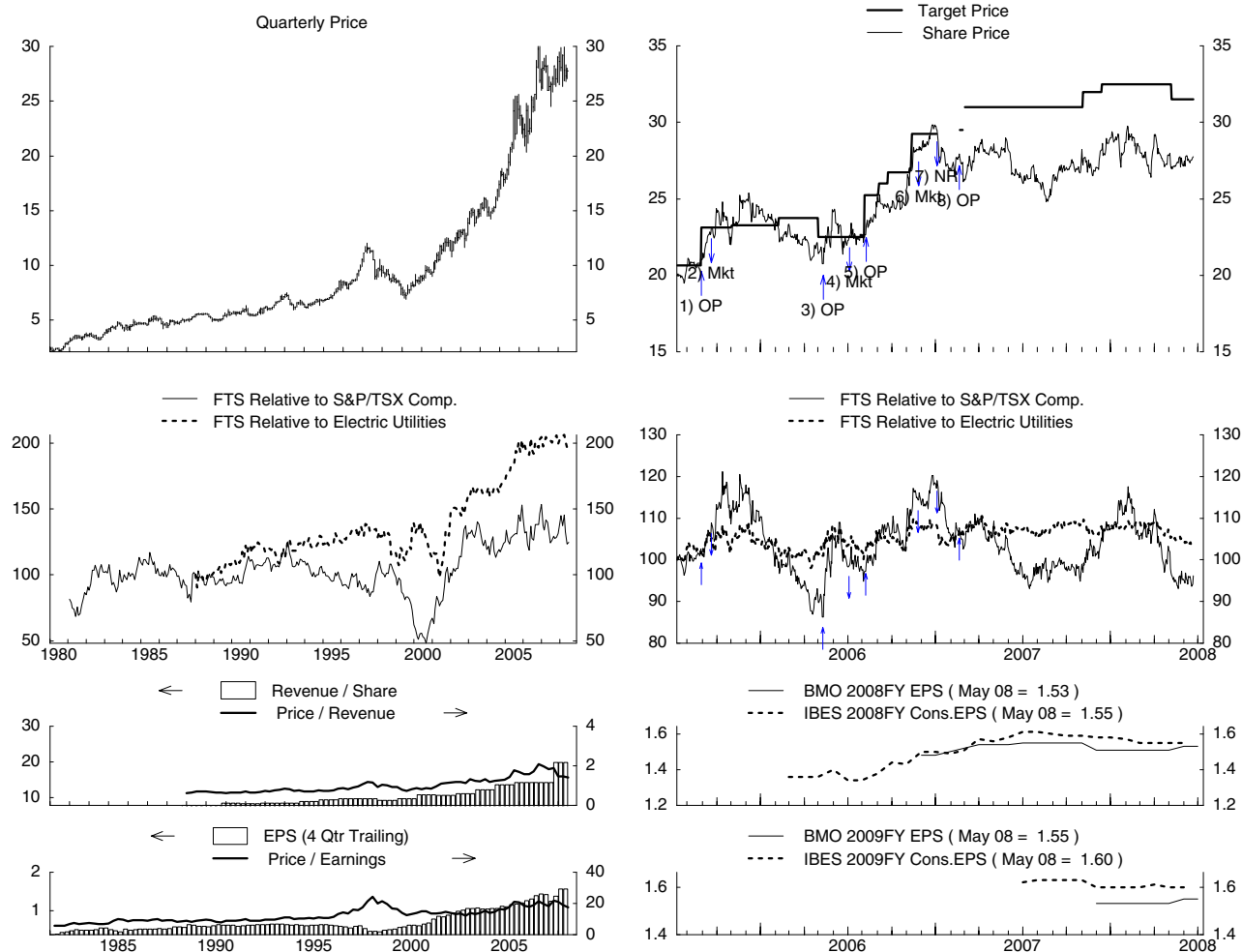
service such as depreciation expense and the regulated return on BEL's assets. A final decision is expected on June 26.

Forecasts – Our diluted EPS estimates are \$1.53 in 2008 and \$1.55 in 2009.

Valuation – Our target price of \$31.50 reflects a weighted valuation approach: 18x diluted 2009E EPS of \$1.55 (12.5%), 1.75x 2009E BVPS of \$18.63 (12.5%) and a target yield of 3.25% (75%) applied to our 2009E dividend per share estimate of \$1.04.

Recommendation – We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and relatively low-risk business model that focuses on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.56	18	1.00	3.7	64	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.9		14.0			14.5		
10 Year:	11.2		8.3			10.1		
20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 11-Jul-05 = Mkt

Date	Rating Change	Share Price
1 30-Aug-05	Mkt to OP	\$21.01
2 20-Sep-05	OP to Mkt	\$23.18
3 10-May-06	Mkt to OP	\$20.75
4 4-Jul-06	OP to Mkt	\$22.60
5 8-Aug-06	Mkt to OP	\$23.24
6 24-Nov-06	OP to Mkt	\$28.20
7 3-Jan-07	Mkt to NR	\$29.51
8 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 19, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starmine Universe **
Buy	Outperform	43%	53%	52%
Hold	Market Perform	48%	45%	42%

Sell Underperform 9% 2% 6%

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.31
Target Price: \$31.50

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

June 30, 2008
Brief Research Note
Gas & Electric

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Benjamin Pham

Final Decision on Belize Rates Announced

Impact

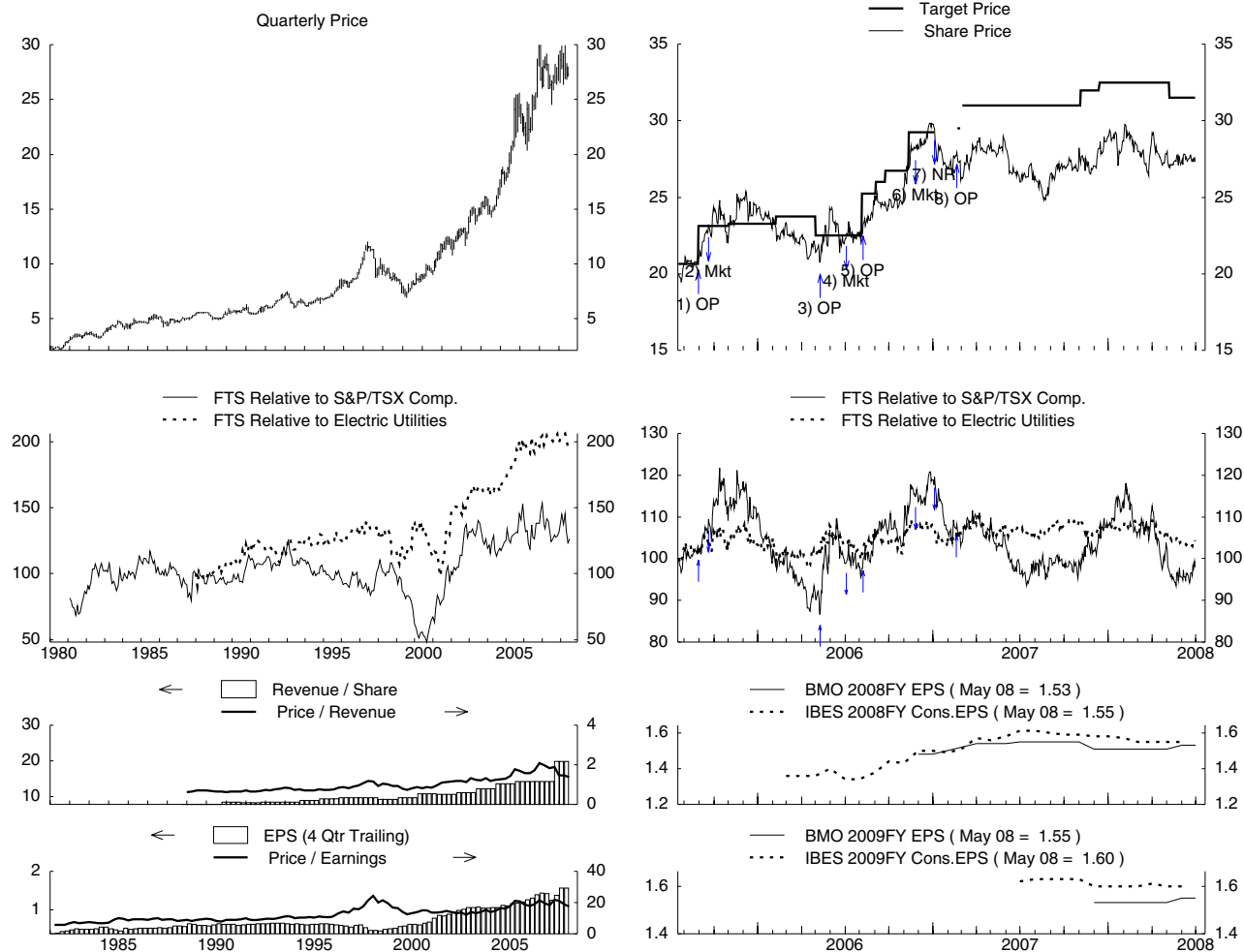
Negative

Details & Analysis

On June 27, the Belize Public Utilities Commission (PUC) released its final decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. The PUC's final decision is largely consistent with the preliminary decision issued on May 2. Specifically, the PUC's final decision appears to: (1) maintain current electricity rates at BZ\$0.441/kWh; (2) disallow BZ\$36 million (C\$12.6 million of which is Fortis' share) of previously deferred costs; and (3) lower BEL's allowed return on rate base to 10% from 12%. A discussion with Fortis management has indicated that the PUC's decision may reduce the annual earnings contribution from BEL by \$6 million or \$0.04/share. Although we understand that BEL intends to legally contest the PUC's final decision, it is possible that Fortis will record a charge of C\$12.6 million (\$0.08/share) in Q2/08 in respect of the regulatory disallowances. While we do not view the PUC's final decision favourably, we note that: (1) a reduction in the earnings contribution from BEL was likely expected since May 2, when the PUC released its preliminary decision; and (2) the final decision contains language that indicates that the component of electricity rates that relate to the cost of generating power is to be adjusted monthly, which should mitigate the prospect of future cost disallowances related to electricity procurement or power generation.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

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FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
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2007	1.29	21	0.84	2.9	61	16.69	1.7	9
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Average:		14		4.9	64		1.5	10.9
Growth(%):								
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20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

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6 24-Nov-06	OP to Mkt	\$28.20
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Last Daily Data Point: June 27, 2008

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starline Universe**
Buy	Outperform	43%	53%	52%
Hold	Market Perform	48%	45%	42%
Sell	Underperform	9%	2%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

July 2, 2008
 Research Comment
 Toronto, Ontario

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Final Decision on Belize Rates Announced; Outperform Rating Maintained

Event

On June 27, the Belize Public Utilities Commission (PUC) released its final decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. The PUC's final decision is largely consistent with the preliminary decision issued on May 2. Specifically, the PUC's final decision appears to: (1) maintain current electricity rates at BZ\$0.441/kWh; (2) result in regulatory disallowances totalling BZ\$36 million (C\$12.6 million of which is Fortis' share); and (3) lower BEL's allowed return on rate base to 10% from 12%.

Impact

Negative.

Forecasts

We have updated our financial forecast to reflect the Belize PUC's final decision. Our diluted EPU estimates decline to \$1.50 in 2008 and \$1.52 in 2009. Although we understand that BEL intends to legally contest the PUC's final decision, it is possible that Fortis will record a charge of C\$12.6 million in Q2/08 in respect of the regulatory disallowances.

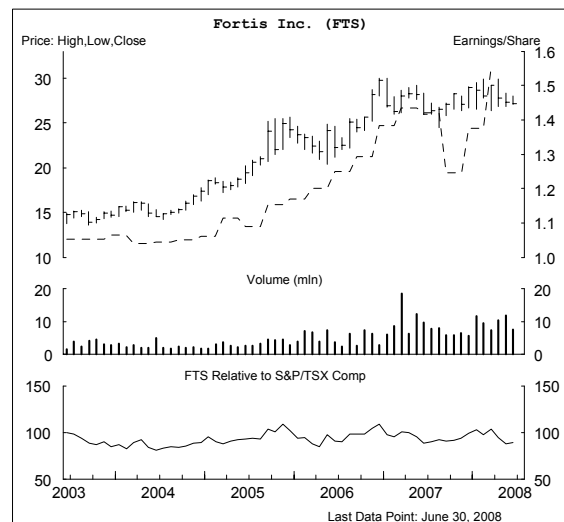
Valuation

Our revised target price of \$31 reflects a weighted valuation approach: 17x diluted 2009E EPS of \$1.52 (12.5%), 1.75x 2009E book value of \$18.57 (12.5%) and a target yield of 3.25% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and business model that focus on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform.

Price (30-Jun) \$27.16 52-Week High \$29.94
 Target Price \$31.00↓ 52-Week Low \$24.50



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.50↓	\$1.52↓
P/E			18.1x	17.9x
CFPS	\$2.70	\$2.71	\$3.70	\$3.76
P/CFPS			7.3x	7.2x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,514	\$10,882
EBITDA (\$mm)	\$531	\$810	\$1,109	\$1,133
EV/EBITDA	10.9x	12.1x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.30↓	\$0.22↓	\$0.43↓
Dividend	\$1.00			3.7%
Book Value	\$16.69			1.6x
Shares O/S (mm)	155.5			Mkt. Cap (\$mm)
Float O/S (mm)	155.5			\$4,224
Wkly Vol (000s)	1,873			Float Cap (\$mm)
Net Debt (\$mm)	\$6,046.8			\$4,224
				Wkly \$ Vol (mm)
				\$51.5
				Next Rep. Date
				08-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
 Major Shareholders: Widely held
 First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.55; 2009E: \$1.60

Changes

Annual EPS
 2008E \$1.53 to \$1.50
 2009E \$1.55 to \$1.52

Quarterly EPS
 Q2/08E \$0.31 to \$0.30
 Q3/08E \$0.23 to \$0.22
 Q4/08E \$0.44 to \$0.43

Target
 \$31.50 to \$31.00

Details & Analysis

On June 27, the Belize Public Utilities Commission (PUC) released its final decision for Belize Electricity Limited's (BEL, 70.1% Fortis) annual tariff application, which was filed on April 2. The PUC's final decision is largely consistent with the preliminary decision issued on May 2, which we discussed in a research note published on May 7, 2008.

Specifically, the PUC's final decision appears to: (1) maintain current electricity rates at BZ\$0.441/kWh; (2) result in regulatory disallowances totalling BZ\$36 million (C\$12.6 million of which is Fortis' share); and (3) lower BEL's allowed return on rate base to 10% from 12%.

Per a discussion with Fortis management, the PUC's decision is expected to reduce the annual earnings contribution from BEL by approximately C\$6 million or \$0.04 per share.

Regulatory Disallowances Applied to Cost of Power Deferral Account, Thereby Re-Basing Rates

The PUC's final decision resulted in regulatory disallowances that, in aggregate, sum to BZ\$36.2 million. These disallowances are largely the result of prior-period adjustments to the calculation of BEL's regulated rate base for the periods 2005–2007, and a subsequent recalculation of depreciation and regulated returns using the modified rate base values.

Specifically, the PUC's calculation removed the following items from BEL's rate base: (1) working capital; (2) the book value of the Mollejon Transmission Line; (3) Construction Work in Progress; and (4) 50% of assets that were placed in service during each year from 2005–2007.

The BZ\$36.2 million in regulatory disallowances appear to have been used to reduce the outstanding balance in the Cost of Power Rate Stabilization Account ("CPRSA"), a deferral account where variances between the cost of acquiring power and the cost of purchased power reflected in customer rates were charged. Uncollected balances in the CPRSA accrued interest at 12% per annum.

Per a review of the final decision, and the revised rate-setting methodology, the PUC does not appear to be ideologically opposed to allowing BEL to recover prudently incurred purchased power and power generation expenses. However, the growing balance in the CPRSA and the practice of accruing interest on outstanding CPRSA balances appear to have been controversial.

Per page 35 of the final decision, the PUC noted that,

"The Commission has assessed the value of the CPRSA and has concluded that the cost of the CPRSA outweighs the benefits, and the Commission will bring the account to a close. It is expected that Consumers will be required to pay monthly for the full cost of power, since this is a lower cost option than to keep the CPRSA, and will relieve BEL of cash flow pressures as a result of the deferral of excess power cost expenses."

Taken in aggregate, the PUC's actions appear to constitute an effort to re-base customer rates at a time when record commodity prices have rapidly increased the cost of generating electricity. Now that rates at BEL have effectively been reset, we are hopeful that the PUC's intention to

allow BEL to more frequently pass the cost of power through to customers should reduce the prospect of future cost disallowances related to electricity procurement or power generation.

However, we do not believe that the PUC's final decision is fair to BEL shareholders, and we believe that the rate proceedings in Belize have increased near-term regulatory risk. We note, however, that contributions from BEL represent a relatively minor component of Fortis' consolidated earnings. Rate base additions of \$4 billion over the next five years in relatively low-risk jurisdictions, such as Alberta and British Columbia, will drive EPS growth and further reduce Fortis' exposure to Belize.

Estimates

We have updated our financial forecast to reflect the Belize PUC's final decision. Our diluted EPU estimates decline to \$1.50 in 2008 and \$1.52 in 2009. Although we understand that BEL intends to legally contest the PUC's final decision, it is possible that Fortis will record a charge of C\$12.6 million in Q2/08 in respect of the regulatory disallowances.

Valuation

Our revised target of \$31 reflects a weighted valuation approach: 17x diluted 2009E EPS of \$1.52 (12.5%), 1.75x 2009E book value of \$18.57 (12.5%) and a target yield of 3.25% (75%), assuming 2009 dividends per share of \$1.04.

We have decreased our P/E to 17x from 18x to reflect heightened regulatory risk at BEL.

Recommendation

We believe the shares are attractively valued, considering Fortis' large organic growth pipeline and business model that focus on the acquisition and operation of regulated electric and gas utilities. Our rating is Outperform.

Table 1: Consolidated Summary

01-Jul-08

Current Price:

\$27.16

12-Month Target Price:

\$31.00

ROR:

17.8%

Michael McGowan

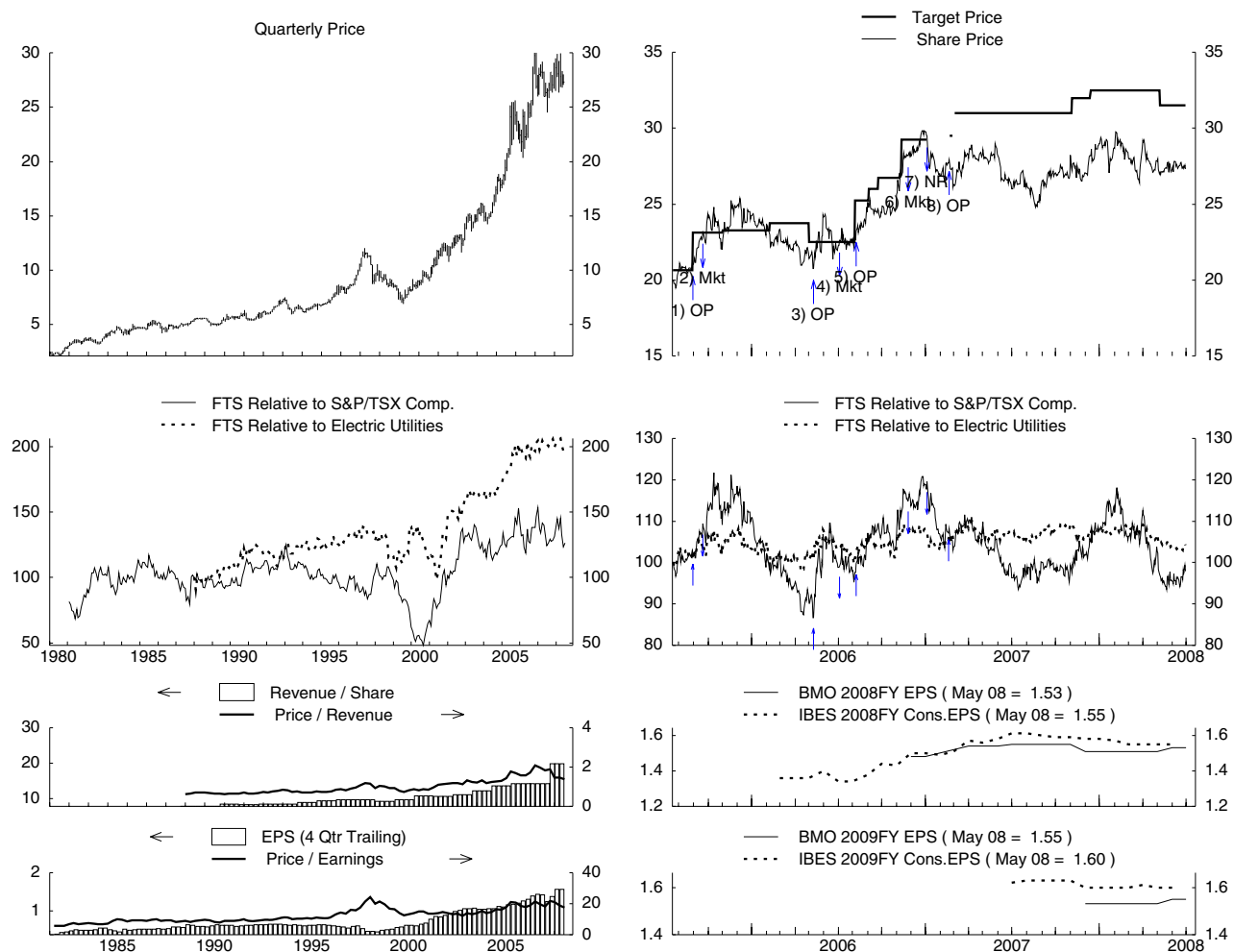
BMO Capital Markets

Recommendation:

Outperform

Year Ending December 31									
	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.54	\$1.60
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.50	\$1.52	\$1.57
Segmented EPS									
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.20	\$0.20
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08	\$0.08
CNP/Comwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.05	\$0.05
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.17	\$0.19	\$0.21
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13	\$0.12
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.20	\$0.20	\$0.22
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.48	\$0.54	\$0.56
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.62	\$0.61	\$0.57
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.46)	(\$0.46)	(\$0.42)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04	\$1.08
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	65.5%	67.5%	67.7%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	156.5	161.7	166.0
Net Book Value	8.72	8.98	10.47	11.76	12.19	16.69	17.39	18.57	19.11
Market Valuation									
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-	-
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-	-
Price: Current	-	-	-	-	-	-	\$27.16	-	-
P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-	-
P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-	-
P/E Ratio: Current	-	-	-	-	-	-	17.8	17.6	17.0
Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-	-
Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.56	1.46	1.42
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-	-
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-	-
Yield: Current	-	-	-	-	-	-	3.68%	3.83%	3.98%
Balance Sheet (\$mm)									
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	547.9	833.3	1,355.4
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	4,857.9	4,805.3	4,554.0
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0	475.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0	115.0
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	670.6	670.6	670.6
Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	50.0	50.0	50.0
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,596.0</u>	<u>2,738.2</u>	<u>3,079.2</u>	<u>3,174.7</u>
	1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,454.7	10,028.4	10,394.7
Balance Sheet (%)									
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	5.8%	8.3%	13.0%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	51.4%	47.9%	43.8%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%	4.6%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%	1.1%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	7.1%	6.7%	6.5%
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%	0.5%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.9%</u>	<u>29.0%</u>	<u>30.7%</u>	<u>30.5%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	238.8	249.1	264.8
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	575.8	602.2	650.2

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.56	18	1.00	3.7	64	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.9		14.0			14.5		
10 Year:	11.2		8.3			10.1		
20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 19-Jul-05 = Mkt

Date	Rating Change	Share Price
1 30-Aug-05	Mkt to OP	\$21.01
2 20-Sep-05	OP to Mkt	\$23.18
3 10-May-06	Mkt to OP	\$20.75
4 4-Jul-06	OP to Mkt	\$22.60
5 8-Aug-06	Mkt to OP	\$23.24
6 24-Nov-06	OP to Mkt	\$28.20
7 3-Jan-07	Mkt to NR	\$29.51
8 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 27, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	43%	53%	52%
Hold	Market Perform	48%	45%	42%
Sell	Underperform	9%	2%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

July 16, 2008
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Benjamin Pham

Capital Budgets Filed; Outperform Rating Unchanged

Event

A number of Fortis subsidiaries have recently filed capital budgets with provincial regulatory authorities for approval. On June 27, 2008 Fortis BC filed its 2009-2010 capital expenditure plan with the BC Utilities Commission, requesting approval of \$178.8 million of capital expenditures in 2009 and \$181.1 million in 2010. On July 9, Maritime Electric filed its 2009 capital budget application with the Island Regulatory and Appeals Commission. The application requested approval of capital expenditures of \$19.4 million in 2009 and made note of anticipated spending of \$21.4 million in 2010. On July 11, Newfoundland Power filed its 2009 capital budget with the Newfoundland and Labrador Board of Commissioners of Public Utilities, requesting the approval of a capital expenditure budget of \$62 million in 2009.

Impact

Neutral.

Forecasts

We have updated our forecasts to reflect rate base additions consistent with the capital budgets filed with provincial regulatory authorities. Our diluted 2008 EPS estimate of \$1.50 is unchanged and our diluted 2009 EPS estimate increases to \$1.53 from \$1.52.

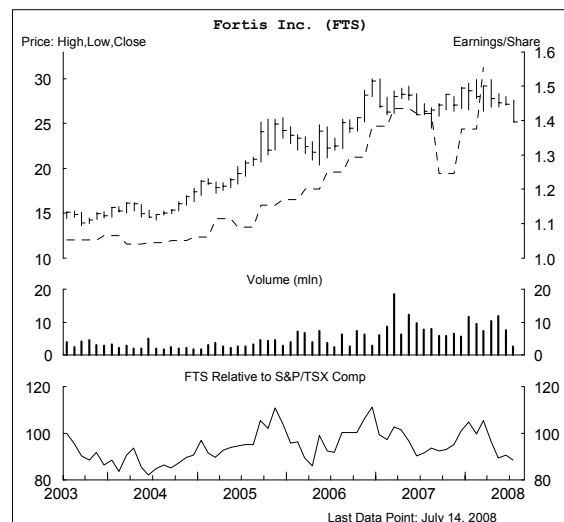
Valuation

Our target price reflects a weighted valuation approach: 17x diluted 2009E EPS of \$1.53 (12.5%), 1.75x 2009E book value per share of \$18.58 (12.5%), and a target yield of 3.25% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe Fortis' shares are attractively valued. Our rating is Outperform.

Price (15-Jul) \$24.43 **52-Week High** \$29.94
Target Price \$31.00 **52-Week Low** \$24.43



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.50	\$1.53↑
P/E			16.3x	16.0x
CFPS	\$2.70	\$2.71	\$3.70	\$3.76
P/CFPS			6.6x	6.5x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,105	\$10,466
EBITDA (\$mm)	\$531	\$810	\$1,265	\$1,293
EV/EBITDA	10.9x	12.1x	8.0x	8.1x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.30	\$0.22	\$0.43
Dividend	\$1.00	Yield		4.1%
Book Value	\$16.69	Price/Book		1.5x
Shares O/S (mm)	155.5	Mkt. Cap (\$mm)		\$3,799
Float O/S (mm)	155.5	Float Cap (\$mm)		\$3,799
Wkly Vol (000s)	1,872	Wkly \$ Vol (mm)		\$51.5
Net Debt (\$mm)	\$6,046.8	Next Rep. Date		08-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.54; 2009E: \$1.59

Changes

Annual EPS
 2009E \$1.52 to \$1.53

Table 1. Consolidated Summary Sheet

15-Jul-08

Current Price:

\$24.43

12-Month Target Price:

\$31.00

ROR:

31.0%

Michael McGowan

BMO Capital Markets

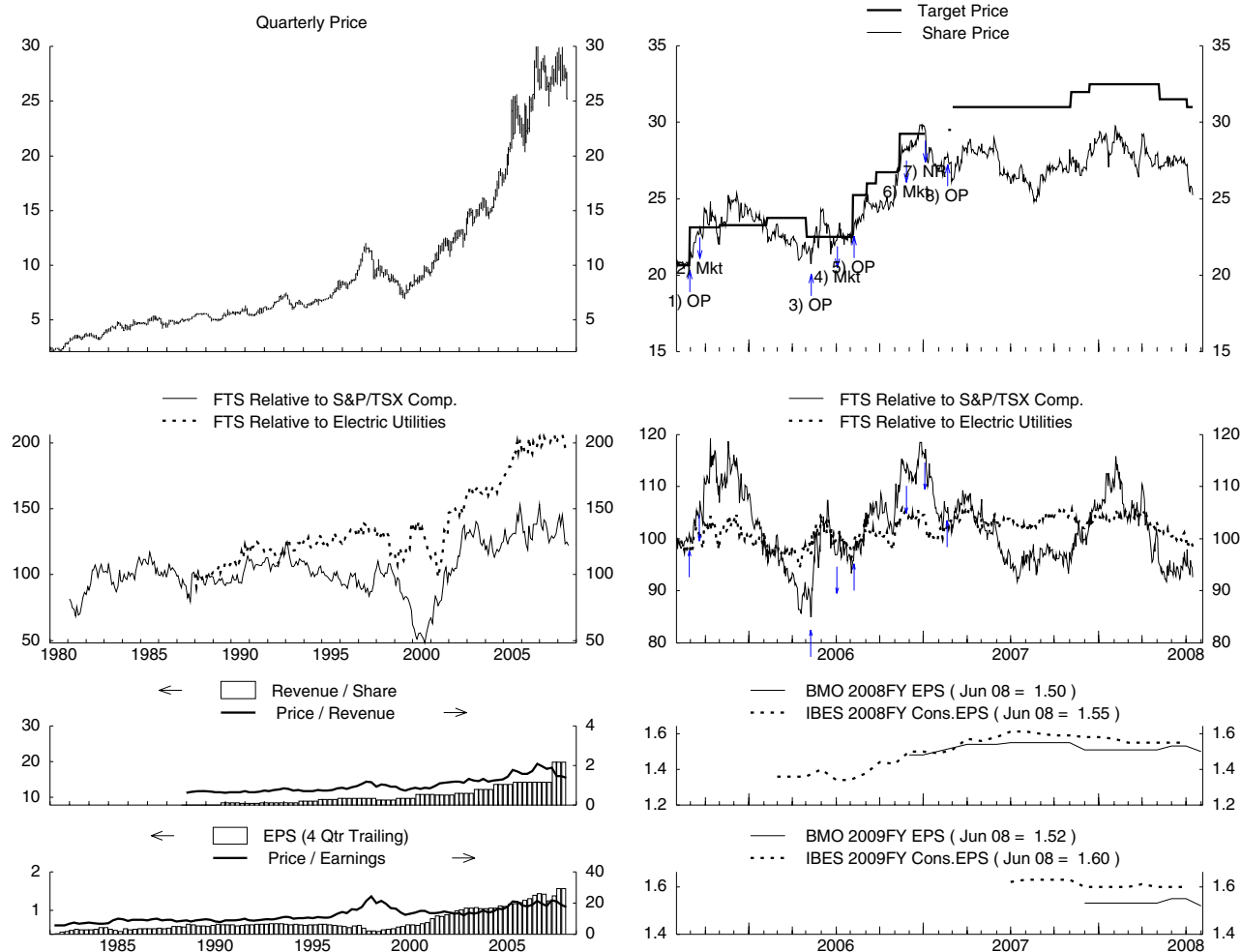
Recommendation:

Outperform

		Year Ending December 31							
		2002	2003	2004	2005	2006	2007	2008E	2009E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.50	\$1.53
Segmented EPS									
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.05
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.17	\$0.19
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13
	Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.20	\$0.19
	FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.48	\$0.55
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.62	\$0.61
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.47)	(\$0.46)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	65.5%	67.0%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	156.5	161.7
Net Book Value		8.72	8.98	10.47	11.76	12.19	16.69	17.39	18.58
Market Valuation									
	Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-
	Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-
	Price: Current	-	-	-	-	-	-	\$24.43	-
	P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-
	P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-
	P/E Ratio: Current	-	-	-	-	-	-	16.0	15.7
	Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-
	Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-
	Price/Book Value: Current	-	-	-	-	-	-	1.40	1.32
	Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-
	Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-
	Yield: Current	-	-	-	-	-	-	4.09%	4.26%
Balance Sheet (\$mm)									
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	547.9	910.7
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	4,857.9	4,805.3
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0
	Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	670.6	670.6
	Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	50.0	50.0
	Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,596.0</u>	<u>2,738.2</u>	<u>3,081.0</u>
		1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,454.7	10,107.6
Balance Sheet (%)									
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	5.8%	9.0%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	51.4%	47.5%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	7.1%	6.6%
	Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%
	Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.9%</u>	<u>29.0%</u>	<u>30.5%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	238.8	250.9
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	575.8	607.1

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.56	17	1.00	3.7	64	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.1		14.0			14.5		
10 Year:	12.8		8.3			10.1		
20 Year:	5.1		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 3-Aug-05 = Mkt

Date	Rating Change	Share Price
1 30-Aug-05	Mkt to OP	\$21.01
2 20-Sep-05	OP to Mkt	\$23.18
3 10-May-06	Mkt to OP	\$20.75
4 4-Jul-06	OP to Mkt	\$22.60
5 8-Aug-06	Mkt to OP	\$23.24
6 24-Nov-06	OP to Mkt	\$28.20
7 3-Jan-07	Mkt to NR	\$29.51
8 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: July 14, 2008

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In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

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Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

July 21, 2008
 Research Comment
 Toronto, Ontario

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 Michael.McGowan@bmo.com
 Assoc: Benjamin Pham

Target Price Reduced to Reflect Lower Valuation Multiples; Outperform Rating Maintained

Event

On July 21, we published a sector comment entitled "Correlation Breakdown: Revising Target Prices and Ratings to Reflect Market Realities," where we noted that regulated rates of return for utilities operating in Canada are poised to fall by an average of 17 basis points in 2009 at a time when the historical relationship between Government of Canada bond yields and dividend yields appears to have broken down. We believe the combination of these factors suggests that the recent compression in valuation multiples for companies in our coverage universe may be warranted. We are revising our valuation assumptions to incorporate a target dividend yield 3.75%, up from 3.25%, to reflect the possibility of lower regulated ROE in 2009 and to more closely align our target dividend yield with the observed trading yield. Our target price decreases to \$28 from \$31.

Impact

Mixed. Although the change in our valuation assumptions has resulted in a reduction to our target price, we believe that Fortis is attractively valued.

Forecasts

There are no changes to our financial forecasts.

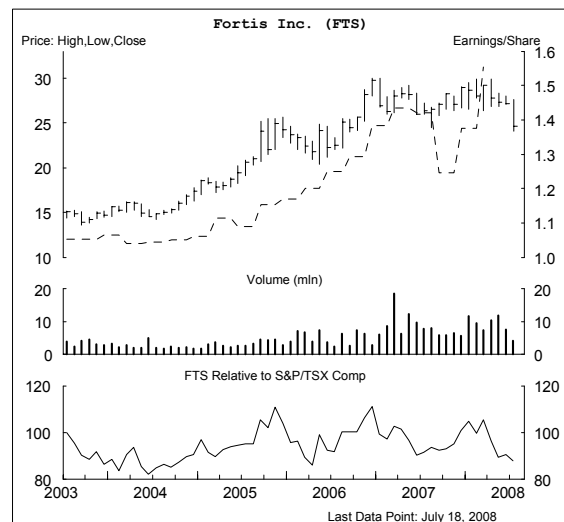
Valuation

Our revised target price of \$28 reflects a weighted valuation approach: 17x diluted 2009E EPS of \$1.53 (12.5%), 1.75x 2009E book value per share of \$18.58 (12.5%) and a target yield of 3.75% (75%), assuming 2009 dividends per share of \$1.04.

Recommendation

We believe that Fortis' shares are attractively valued, considering its large organic growth pipeline. Our rating is Outperform.

Price (18-Jul) \$24.64
Target Price \$28.00↓
52-Week High \$29.94
52-Week Low \$24.11



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.50	\$1.53
P/E			16.4x	16.1x
CFPS	\$2.70	\$2.71	\$3.70	\$3.76
P/CFPS			6.7x	6.6x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,141	\$10,580
EBITDA (\$mm)	\$531	\$810	\$1,265	\$1,305
EV/EBITDA	10.9x	12.1x	8.0x	8.1x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.30	\$0.22	\$0.43
Dividend	\$1.00			4.1%
Book Value	\$16.69			1.5x
Shares O/S (mm)	155.5			Mkt. Cap (\$mm)
Float O/S (mm)	155.5			\$3,832
Wkly Vol (000s)	1,867			Float Cap (\$mm)
Net Debt (\$mm)	\$6,046.8			\$3,832
				Wkly \$ Vol (mm)
				\$51.3
				Next Rep. Date
				08-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.53; 2009E: \$1.58

Changes

Target
 \$31.00 to \$28.00

Table 1: Consolidated Summary

20-Jul-08

Current Price:

\$24.64

12-Month Target Price:

\$28.00

ROR:

17.7%

Michael McGowan

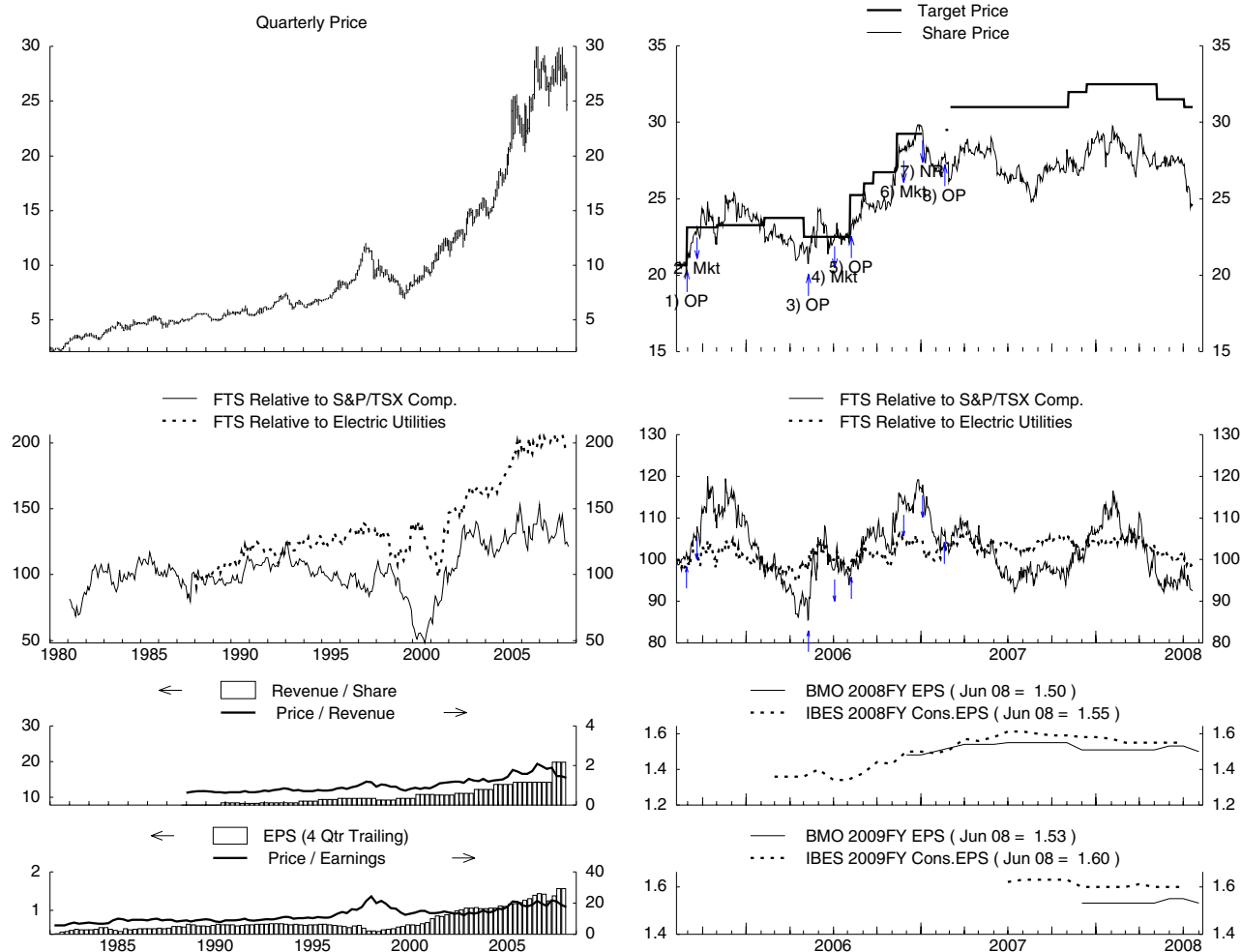
BMO Capital Markets

Recommendation:

Outperform

		Year Ending December 31							
		2002	2003	2004	2005	2006	2007	2008E	2009E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.53	\$1.55
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.50	\$1.53
Segmented EPS									
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.21	\$0.21
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.08
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.05
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.17	\$0.19
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13
	Belize, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.20	\$0.19
	Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.48	\$0.55
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.62	\$0.61
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.47)	(\$0.46)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	65.5%	67.0%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	156.5	161.7
Net Book Value		8.72	8.98	10.47	11.76	12.19	16.69	17.39	18.58
Market Valuation									
	Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-
	Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-
	Price: Current	-	-	-	-	-	-	\$24.64	-
	P/E Ratio: High	13.7	14.30	16.83	21.67	22.92	22.92	-	-
	P/E Ratio: Low	11.1	11.53	13.69	14.51	15.93	15.93	-	-
	P/E Ratio: Current	-	-	-	-	-	-	16.1	15.9
	Price/Book Value: High	1.52	1.69	1.69	2.16	2.40	2.40	-	-
	Price/Book Value: Low	1.23	1.36	1.37	1.45	1.67	1.67	-	-
	Price/Book Value: Current	-	-	-	-	-	-	1.42	1.33
	Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-
	Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-
	Yield: Current	-	-	-	-	-	-	4.06%	4.22%
Balance Sheet (\$mm)									
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	547.9	910.7
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	4,857.9	4,805.3
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0
	Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	670.6	670.6
	Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	50.0	50.0
	Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,596.0</u>	<u>2,738.2</u>	<u>3,081.0</u>
		1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,454.7	10,107.6
Balance Sheet (%)									
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	5.8%	9.0%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	51.4%	47.5%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	7.1%	6.6%
	Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%
	Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.9%</u>	<u>29.0%</u>	<u>30.5%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	238.8	250.9
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	575.8	607.1

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.56	17	1.00	3.7	64	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.1		14.0			14.5		
10 Year:	12.8		8.3			10.1		
20 Year:	5.1		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 9-Aug-05 = Mkt

Date	Rating Change	Share Price
1 30-Aug-05	Mkt to OP	\$21.01
2 20-Sep-05	OP to Mkt	\$23.18
3 10-May-06	Mkt to OP	\$20.75
4 4-Jul-06	OP to Mkt	\$22.60
5 8-Aug-06	Mkt to OP	\$23.24
6 24-Nov-06	OP to Mkt	\$28.20
7 3-Jan-07	Mkt to NR	\$29.51
8 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: July 18, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

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Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	43%	53%	52%
Hold	Market Perform	48%	45%	42%
Sell	Underperform	9%	2%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$26.53
Target Price: \$28.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

August 8, 2008
Brief Research Note
Gas & Electric

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Michael.McGowan@bmo.com
Assoc: Benjamin Pham

Q2/08 Earnings Reflect Accounting Charges

Impact

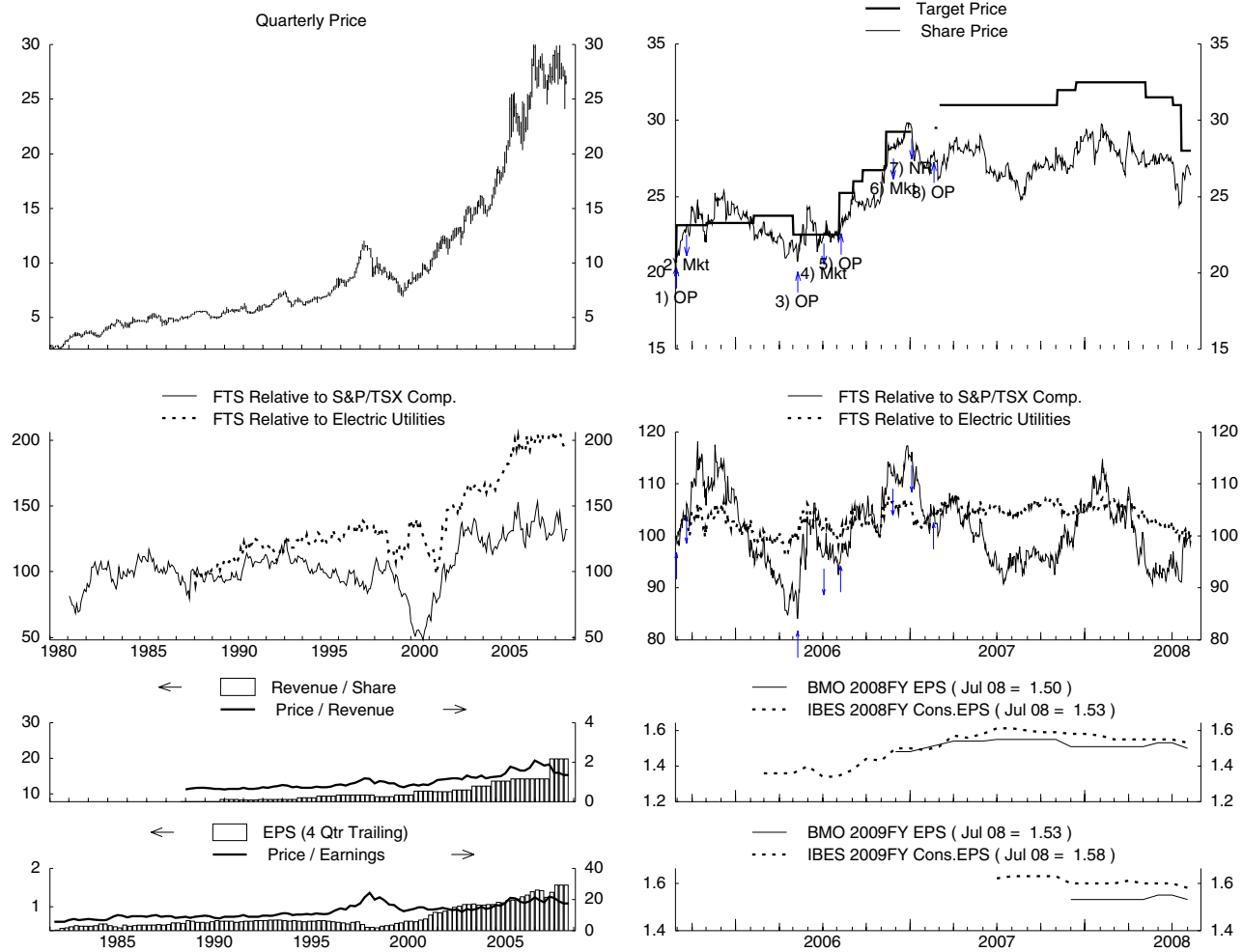
Slightly Negative

Details & Analysis

Fortis reported Q2/08 GAAP EPS of \$0.19. After adjusting for: (1) a \$13 million (\$0.08/share) charge related to the company's share of a regulatory disallowance of previously incurred fuel and purchased power costs at Belize Electricity Limited (BEL, 70.1% Fortis); and (2) a \$2 million (\$0.01/share) charge related to the repayment of a refund received in 2007 related to cross-border transmission interconnection agreements at Fortis Ontario, comparable EPS of \$0.28 exceeded the First Call Mean of \$0.27 and were slightly below our estimate of \$0.30. With the exception of BEL, the majority of Fortis's subsidiaries appear to be performing well and we note the following developments from the release: (1) On July 25, BEL filed an application for judicial review and appeal of the Belize Public Utility Commission's decision regarding BEL's 2008/2009 rate application with the Supreme Court of Belize; (2) As a result of the PUC's decision, BEL is in violation of certain debt covenants and approximately C\$16 million of BEL's debt is in default. We understand BEL is seeking a waiver from its lenders.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.56	17	1.00	3.7	64	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.1		14.0			14.5		
10 Year:	12.8		8.3			10.1		
20 Year:	5.1		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

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6 24-Nov-06	OP to Mkt	\$28.20
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8 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 7, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	43%	53%	52%
Hold	Market Perform	48%	45%	42%
Sell	Underperform	9%	2%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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(S) = speculative investment;

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A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

August 11, 2008
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Benjamin Pham

Q2/08 Results Reflect Accounting Adjustments; Outperform Rating Maintained

Event

Fortis reported Q2/08 GAAP EPS of \$0.19. After adjusting for: (1) a \$13 million (\$0.08/share) charge related to the company's share of regulatory disallowances at Belize Electricity Limited (BEL, 70.1% Fortis) associated with BEL's 2008/2009 rate application; and (2) a \$2 million (\$0.01/share) charge related to the repayment of a refund received in 2007 related to cross-border transmission interconnection agreements at FortisOntario, comparable EPS of \$0.28 exceeded the First Call Mean of \$0.27 and were slightly below our estimate of \$0.30.

Impact

Mixed. Although Q2/08 GAAP earnings were affected by non-recurring charges, the majority of Fortis' business segments continues to perform well.

Forecasts

Although Q2/08 adjusted EPS were \$0.02/share below our estimate, we believe the variance is attributable to the seasonality of earnings at Terasen Gas and Fortis Alberta. Our financial forecasts for 2008 and 2009 are unchanged.

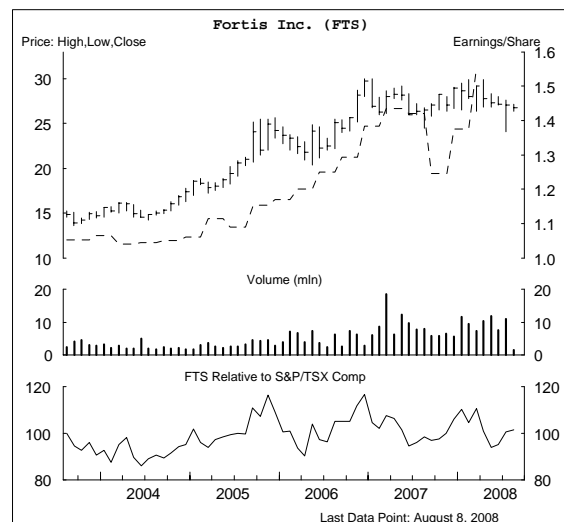
Valuation

Our valuation reflects a weighted approach: 17x diluted 2009E EPS of \$1.53 (12.5%), 1.75x 2009E book value per share of \$18.58, and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04.

Recommendation

We believe that Fortis' shares are attractively valued, considering its large organic growth pipeline. Our rating is Outperform.

Price (8-Aug) \$26.76 **52-Week High** \$29.94
Target Price \$28.00 **52-Week Low** \$24.11



(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.50	\$1.53
P/E			17.8x	17.5x
CFPS	\$2.70	\$2.71	\$3.70	\$3.76
P/CFPS			7.2x	7.1x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,465	\$10,913
EBITDA (\$mm)	\$531	\$810	\$1,272	\$1,343
EV/EBITDA	10.9x	12.1x	8.2x	8.1x
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.28a	\$0.22	\$0.44
Dividend	\$1.00			
Book Value	\$16.69			
Shares O/S (mm)	155.5			
Float O/S (mm)	155.5			
Wkly Vol (000s)	1,926			
Net Debt (\$mm)	\$6,046.8			
Yield				3.7%
Price/Book				1.6x
Mkt. Cap (\$mm)				\$4,162
Float Cap (\$mm)				\$4,162
Wkly \$ Vol (mm)				\$52.9
Next Rep. Date				07-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.55; 2009E: \$1.60

Details & Analysis

Fortis reported Q2/08 GAAP EPS of \$0.19. After adjusting for: (1) a \$13 million (\$0.08/share) charge related to the company's share of regulatory disallowances at Belize Electricity Limited (BEL, 70.1% Fortis) associated with BEL's 2008/2009 rate application; and (2) a \$2 million (\$0.01/share) charge related to the repayment of a refund received in 2007 related to cross-border transmission interconnection agreements at Fortis Ontario, comparable EPS of \$0.28 exceeded the First Call Mean of \$0.27 and were slightly below our estimate of \$0.30.

Belize Electricity Limited

As expected, Fortis accrued a C\$13 million (\$0.08/share) charge associated with its share of BZ \$36.2 million in regulatory disallowances related to the Belize Public Utility Commission's (PUC) final decision on Belize Electricity Limited's 2008-2009 rate application. These regulatory disallowances are largely the result of prior-period adjustments to the calculation of BEL's rate base for the periods 2005-2007, and a subsequent recalculation of depreciation and regulated returns using the modified rate base values. Accordingly, we have not incorporated the regulatory disallowance into our 2008E EPS estimate. We note, however, that the regulatory decision is expected to reduce the annual earnings contribution from BEL by approximately \$6 million and the prospective impact of the ruling has been reflected in our estimates. In addition, as a result of the PUC's final decision, BEL is in violation of certain debt covenants and approximately C\$16 million of debt is in default. We understand that BEL is seeking a waiver from its lenders regarding these covenant breaches.

In response to the PUC's final decision, on July 25, 2008, BEL filed an application for judicial review and appeal of the decision with the Supreme Court of Belize. A ruling from the Supreme Court of Belize is expected within the next 6-12 months.

Although the earnings contribution from BEL represent a minor component of Fortis' consolidated earnings, we believe that recent regulatory proceedings at BEL have increased the regulatory risk associated with Fortis' Belizean operations.

The future earnings contribution from BEL (and by extension, the regulatory risk associated with BEL) will likely be dependent on the effectiveness of a fuel adjustment mechanism which should allow BEL to recover fuel costs from customers on a monthly basis. We understand this mechanism is expected to become effective on September 1, 2008, and we will follow-up with management on its implementation.

For information related to BEL's 2008-2009 rate application, please see our research comments dated May 7, 2008 (which discusses the PUC's initial decision) and July 2, 2008 (which discusses the PUC's final decision).

Capital Investment Forecast Increased

During Q2/08, Fortis increased the capital expenditure estimate for its five-year capital budget to approximately \$4.5 billion from \$4 billion. Approximately \$3.5 billion of the revised amount relates to planned expenditures in the electric utility business segment, and the majority of spending is expected to be incurred in FortisAlberta and FortisBC. Over the next five years, Fortis continues to expect that capital expenditures at Terasen Gas will exceed \$1 billion.

An estimate of planned capital expenditures by business segment for the rest of 2008 is set out in Table 1:

Table 1: 2008E Capital Expenditures by Segment

Segment	Q1/08	Q2/08	2H08E	2008E	% of Total
Terasen Gas Companies	\$40	\$56	\$154	\$250	26.9%
FortisAlberta	\$63	\$81	\$142	\$286	30.8%
FortisBC	\$24	\$26	\$86	\$136	14.6%
Newfoundland Power	\$13	\$17	\$23	\$53	5.7%
Other Regulated Utilities - Canadian	\$7	\$10	\$38	\$55	5.9%
Regulated Utilities - Caribbean	\$11	\$23	\$67	\$101	10.9%
Non-Regulated	\$4	\$14	\$30	\$48	5.2%
Total	\$162	\$227	\$540	\$929	100.0%

Source: BMO Capital Markets, Company Reports

Small Acquisition in Ontario

In August 2008, FortisOntario and Grimsby Power Inc. entered into a non-binding letter of intent for FortisOntario to acquire a 10% interest in Grimsby Power Inc.'s electricity distribution business for \$1.1 million. Although this is a very small acquisition, we believe that FortisOntario intends to evaluate similar transactions and, where possible, may seek to acquire minority interest in other Ontario-based local distribution companies.

\$7.5 Million Tax Recovery Expected in Q3/08

In August 2008, Terasen Gas settled certain historical tax matters regarding legislation related to interprovincial tax structures. The settlement is expected to result in a non-recurring \$7.5 million benefit to Q3/08 earnings.

Q2/08 Results

As set out in Table 2, Q2/08 GAAP net income of \$29 million was \$12 million lower than net income of \$41 million reported in Q2/07. After adjusting for: (1) \$13 million in regulatory disallowances at BEL, and (2) the refund of payments received in 2007 related to cross-border interconnection agreements, net income increased by \$3 million in Q2/08 compared to Q2/07. A discussion of operating performance at each business segment is set out below.

Table 2: Historical Results by Operating Segment

	Q2/08 GAAP	Adjustments	Q2/08 Adjusted	Q2/07	Variance Q2/08 Adj vs. Q2/07	Variance %
Regulated Gas Utilities - Canadian						
Terasen Gas Companies	12.0	-	12.0	1.0	11.0	1100.0%
Regulated Electric Utilities - Canadian						
FortisAlberta	7.0	-	7.0	15.0	(8.0)	-53.3%
FortisBC	7.0	-	7.0	6.0	1.0	16.7%
Newfoundland Power	10.0	-	10.0	8.0	2.0	25.0%
Other Canadian	2.0	2.0	4.0	4.0	0.0	0.0%
	26.0	2.0	28.0	33.0	(5.0)	-15.2%
Regulated Electric Utilities - Caribbean	(5.0)	13.0	8.0	8.0	0.0	0.0%
Non-Regulated - Fortis Generation	7.0	0.0	7.0	5.0	2.0	40.0%
Non-Regulated - Fortis Properties	7.0	0.0	7.0	6.0	1.0	16.7%
Corporate and Other	(18.0)	0.0	(18.0)	(12.0)	(6.0)	50.0%
Net Earnings Applicable to Common Shares	29.0	17.0	44.0	41.0	3.0	7.3%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities - Terasen Gas Companies

Due to the timing of the Terasen Gas acquisition 2007, which closed on May 17, 2008, Q2/08 income of \$12 million is not comparable to Q2/07 income of \$1 million. Quarterly results from Terasen Gas are highly seasonal, with the majority of earnings occurring in the first and fourth quarters. Discussions with management indicate that on a full quarter-over-quarter basis, earnings in Q2/08 were comparable to Q2/07.

Regulated Electric Utilities – FortisAlberta

Net earnings for FortisAlberta in Q2/08 were \$7.0 million, compared to \$15.0 million in Q2/07. The \$8 million variance in quarterly earnings is largely due to changes in future income tax expenses associated with deferral account balances related to Alberta Electric System Operator (“AESO”) charges that are either refundable or recoverable in customer rates. The quarter-over-quarter variance associated with future income tax adjustments related to AESO deferral balances was approximately \$7.5 million; a non-cash expense of \$4 million was recorded in Q2/08 associated with an increase in the deferral account balance related to AESO charges, whereas Q2/07 results included a future income tax recovery of \$3.5 million associated with a reduction in the AESO deferral account.

Regulated Electric Utilities – FortisBC

Earnings at FortisBC were \$7.0 million in Q2/08 compared with \$6.0 million in Q2/07. The variance in quarterly earnings was largely due to an insurance settlement of \$0.6 million received during Q2/08 related to a turbine generator failure in 2006.

Regulated Electric Utilities – Newfoundland Power

Net earnings for the Newfoundland Power were \$10 million in Q2/08 compared with \$8 million in Q2/07. The quarter-over-quarter variance was primarily due to a regulatory decision that modified the way purchased power expenses are allocated between quarters. Previously, monthly purchased power expenses were recognized based on an estimate of actual costs and

variances between actual and estimated purchased power expenses were accrued to a deferral account that was discontinued effective, January 1, 2008. Newfoundland Power now recognizes the actual cost of purchased power each month. Although this regulatory change is not expected to impact annual earnings, the change in regulatory accounting increased earnings at Newfoundland Power by \$2.5 million in Q2/08 compared to Q2/07.

Regulated Electric Utilities – Caribbean

The Caribbean regulated utilities reported a Q2/08 loss of \$5 million, compared with net income of \$8 million in Q2/07. Reported results include \$13 million of regulatory disallowances accrued in relation to the Belize PUC's final decision on BEL's 2008/2009 rate application. After adjusting for these regulatory disallowances, Q2/08 earnings would have been consistent with Q2/07 results.

Non-Regulated – Fortis Generation

Net earnings for Fortis Generation increased to \$7 million in Q2/08 from \$5 million in Q2/07, as: (1) greater rainfall in central Newfoundland led to increased power production; and, (2) the company realized higher energy prices in Ontario and New York. Average realized power prices increased to \$70.51/MWh in Q2/08 from 65.69/MWh in Q2/07. Power production increased by 38 GWh in Q2/08 to 312 GWh, compared to electricity production of 274 GWh Q2/07.

Non-Regulated – Fortis Properties

Net earnings at Fortis Properties increased to \$7 million in Q2/08 from \$6 million in Q2/07. The increase in earnings was largely the result of the acquisition of the Delta Regina, which closed on August 1, 2007, and improved performance across the portfolio. Average revenue per available room increased to \$87.54 in Q2/08 from \$77.68 in Q2/07, while occupancy as at June 30, 2008 was 96.7%, up from 96% as at June 30, 2007.

Corporate and Other

Expenses at the corporate and other segment increased to \$18.0 million in Q2/08, from \$12 million in Q2/07, largely due to increased financing charges associated with the acquisition of Terasen Gas.

Estimates

Although Q2/08 adjusted EPS were \$0.02/share below our estimate, we believe the variance is attributable to the seasonality of earnings at Terasen Gas and Fortis Alberta. Our financial forecasts for 2008 and 2009 are unchanged.

Valuation

Our valuation reflects a weighted approach: 17x diluted 2009E EPS of \$1.53 (12.5%), 1.75x 2009E book value per share of \$18.58, and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04.

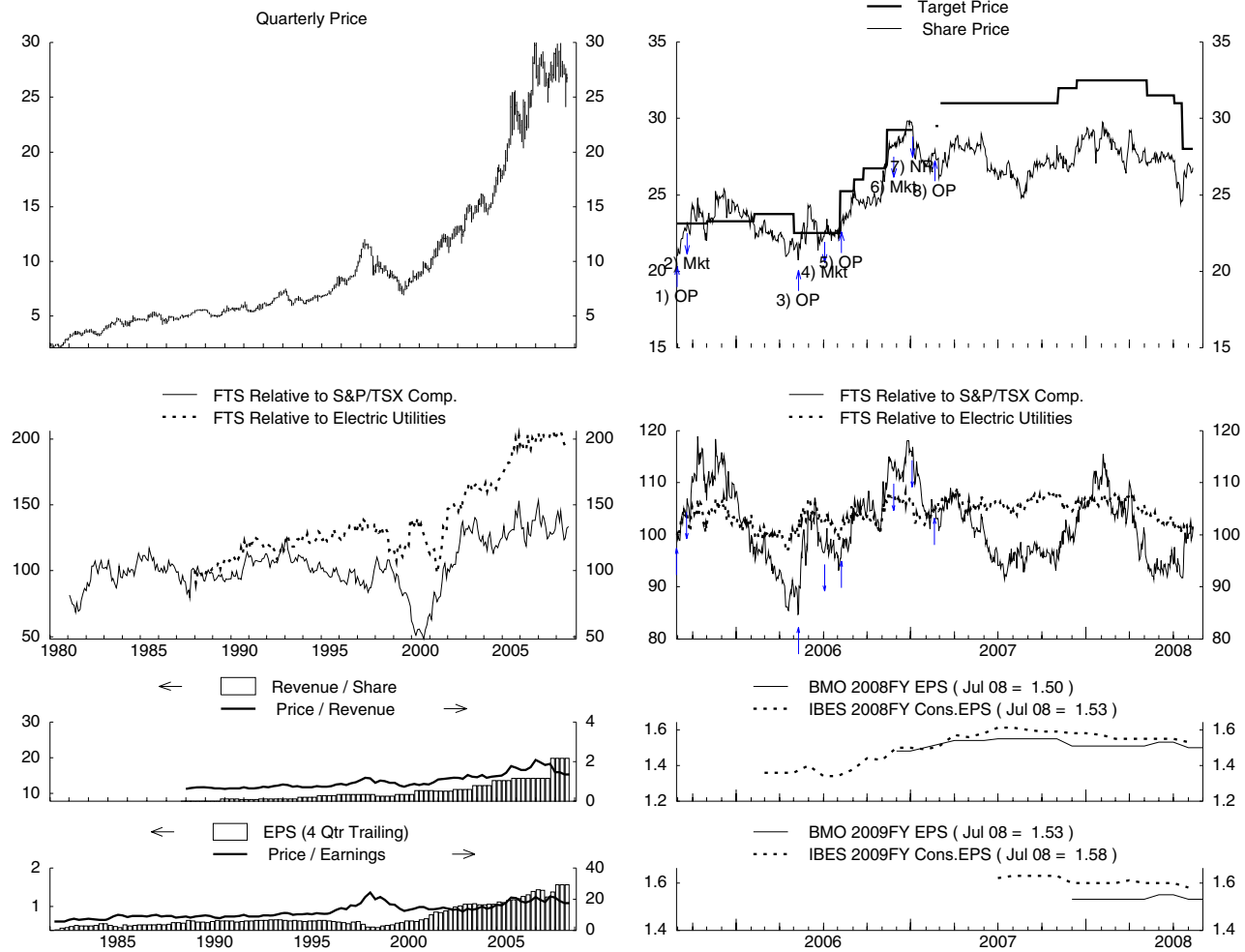
Recommendation

We believe that Fortis' shares are attractively valued, considering its large organic growth pipeline. Our rating is Outperform.

Table 3: Consolidated Summary Sheet

10-Aug-08								Michael McGowan
Current Price:		\$26.76						BMO Capital Markets
12-Month Target Price:		\$28.00						
ROR:		8.4%						
						Recommendation:		Outperform

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.56	17	1.00	3.7	64	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.1		14.0			14.5		
10 Year:	12.8		8.3			10.1		
20 Year:	5.1		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q1/2008.

FTS - Rating as of 30-Aug-05 = Mkt

Date	Rating Change	Share Price
1 30-Aug-05	Mkt to OP	\$21.01
2 20-Sep-05	OP to Mkt	\$23.18
3 10-May-06	Mkt to OP	\$20.75
4 4-Jul-06	OP to Mkt	\$22.60
5 8-Aug-06	Mkt to OP	\$23.24
6 24-Nov-06	OP to Mkt	\$28.20
7 3-Jan-07	Mkt to NR	\$29.51
8 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 8, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc.

August 11, 2008
Research Comment
Corporate Debt – Utilities

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Q2/08 Results: One-Time Items Lower Earnings but Cash Flow Moves Higher

Event: Fortis Inc. (Fortis) released Q2/08 financial results.

Impact: Neutral.

Key Points: One-time negative items at its Belize Electricity and FortisOntario subsidiaries pushed Fortis' net earnings 29% lower to \$29 million in Q2/08 versus Q2/07. Excluding the one-time items, comparable EPS of \$0.28 exceeded the First Call Mean of \$0.27 but were slightly below BMO Capital Markets equity research estimate of \$0.30. Largely reflecting the seasonal nature of Terasen Gas' cash flows and the timing of the Terasen acquisition, FFO in Q2/08 was 30% higher than Q2/07. Cash flow credit metrics to June 30 were either unchanged or modestly stronger but remain weak versus peers. Fortis' access to liquidity is adequate and leverage moved two percentage points lower in Q2/08.

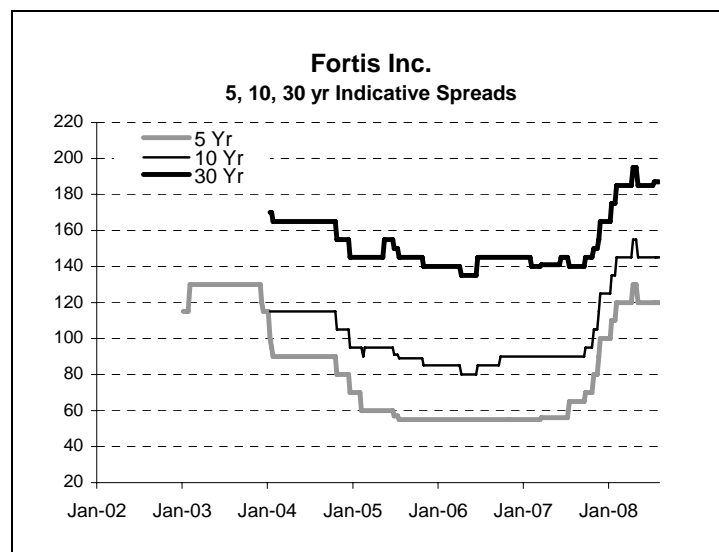
Credit and Spread Implications

Near Term: We do not expect Fortis' Q2/08 results to materially affect the spreads on its short-dated issue due 2010.

Medium Term: Potential exists for some uncertainty in Fortis' credit profile and ratings as it pursues further asset and business acquisitions. If Fortis' credit quality comes under pressure, we believe it is likely to be temporary, as Fortis has demonstrated a successful track record of managing its credit profile longer term.

Recommendation

With only one Canadian dollar debt issue, a \$100 million debenture due 2010, the opportunity to gain exposure to Fortis is limited. Nevertheless, we view Fortis as a solid credit and one unlikely to cause too much concern for investors. We believe the added fuel and geographic diversity provided by the Terasen acquisition in 2007 has strengthened Fortis' credit profile. We also view Fortis' conservative management as very supportive of its credit quality and that of its operating subsidiaries, especially those that rely on Fortis for ongoing financial and executive support.



Source: BMO Capital Markets

Relative Value

Sector Value: Along with those of other utilities, Fortis' 5-year indicative spreads moved wider in the last half of 2007 and early 2008 but unlike many of its peers, its spreads have remained reasonably stable in the past six months. We believe Fortis' current spreads offer reasonable value relative to those of similarly rated peers.

Credit Curve: Fortis' single Canadian dollar debt issue limits the opportunity for investors to pursue relative value trades along the issuer's credit curve. The relatively illiquid nature of its paper is also a pricing consideration.

DBRS

BBB (High)
Stable

S&P

A-
Stable

Moody's

Not Rated

Details & Analysis

Earnings and Cash Flow

One-time items at its Belize Electricity and FortisOntario subsidiaries of \$13 million and approx. \$2 million, respectively, pushed Fortis' net earnings 29% lower to \$29 million in Q2/08, from \$41 million for the same period in 2007. Excluding the one-time items, earnings for the second quarter of 2008 would have been \$44 million, a tad higher than the \$41 million recorded in Q2/07. The one-time item affecting the Belize Electricity earnings is Fortis' approximate share of an \$18 million disallowance with respect to incurred fuel and purchased power costs. The one-time item affecting the FortisOntario results was a refund to Niagara Mohawk Power Corp. related to a previous payment made in December 2007.

Apart from Belize Electricity and FortisOntario, FortisAlberta also realized lower earnings, driven by increased corporate taxes primarily associated with the regulator-approved Alberta Electric System Operator charges deferral account and the timing of its collection. A notable jump in the earnings of Terasen Gas companies, essentially due to the timing of its acquisition in mid Q2/07, partly offset the lower earnings from the subsidiaries. Fortis' other subsidiaries performed reasonably well, while corporate expenses increased by 50%. The increase in expenses reflects Terasen's acquisition-related finance charges, and Terasen corporate and CustomerWorks Limited Partnership (CWLP) amortization costs and operating expenses, less revenue from CWLP.

Summary of Earnings - Fortis Companies

Quarter Ended June 30			
(\$mm)	2008	2007	Variance
Regulated Gas Utilities - Canadian			
Terasen Gas Companies	12	1	11
Regulated Electric Utilities - Canadian			
FortisAlberta	7	15	(8)
FortisBC	7	6	1
Newfoundland Power	10	8	2
Other Canadian Electric Utilities*	2	4	(2)
Regulated Electric Utilities - Caribbean#	(5)	8	(13)
Non-Regulated - Fortis Generation	7	5	2
Non-Regulated - Fortis Properties	7	6	1
Corporate and Other	(18)	(12)	(6)
Net Income	29	41	(12)

*Includes Maritime Electric and FortisOntario.

#Includes Belize Electricity, Fortis Turks and Caicos, Caribbean Utilities.

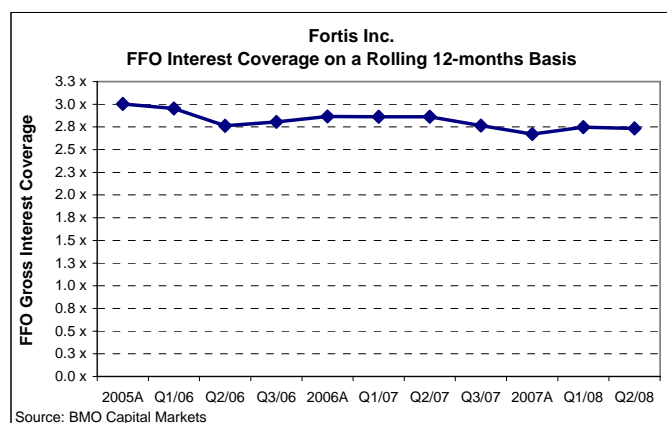
Source: Company Reports

On an earnings per share basis, Fortis' reported EPS in Q2/08 were \$0.19. As per BMO Capital Markets equity research, after adjusting for the one-time items at Belize Electricity Limited (70.1% Fortis); and FortisOntario, comparable EPS of \$0.28 exceeded the First Call Mean of \$0.27 and were slightly below BMO Capital Markets equity research estimate of \$0.30. For a detailed review of Fortis' earnings results, refer to BMO Capital Markets' equity comment by Michael McGowan published August 11, 2008.

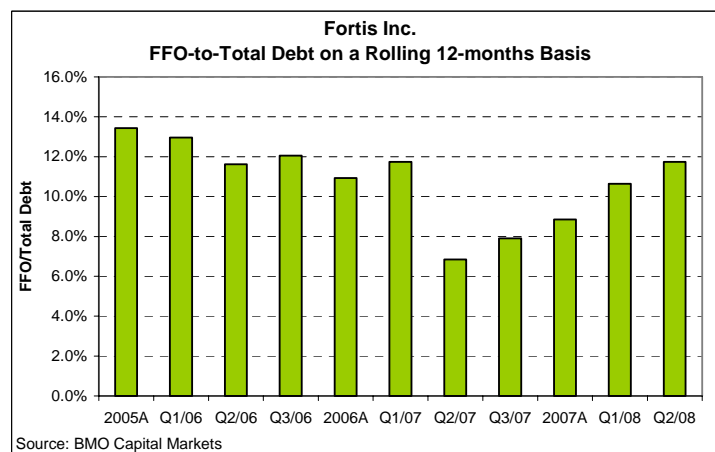
Largely reflecting the seasonal nature of Terasen Gas' cash flows and the fact that Fortis' Q2/07 results only included Terasen Inc.'s cash flows from May 17, Fortis' consolidated funds from operations (FFO) in Q2/08 of \$150 million were 30% higher than the same period in 2007.

However, as is the norm with Fortis in view of its heavy capital expenditure outlays, the higher FFO was insufficient to fund its capital expenditure in the quarter (net of customer contributions) of \$204 million, and distributions of \$45 million. The resulting cash flow shortfall of \$99 million was largely met through positive working capital adjustments.

Fortis' large capital expenditure program will dominate its capital outlays and financing activities for the next few years at least, with negative free cash flow expected. In 2008, Fortis utilities are expected to undertake capital expenditure in excess of \$900 million, and in the next five years the company's consolidated expenditure program is expected to exceed \$4.5 billion. Of the expected expenditure, approx. \$3.5 billion is to be undertaken by its electric utilities, with expenditure by its gas utilities expected to exceed \$1 billion.



Fortis' cash flow credit metrics on a rolling 12-months basis to June 30, 2008, were either unchanged or modestly stronger than in Q1/08, but still low relative to peers. As expected, increasing cash flow contributions from Terasen has led to an improving trend in Fortis' FFO-to-total debt ratio to the point that it is now at about its pre-Terasen acquisition level. At the end of Q2/08, the ratio was 12%, a tad higher (essentially due to rounding) than the 11% realized in Q1/08. Despite the improvement, the ratio is expected to remain on the low side for some time as Fortis continues to partially debt finance expansion of its electricity and gas network assets with a delay in receipt of regulated cash flows from the assets constructed. FFO gross interest coverage was 2.7x for the 12 months to June 30, relatively unchanged from Q1/08 and year-end 2007.



Recent Developments

Developments with respect to Fortis in Q2/08 generally involved regulatory developments and growth initiatives at its operating subsidiaries. The developments are not expected to have a material impact on the issuer's credit profile. Some of the more notable developments include:

- The Terasen Gas companies are now substantially integrated into the Fortis Group of companies, with Fortis advising that it is now well-positioned to pursue acquisitions;
- Terasen Gas (Vancouver Island) Inc. has commenced construction of its \$200 million LNG storage. Regulatory approval to construct the facility was received April 1, 2008;
- FortisBC filed its 2009 and 2010 capital plan for gross capex of approx. \$193 million for 2009 and \$196 million for 2010. A decision is expected in Q4/08. In addition, the utility expects to file a 2009 Revenue Requirements Application during Q4/08;
- Newfoundland Power filed with the regulator its 2009 Capital Budget Application of approx. \$62 million;
- In June 2008, the Alberta Utilities Commission issued a decision, ruling that there is sufficient evidence that a review of the ROE level, the adjustment mechanism and utility capital structures in a generic proceeding would be appropriate. The proceeding applies to FortisAlberta and a hearing is scheduled for Q1/09;
- On July 25, Belize Electricity filed an application with the Supreme Court of Belize for judicial review and appeal of the Belize Public Utility Commission's decision regarding the utility's 2008/2009 rate application; and
- Subsequent to quarter end, FortisOntario and Grimsby Power Inc. entered into a non-binding letter of intent for the acquisition by FortisOntario of a 10% interest in Grimsby Power Inc.'s electricity distribution business for cash of approx. \$1.1 million. Grimsby Power Inc. serves approx. 10,000 customers in a service territory that is in close proximity to FortisOntario's operations in Fort Erie. The transaction is structured to take advantage of the existing transfer tax holiday, which expires in October 2008.

Capital Structure and Liquidity

A net reduction in consolidated debt of \$220 million together with issued equity proceeds of \$228 million, mostly in the form of preferred shares, improved Fortis' capital structure in Q2/08. Total consolidated debt at the end of the second quarter was \$5.3 billion, down from \$5.5 billion at the end of the first quarter. Debt repayments of \$629 million in the quarter, the bulk of which were associated with repayments under committed credit facilities and repayment of long-term debt at Terasen Gas, were offset by net proceeds from long-term debt issues of \$409 million. The majority of Fortis' consolidated debt, about 95%, resides at the company's various subsidiaries. Debt at the holding company level comprises:

- a \$100 million of senior unsecured debentures maturing 2010
- US\$150 million senior unsecured notes maturing 2014
- US\$200 million senior unsecured notes maturing 2037
- US\$50 million of outstanding unsecured subordinated convertible debentures due between 2012 and 2016 (US\$60 million initially issued)

Leverage, as measured by total debt-to-total capital and treating the company's preference shares as equity, is marginally above the company's target level of 60%. At the end of Q2/08 leverage was 61%, down two percentage points on that in Q1/08 and down from 64% at year-end 2007.

On a consolidated basis, Fortis' liquidity remains adequate for its operational, capital requirement and refinancing needs. At the end of Q2/08 the company had \$1.8 billion of available credit facilities after drawdowns and outstanding letters of credit under its \$2.2 billion of credit facilities. The available capacity was \$463 million more than at the end of Q1/08. In addition, the company had cash and cash equivalents of \$59 million, down modestly from \$67 million at March 31, 2008. Maturing debt commitments and amortizing debt repayments are manageable with the company facing maturing debt of \$200 million at Terasen Inc. in December 2008 that is expected to be repaid on maturity. In 2009, the company has three small debt maturities totalling \$125 million. In the most recent quarter, Terasen Gas Inc. undertook a \$250 million MTN debt issue, Maritime Electric undertook a \$60 million issue, and FortisAlberta a \$100 million issue.

Credit Ratings

The corporate credit and senior unsecured debt issue ratings on Fortis remained stable and in the absence of a material, largely debt-financed, asset or business acquisition, we do not anticipate any downward pressure on its ratings in the near term.

Standard & Poor's last rating action on Fortis was the upgrade of its corporate credit and senior unsecured debt ratings one and two notches, respectively on June 19, 2007. At the time, the agency advised that the basis for the rating upgrade was the improved diversity resulting from the acquisition of Terasen Inc., the operation of each regulated subsidiary as a separate stand-alone entity with debt non-recourse to Fortis, a commitment to maintaining low levels of debt at the Fortis holding company level, 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.

More recently in its industry report card published June 24, 2008, the agency commented on Fortis' dispute with the Belize government regarding rates for Belize Electricity. While Standard & Poor's view the dispute as serious to Belize Electricity, the small proportion of Fortis earnings affected (2%-3%) mean the dispute's consequences are not material to Fortis.

DBRS last confirmed its ratings on Fortis on November 30, 2007 based on its strong credit metrics and low business risk profile driven by its diverse ownership of regulated operating subsidiaries. DBRS viewed the acquisition of Terasen as neutral to slightly positive to the credit profile of Fortis with the improvement in its business risk profile attributable to the stable cash flow and earnings of the established, mature regulated gas utilities, as well as increased diversification the acquisition provides. The agency advises that Fortis' consolidated coverage metrics may be modestly affected by the accelerated capital expenditures of a number of its utility subsidiaries, as earnings and cash flows do not begin until projects are completed and rolled into the rate base of utilities.

Recommendation

With only one Canadian dollar debt issue, a \$100 million debenture due 2010, the opportunity to gain exposure to Fortis is limited. Nevertheless, we view Fortis as a solid credit and one unlikely to cause too much concern for investors. We believe the added fuel and geographic diversity provided by the Terasen acquisition in 2007 has strengthened Fortis' credit profile. We also view Fortis' conservative management as very supportive of its credit quality and that of its operating subsidiaries, especially those that rely on Fortis for ongoing financial and executive support.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding (\$mm)
Terasen Inc.	6.300%	1-Dec-08	\$200	MTNs	30-Nov-01	NA	Make Whole (+ 27 bps)	110582AA8	\$200
Terasen Gas Inc.	10.750%	8-Jun-09	\$60	Debentures	8-Jun-89	NA	Make Whole (+ 40 bps)	457452AH3	\$60
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	1-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$5
Maritime Electric Co. Ltd.	12.00%	1-May-10	\$15	First Mortgage	1-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
FortisBC Inc.	9.44%	31-Oct-13	\$5	WPP Mortgage	NA	NA	NA	NA	\$5
Newfoundland Power	10.55%	1-Aug-14	\$40	First Mortgage	9-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
Terasen Inc.	5.560%	15-Sep-14	\$125	MTNs	15-Sep-04	93.0 bps	Make Whole (+ 23 bps)	88079ZAB9	\$125
Fortis Inc.	5.74%	31-Oct-14	US\$150	Senior Note	28-Oct-04	NA	NA	NA	US\$150
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debenture	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
Terasen Gas Inc.	11.800%	30-Sep-15	\$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	\$75
FortisBC Inc.	8.77%	1-Feb-16	\$25	Unsecured Debenture	1-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	2-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric Co. Ltd.	11.50%	15-Aug-16	\$12	First Mortgage	1-Jan-91	NA	NA	NA	\$12
Terasen Gas Inc.	10.300%	30-Sep-16	\$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	\$200
Maritime Electric Co. Ltd.	8.55%	7-Dec-18	\$15	First Mortgage	7-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	1-Oct-20	\$40	First Mortgage	1-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$35
FortisBC Inc.	7.81%	1-Dec-21	\$25	Unsecured Debenture	1-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$34
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DAA7	\$25
Maritime Electric Co. Ltd.	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	7-May-26	\$40	First Mortgage	7-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric Co. Ltd.	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$46
Terasen Gas Inc.	6.950%	21-Sep-29	\$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	\$150
Maritime Electric Co. Ltd.	8.92%	3-Jul-31	\$20	First Mortgage	3-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	1-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$72
Terasen Gas Inc.	6.500%	1-May-34	\$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	\$150
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debenture	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Terasen Gas Inc.	5.900%	26-Feb-35	\$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	\$150
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	9-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debenture	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100
Terasen Gas Inc.	5.550%	25-Sep-36	\$120	MTNs	25-Sep-06	136.0 bps	Make whole (+ 34 bps)	88078ZAE4	\$120
Newfoundland Power	5.901%	17-Aug-37	\$70	First Mortgage	17-Aug-07	NA	Make Whole (+35 bps)	EG7385503	\$70
Fortis Inc.	6.600%	1-Sep-37	US\$200	Senior Unsecured Note	6-Sep-07	NA	NA	NA	US\$200
Terasen Gas Inc.	6.000%	2-Oct-37	\$250	MTNs	2-Oct-07	148.0 bps	Make Whole (+ 37 bps)	88078ZAF1	\$250
Terasen Gas (Vancouver Island) Inc.	6.050%	15-Feb-38	\$250	Unsecured Debenture	15-Feb-08	183.0 bps	Make Whole (+ 46 bps)	88100BAA7	\$250
Maritime Electric Co. Ltd.	6.054%	2-Apr-38	\$60	First Mortgage	2-Apr-08	205.0 bps	Make Whole (+ 50 bps)	570311AA8	\$60
FortisAlberta	5.850%	15-Apr-38	\$100	Unsecured Debenture	15-Apr-08	180.0 bps	Make Whole (+45 bps)	34957ZAB0	\$100
Terasen Gas Inc.	5.800%	13-May-38	\$250	MTNs	13-May-08	163.0 bps	Make Whole (+40 bps)	88078ZAG9	\$250
Terasen Inc.	8.000%	19-Apr-40	\$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole (+ 55 bps)	05534KAA7	\$125
FortisAlberta	4.99%	3-Jan-47	\$110	Unsecured Debenture	3-Jan-07	97.0 bps	Make Whole (+ 24 bps)	34957ZAA2	\$110
FortisBC Inc.	5.90%	4-Jul-47	\$105	Unsecured Debenture	4-Jul-07	125.0 bps	Make Whole (+ 31 bps)	34957UAC9	\$105

Ownership Structure

Widely Held.

Fortis Inc. (continued)

Credit Facilities (\$mm)

Company	Facility Size	Amount Available		Maturity	Type
		Q2/08	Q1/08		
Fortis Inc.*	\$2,241.0	\$1,794.0	\$1,331.0		Lines of Credit

*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.

Corp. Lease Schedule (\$mm) at 12/31/2007

Year	Capital Lease Payments	Operating Lease Payments	Lease Receipts
2008	3.0	21.0	
2009	2.5	17.5	
2010	2.5	17.5	
2011	2.5	16.0	
2012	2.5	16.0	
Thereafter	53.0	108.0	

*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2007 (\$mm)	FY 2006 (\$mm)	FY 2007 (\$mm)	FY 2006 (\$mm)
Accrued Benefit Obligation	667.0	413.4	233.0	125.2
Plan Assets	674.0	390.6	-	-
Funded Status	7.0	(22.8)	(233.0)	(125.2)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	120.0	93.0	150.0	63.7
Discount Rate	5.0-5.25%	5.0-5.25%	5.0-5.25%	5.0-5.25%
Expected Long-term Rate of Return on Assets	6.5-7.5%	6.5-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.3%	3.5-4.0%	3.5-4.3%	3.5-4.0%

Historical Ratings

Senior Unsecured Rating - Fortis

DBRS			S&P			Moody's		
Rating	Trend	Date	Rating	Trend	Date	Rating	Trend	Date
BBB (high)	Stable	5-Nov-03	A-	Stable	19-Jun-07	Not Rated		
BBB (high)	Under Review - Developing	16-Sep-03	BBB	Credit Watch Positive	26-Feb-07			
BBB (high)	Stable	6-Oct-00	BBB	Stable	7-Dec-05			
			BBB	Negative	7-Jan-04			
			BBB	Credit Watch Negative	22-Sep-03			

Analyst's Certification

I, Laurence Conheady, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Dissemination of Research

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Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis

(FTS-TSX)

September 4, 2008

Research Fact Sheet

Gas & Electric Utilities

Stock Rating: Outperform
Industry Rating: Market Perform

Michael McGowan, CA, CFA

(416) 359-5807

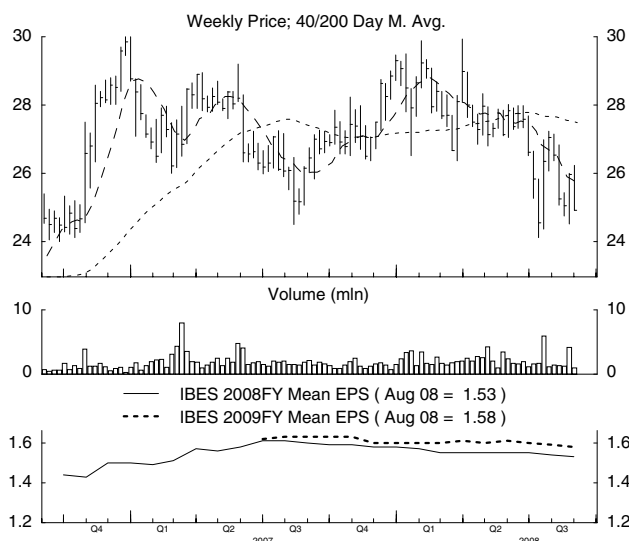
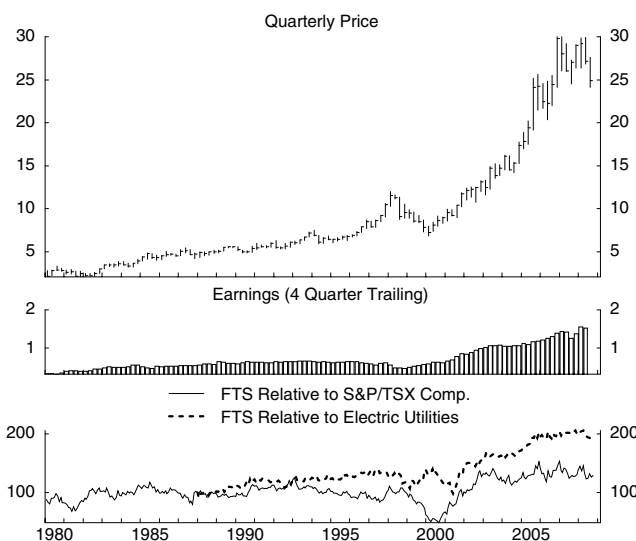
Michael.McGowan@bmo.com

Assoc: Benjamin Pham

Price (4-Sep)	\$24.92	52-Week High	\$29.94	
Target Price	\$28.00	52-Week Low	\$24.11	
Dividend	\$1.00	Book Value	\$16.69	
Yield	4.0%	Price/Book	1.5x	
Shares O/S (mm)	155.5	Mkt. Cap (\$mm)	\$3,876	
Float O/S (mm)	155.5	Float Cap (\$mm)	\$3,876	
Wkly Vol (000s)	1,946	Wkly \$ Vol (mm)	\$53.3	
Net Debt (\$mm)	\$6,047	Next Rep. Date	6-Nov (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2006A	\$0.35	\$0.33	\$0.37	\$0.33
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58 a	\$0.28 a	\$0.22	\$0.44

(FY-Dec.)	2006A	2007A	2008E	2009E
EPS	\$1.33	\$1.29	\$1.50	\$1.53
P/E			16.6x	16.3x
CFPS	\$2.70	\$2.71	\$3.68	\$3.76
P/CFPS			6.8x	6.6x
Div.	\$0.67	\$0.82	\$1.00	\$1.04
EV (\$mm)	\$5,760	\$9,795	\$10,109	\$10,525
EBITDA (\$mm)	\$531	\$810	\$1,292	\$1,312
EV/EBITDA	10.9x	12.1x	7.8x	8.0x
ROE (%)	11.3%	7.2%	8.7%	8.2%
Book Value (\$)	\$12.19	\$16.69	\$17.39	\$18.63
D/Tot. Cap. (%)	65.9%	64.7%	65.9%	64.6%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Fort Erie, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (56%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos),

FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis reported Q2/08 GAAP EPS of \$0.19. After adjusting for: (1) a \$13 million (\$0.08/share) charge related to the company's share of regulatory disallowances at Belize Electricity Limited (BEL, 70.1% Fortis) associated with BEL's 2008/2009 rate application; and (2) a \$2 million (\$0.01/share) charge related to the repayment of a refund received in 2007 related to cross-

border transmission interconnection agreements at Fortis Ontario, comparable EPS of \$0.28 exceeded the First Call Mean of \$0.27 and were slightly below our estimate of \$0.30.

Corporate Developments – On August 18, Caribbean Utilities Company Ltd. announced that it has issued 2.54 million common shares for gross proceeds of approximately US\$28.2 million, pursuant to a rights offering that was announced on June 23, 2008. Fortis Energy (Bermuda) Ltd., a wholly owned subsidiary of Fortis Inc., acquired 2.16 million common shares during the offering and now owns 56% of the Class A shares issued by Caribbean Utilities, up from 54%.

On June 27, the Belize Public Utilities Commission (PUC) released its final decision for BEL's annual tariff application, which was filed on April 2. The PUC's final decision is largely consistent with the preliminary decision issued on May 2. Specifically, the PUC's final decision

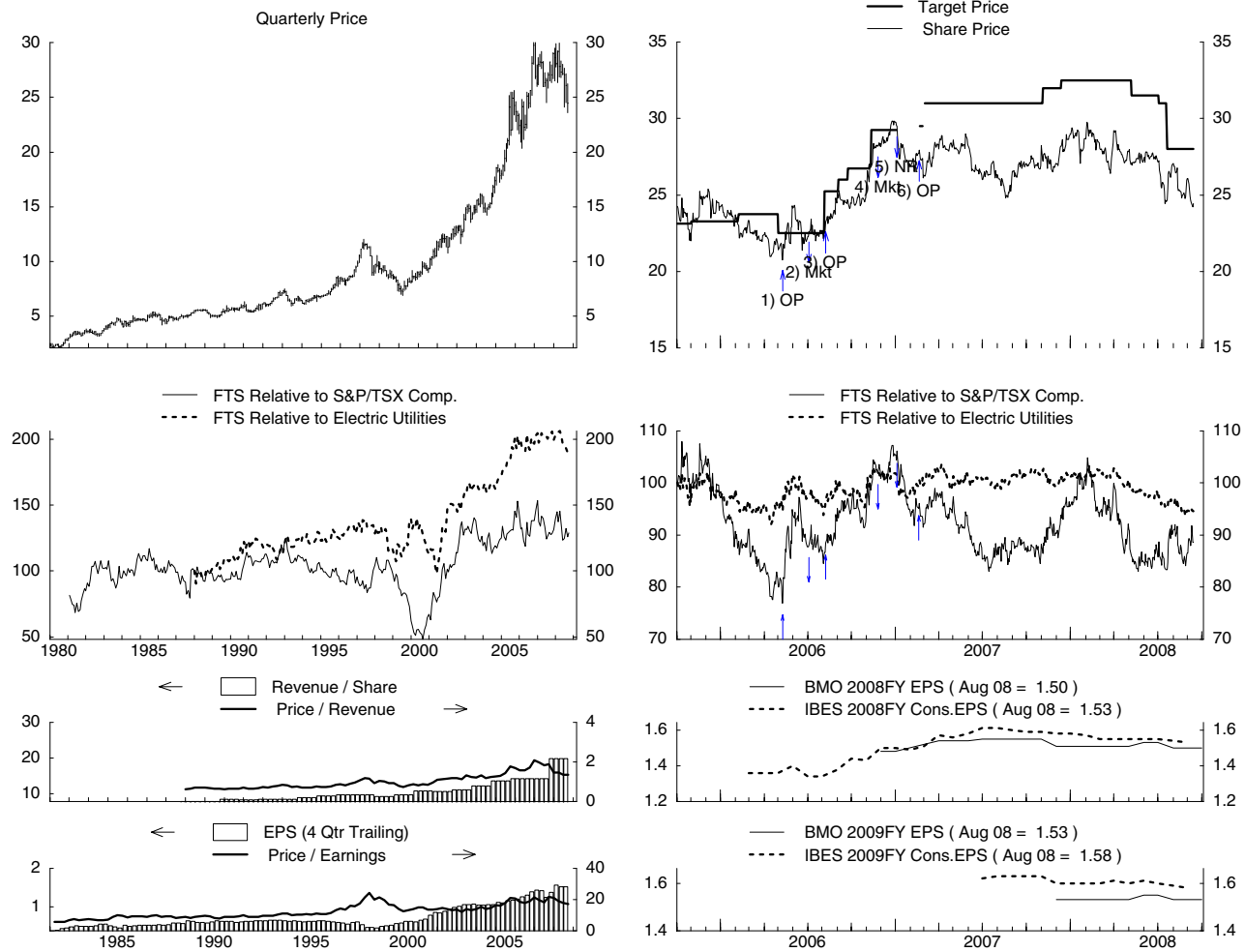
appears to: (1) maintain current electricity rates at BZ\$0.441/kWh; (2) result in regulatory disallowances totalling BZ\$36 million (C\$12.6 million of which is Fortis' share); and (3) lower BEL's allowed return on rate base to 10% from 12%. PUC's decision is expected to reduce the annual earnings contribution from BEL by approximately C\$6 million or \$0.04 per share.

Forecasts – Our diluted EPS estimates are \$1.50 in 2008 and \$1.53 in 2009.

Valuation – Our \$28.00 target price reflects a weighted valuation approach: 17x diluted 2009E EPS of \$1.53 (12.5%), 1.75x 2009E BVPS of \$18.63, and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04.

Recommendation – We believe that Fortis' shares are attractively valued, considering its large organic growth pipeline. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.52	17	1.00	3.8	66	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	7.6		14.0			14.5		
10 Year:	12.6		8.3			10.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2008.

FTS - Rating as of 3-Oct-05 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: September 11, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starmine Universe **
Buy	Outperform	44%	55%	52%
Hold	Market Perform	48%	41%	42%

Sell Underperform 8% 4% 6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$24.52
Target Price: \$28.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

September 9, 2008
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Benjamin Pham

Turks and Caicos Restoring Power After Hurricane Ike

Impact

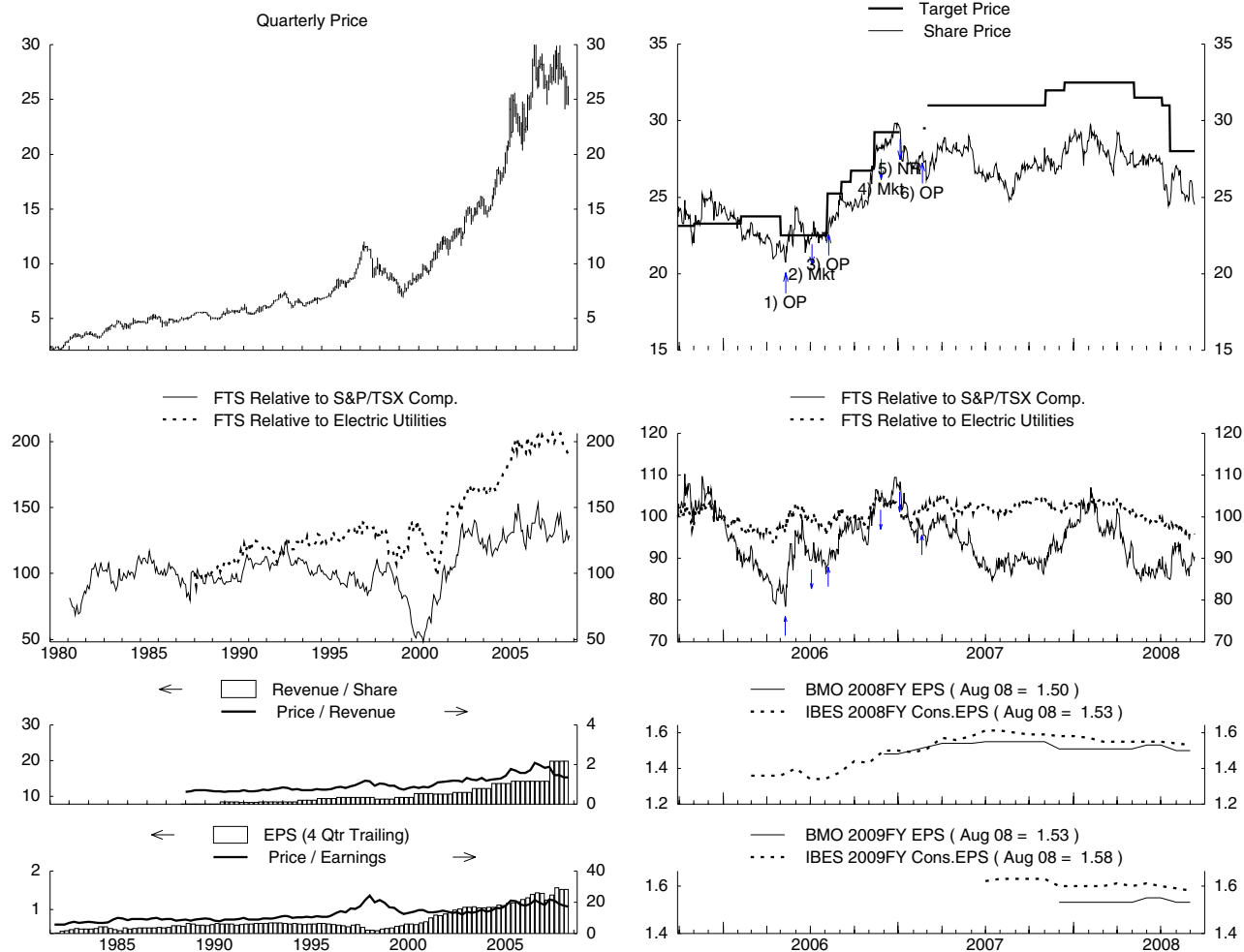
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Details & Analysis

On September 8, Fortis issued a press release stating that Fortis Turks and Caicos ("Fortis TCI"; 100% Fortis Inc.) is working to restore electricity service to its customers after Hurricane Ike, a Category 4 Hurricane, passed through the Turks and Caicos Islands. Fortis has indicated that there does not appear to be substantial damage to its power generation facilities. Although it is too early to determine the costs associated with transmission system repairs or whether Fortis TCI will draw on its hurricane insurance, it is our understanding that Fortis TCI is able to utilize the following mechanisms to recovery hurricane related costs: (1) if the utility's actual return on assets is below the allowed regulated return of 17.5%, Fortis TCI may apply for a rate increase in order to collect the variance the following year; (2) Fortis TCI can capitalize hurricane-related repairs for potential collection in future rates; and (3) plant and property impaired by the storm could be accounted for as a regulatory deferral and collected in future rates. Management has noted that the impact of Hurricane Ike on Fortis TCI's service area in Providenciales is far less severe than the damage caused by Hurricane Ivan to Caribbean Utilities' (56% Fortis Inc.) service area in 2004. Management will assess the impact to Fortis TCI's earnings after electricity service has been restored to the island.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



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2003	1.03	14	0.52	3.5	49	8.82	1.7	12
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Average:		14		4.9	64		1.5	10.9
Growth(%):								
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10 Year:	12.6		8.3			10.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2008.

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Last Daily Data Point: September 8, 2008

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	43%	53%	52%

Hold	Market Perform	48%	45%	42%
Sell	Underperform	9%	2%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc

(FTS-TSX)

October 31, 2008Brief Research Note
Gas & Electric Utilities**Stock Rating:** Outperform
Stock Price: \$26.50
Target Price: \$28.00**Michael McGowan, CA, CFA**
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Benjamin Pham**Member of:** Top 15 Value Stock Selections
Top 15 Income Stock Selections

Q3/08 Results Exceed Expectations, Assisted By Tax Benefits

Impact

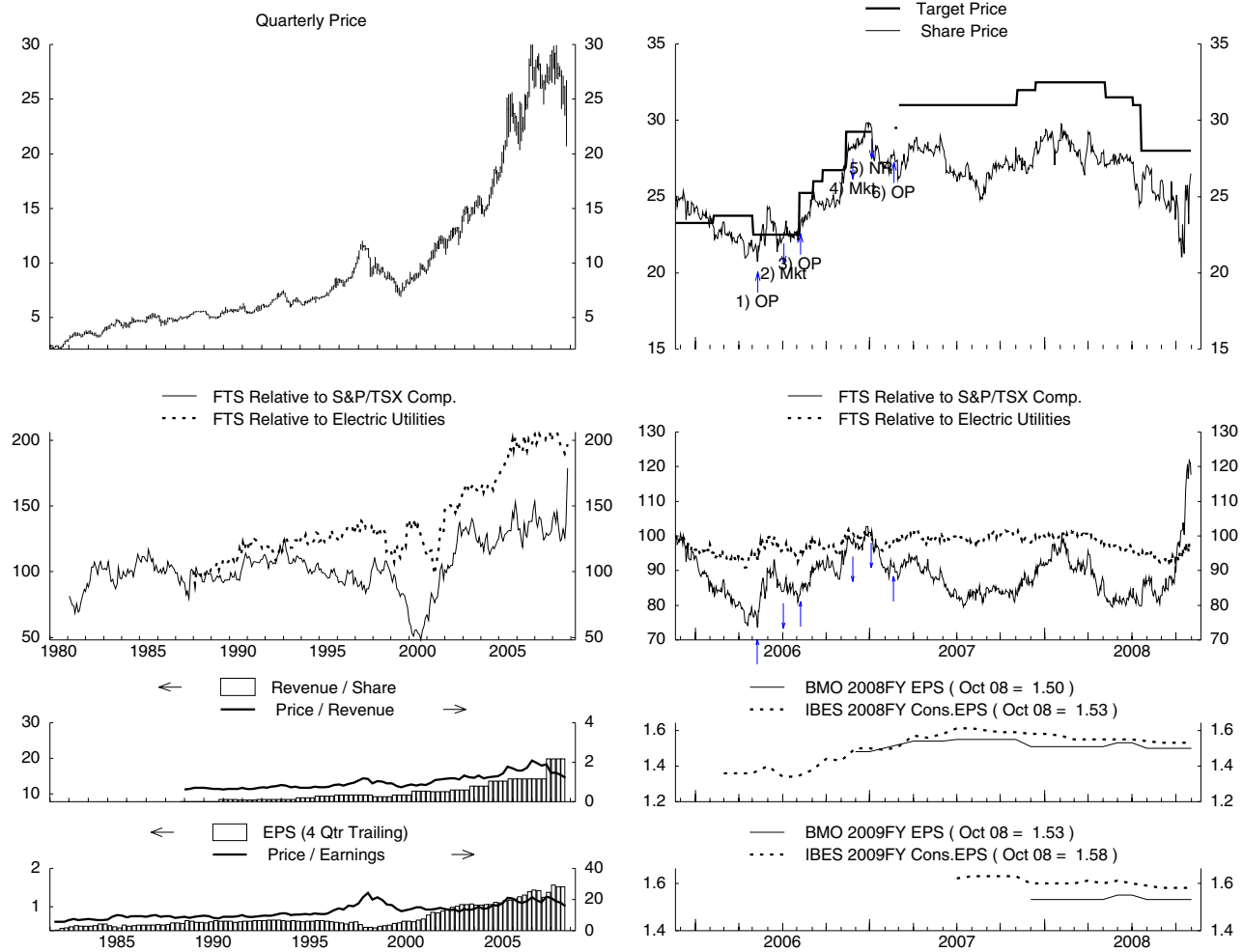
Slightly Positive

Details & Analysis

Fortis reported Q3/08 GAAP EPS of \$0.31. After adjusting for a \$7.5 million tax recovery regarding the settlement of legislation related to interprovincial tax structures, comparable Q3/08 EPS of \$0.26 were higher than our estimate of \$0.22 and the First Call Mean estimate of \$0.21. The variance between expected and actual results largely appears to be due to a \$4.5 million (\$0.03/share) recovery of future income taxes related to AESO deferral account balances at FortisAlberta that were previously expensed during the first half of 2008. The remainder of Fortis' business segments (especially Fortis BC, Terasen Gas, and Fortis Generation) appear to have performed well during the quarter. Other notable items from the release include: (1) the company estimates that Hurricane Ike reduced earnings at Fortis Turks and Caicos by approximately \$1 million; (2) the company's five-year capital budget remains at \$4.5 billion, consistent with guidance provided during Q2/08; and (3) on October 3, 2008, Belize Electricity Limited (BEL, 70.1% Fortis) was granted leave by the Supreme Court of Belize to apply for a judicial review of the Belize Public Utility Commission's final decision on BEL's 2008–2009 rate application. The judicial review is expected to be heard in late 2008.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.52	16	1.00	4.2	66	16.69	1.4	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	7.6		14.0			14.5		
10 Year:	12.7		8.3			10.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2008.

FTS - Rating as of 21-Nov-05 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: October 30, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starline Universe**
Buy	Outperform	44%	55%	52%
Hold	Market Perform	48%	41%	42%
Sell	Underperform	8%	4%	6%

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Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc.

November 3, 2008

Research Comment

Corporate Debt – Utilities

Laurence Conheady

(416) 359-4584

laurence.conheady@bmo.com

Q3/08 EPS Above Expectations; Cash Flow Slightly Lower, But Metrics Stable

Event: Fortis Inc. (Fortis) released Q3/08 financial results.

Impact: Neutral.

Key Points: Reflecting in part a \$7.5 million tax reduction at the Terasen group of companies, Fortis Inc. recorded a 58% increase in earnings in Q3/08 versus Q3/07. After adjusting for the tax recovery, comparable EPS of \$0.26 were higher than BMO Capital Markets' equity research estimate of \$0.22 and the First Call Mean of \$0.21. FFO dipped by \$15 million with the lower FFO, reflecting more of a decline from an elevated level the year earlier than weaker performance. Fortis' credit metrics remain low versus peers but are relatively stable. Access to liquidity remains adequate and leverage moved marginally higher on the back of higher debt.

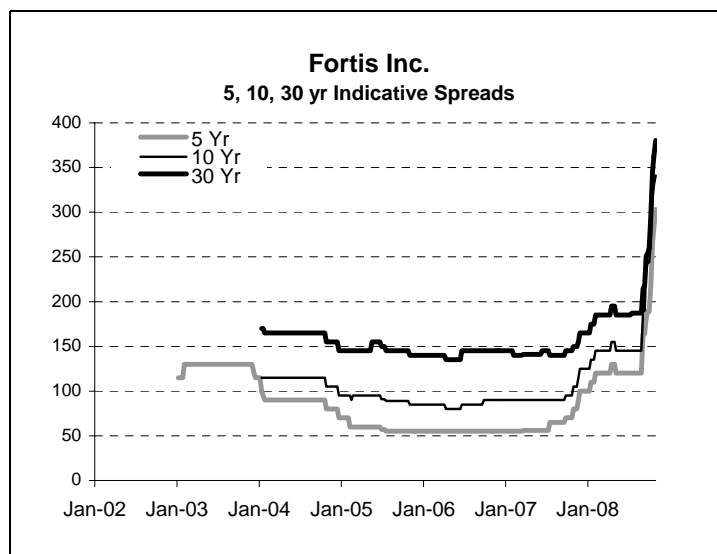
Credit and Spread Implications

Near Term: We do not expect Fortis' Q3/08 results to materially impact the spreads on its short-dated issue due 2010.

Medium Term: Potential exists for some uncertainty in Fortis' credit profile and ratings as it pursues further asset and business acquisitions. Should Fortis' credit quality come under pressure, we believe it is likely to be temporary as Fortis has demonstrated a successful track record of managing its credit profile longer term.

Recommendation

With only one Canadian dollar debt issue, a \$100 million debenture due 2010, the opportunity to gain exposure to Fortis is limited. Nevertheless, we view Fortis as a solid credit and one unlikely to cause too much concern for investors. Should it undertake a debt issue, possibly to refinance upcoming maturing debt at Terasen Inc., we would suggest investors take advantage of the limited opportunity it would offer to gain exposure to the credit. We also view Fortis' conservative management as very supportive of its credit quality and that of its operating subsidiaries, especially those that rely on Fortis for ongoing financial and executive support.



Source: BMO Capital Markets

Relative Value

Sector Value: We believe that Fortis' current 5-year indicative spreads offer good relative value compared to those of similarly rated peers. The only problem for investors is trying to get access to the limited issue outstanding.

Credit Curve: Fortis' single Canadian dollar debt issue limits the opportunity for investors to pursue relative value trades along the issuer's credit curve. The relatively illiquid nature of its paper is also a pricing consideration.

DBRS

BBB (High)
Stable

S&P

A-
Stable

Moody's

Not Rated

Details & Analysis

Earnings and Cash Flow

Reflecting in part a \$7.5 million tax reduction at the Terasen group of companies, Fortis Inc. recorded a 58% increase in earnings in Q3/08 versus that realized in the corresponding period a year earlier. Excluding the tax reduction associated with the settlement of historical tax matters at Terasen, Q3/08 earnings were 34% higher than a year earlier. Also contributing to the higher earnings was the following:

- the favourable impact of a shift in the quarterly distribution of annual purchased power expense at Newfoundland Power, which increased its earnings by approx. \$5.5 million;
- lower energy supply costs at FortisBC;
- higher corporate tax recoveries at FortisAlberta; and
- Higher returns from non-regulated Fortis generation, reflecting higher hydroelectric production due to higher rainfall in Belize and upper New York State.

Partly offsetting the higher earnings from the Canadian regulated electric utilities were lower earnings at Caribbean regulated utilities related to the 3.25% reduction in basic electricity rates at Caribbean Utilities, effective January 1, 2008; the lower allowed rate of return on the rate base assets at Belize Electricity; and a loss of revenue at Fortis Turks and Caicos due to the impact of Hurricane Ike, partially offset by overall growth in electricity sales.

Summary of Earnings - Fortis Companies			
Quarter Ended September 30			
(\$mm)	2008	2007	Variance
Regulated Gas Utilities - Canadian			
Terasen Gas Companies	1	(4)	5
Regulated Electric Utilities - Canadian			
FortisAlberta	17	15	2
FortisBC	8	6	2
Newfoundland Power	8	2	6
Other Canadian Electric Utilities*	5	5	0
Regulated Electric Utilities - Caribbean[#]	7	10	(3)
Non-Regulated - Fortis Generation	9	5	4
Non-Regulated - Fortis Properties	9	8	1
Corporate and Other	(15)	(16)	1
Net Income	49	31	18

*Includes Maritime Electric and FortisOntario.

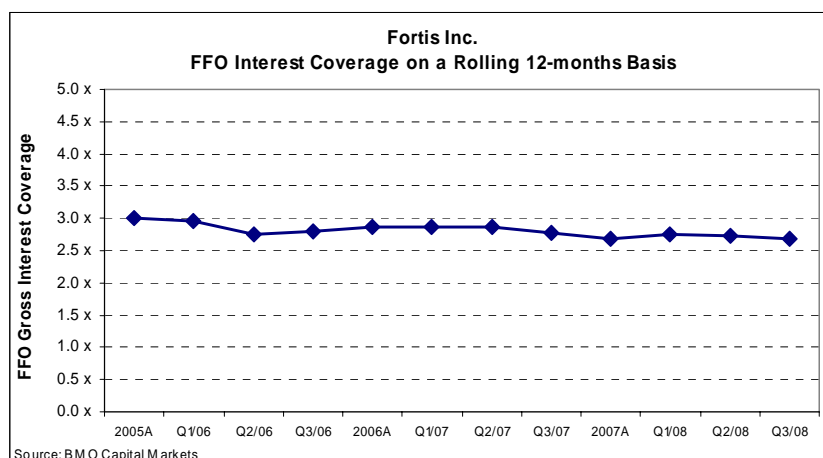
[#]Includes Belize Electricity, Fortis Turks and Caicos, Caribbean Utilities.

Source: Company Reports

Fortis reported EPS of \$0.31. As per BMO Capital Markets equity research, after adjusting for the \$7.5 million tax recovery, comparable Q3/08 EPS of \$0.26 were higher than BMO Capital Markets' equity research estimate of \$0.22 and the First Call Mean of \$0.21. The variance between expected and actual results largely appears to be due to a \$4.5 million (\$0.03/share) recovery of future income taxes related to AESO deferral account balances at FortisAlberta that were previously expensed during the first half of 2008. The rest of Fortis' business segments (especially Fortis BC, Terasen Gas, and Fortis Generation) performed well during the quarter. For a more detailed review of Fortis' earnings results, refer to BMO Capital Markets' equity comment by Michael McGowan published Nov. 3, 2008.

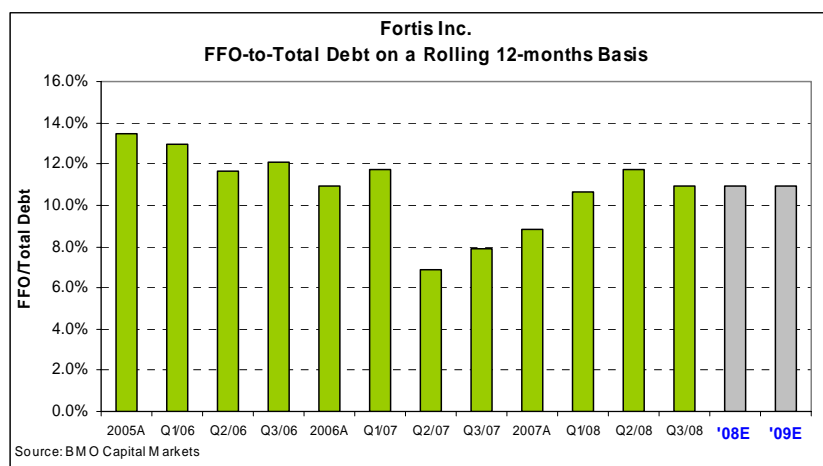
Fortis' funds from operations (FFO) dipped by \$15 million or 10% in Q3/08 relative to that realized in the same period a year earlier. The lower FFO in the most recent quarter reflected more a decline from an elevated level the year earlier than weaker performance in Q3/08. More particularly, contributing to the dip was lower cash flows from FortisAlberta relative to what the utility realized in Q3/07. In Q3/07, FortisAlberta included in its FFO proceeds from the sale of its 2006 AESO charges deferral account and a \$12 million tax refund.

Fortis' heavy capex outlays ensured that it again realized negative free cash flow in Q3/08, as it will for the next few years. FFO of \$131 million was insufficient to meet capex (net of customer contributions) of \$203 million and distributions of \$46 million. The cash flow shortfall was met through an increase in short-term borrowings and draw-downs under credit facilities. The company's large capex program will dominate its capital outlays and financing activities for the next few years at least, with negative free cash flow expected. Fortis expects gross consolidated capex to exceed \$4.5 billion in the next five years, driven largely by the Terasen companies, FortisAlberta, FortisBC, and the company's regulated utility operations in the Caribbean. For 2008, the company is looking to spend over \$900 million.



Fortis' cash flow credit metrics on a rolling-12-months basis to September 30, 2008, remain low compared to peers but nevertheless relatively stable. More particularly, FFO gross interest coverage was 2.7x for the 12-months to the end of the third quarter as it has been for the past three quarters.

A metric showing slightly more variability is the company's FFO-to-debt. As expected, it has improved over the past few quarters as the company received increasing cash flow contributions from Terasen. The ratio is now back in the range of its pre-Terasen acquisition level. At the end of Q3/08, the ratio was 11%, slightly down on the 12% realized in Q2/08, although it should be noted that the increase in Q2/08 was in part due to rounding. Despite the improved FFO-to-debt ratio in recent times, it is expected to remain on the low side for some time as Fortis continues to partially debt finance expansion of its electricity and gas network assets with a delay in receipt of regulated cash flows from the assets constructed.



Recent Developments

- On October 3, 2008, Belize Electricity Limited (70.1% Fortis) was granted leave by the Supreme Court of Belize to apply for a judicial review of the Belize Public Utility Commission's final decision on Belize Electricity Limited's 2008-2009 rate application. The company expects the judicial review to be heard in late 2008;
- In October Maritime Electric filed for a basic rate increase, effective April 1, 2009. The application reflects an increase in energy-related costs;
- In September, FortisBC filed its 2009 rate application requesting a general rate increase, effective January 1, 2009. The increase reflects the impact of ongoing investments in infrastructure and increasing power purchases;
- In September, Hurricane Ike struck the Turks and Caicos Islands causing damage to the distribution system of Fortis Turks and Caicos. The company estimates that Hurricane Ike reduced the utility's earnings by approximately \$1 million;
- Fortis has advised that following a revision in Q3/08 of the tax treatment associated with AESO transmission tariff payments, FortisAlberta is no longer expected to experience fluctuations in corporate income taxes associated with the operation of the AESO charges deferral account. As a result, the current two-year lag between the recording future income tax impacts and payment of the transmission tariff amounts to the AESO and the collection from customers is not expected to occur; and
- In August Newfoundland Power extended its \$100 million revolving credit facility to August 2011. The facility was due to expire in January 2009.

Capital Structure and Liquidity

Fortis consolidated debt outstanding moved higher in the third quarter by \$276 million, largely on the back of increased short-term borrowings of \$160 million and net borrowings under credit facilities of \$103 million. No long-term debt issues were undertaken by Fortis or its subsidiaries in Q3/08. Total consolidated debt at the end of the third quarter was \$5.6 billion, about 90% of which resides at the company's various subsidiaries. Of the \$550 million to \$600 million of debt issues at the holding company level (depending on the prevailing US\$/C\$ exchange rate) only one, a \$100 million senior unsecured debenture maturing 2010, is a Canadian dollar issue.

Leverage, as measured by total debt-to-total capital and treating the company's preference shares as equity, continues to be marginally above the company's target level of 60% as it has been for the last six quarters. At the end of Q3/08, increased debt commitments in the quarter moved leverage to 62%, up from 61% at mid-year but still below its most recent high of 64% at year-end 2007.

On a consolidated basis, Fortis' liquidity remains adequate for its operational, capital requirement and refinancing needs. At the end of Q3/08 the company had:

- \$1.5 billion of available credit facilities after draw downs and outstanding letters of credit under its \$2.2 billion of credit facilities, down from \$1.8 billion at mid-year; and
- cash and cash equivalents of \$68 million, \$9 million more than at June 30, 2008.

In addition, the company faces no material credit facility renewal risk, although we note one of the subsidiaries, FortisBC, faces a facility renewal in May 2009. Further, the company does not face material debt refinancing risk. Between now and the end of 2009, Fortis Inc. and its subsidiaries have \$325 million in maturities including a \$200 million maturity of Terasen Inc. in December 2008 which is to be repaid on maturity, and three small debt maturities totalling \$125 million.

Credit Ratings

The corporate credit and senior unsecured debt issue ratings on Fortis remained stable and in the absence of a material largely debt-financed asset or business acquisition, we do not anticipate any downward pressure on its ratings in the near term.

Standard & Poor's stable outlook on the Fortis rating reflects the underlying operational and financial stability of Fortis' operating companies. The agency advises that the two main factors that could lead to lower ratings would be if Fortis materially elevated its leverage, or if one of its larger subsidiaries encountered major financial or operational difficulties. On the flip side, the agency sees little chance of a positive outlook or upgrade in the near term, but they could occur as a result of further diversification. Embedded in the rating is an expectation that Fortis will remain acquisitive in the next few years, with the agency noting that 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.

DBRS last confirmed its ratings on Fortis on November 30, 2007, based on its strong credit metrics and low business risk profile driven by its diverse ownership of regulated operating subsidiaries. DBRS viewed the acquisition of Terasen as neutral to slightly positive to the credit profile of Fortis with the improvement in its business risk profile attributable to the stable cash flow and earnings of the established, mature regulated gas utilities, as well as increased diversification the acquisition provides. The agency advises that Fortis' consolidated coverage metrics may be modestly impacted by the accelerated capital expenditures of a number of its utility subsidiaries, as earnings and cash flows do not begin until projects are completed and rolled into the rate base of utilities.

Recommendation

With only one Canadian dollar debt issue, a \$100 million debenture due 2010, the opportunity to gain exposure to Fortis is limited. Nevertheless, we view Fortis as a solid credit and one unlikely to cause too much concern for investors. Should it undertake a debt issue, possibly to refinance upcoming maturing debt at Terasen Inc., we would suggest investors take advantage of the limited opportunity it would offer to gain exposure to the credit. We also view Fortis' conservative management as very supportive of its credit quality and that of its operating subsidiaries, especially those that rely on Fortis for ongoing financial and executive support.

Fortis Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount (\$mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding (\$mm)
Terasen Inc.	6.300%	1-Dec-08	\$200	MTNs	30-Nov-01	NA	Make Whole (+ 27 bps)	11058ZAA8	\$200
Terasen Gas Inc.	10.750%	8-Jun-09	\$60	Debentures	8-Jun-89	NA	Make Whole (+ 40 bps)	457452AH3	\$60
FortisBC Inc.	6.75%	31-Jul-09	\$50	Unsecured Debenture	19-Jul-02	NA	Make Whole (+ 40.0 bps)	NA	\$50
FortisBC Inc.	11.00%	1-Dec-09	\$15	Secured Debenture	20-Dec-89	NA	Make Whole (+ 50 bps)	NA	\$5
Maritime Electric Co. Ltd.	12.00%	1-May-10	\$15	First Mortgage	1-Jan-90	NA	NA	NA	\$15
Fortis Inc.	7.40%	25-Oct-10	\$100	Debenture	25-Oct-00	175.0 bps	Make Whole (+ 43.0 bps)	349553AB3	\$100
FortisBC Inc.	9.65%	16-Oct-12	\$15	Secured Debenture	16-Oct-92	NA	Make Whole (+ 40.0 bps)	NA	\$15
FortisBC Inc.	9.44%	31-Oct-13	\$5	WPP Mortgage	NA	NA	NA	NA	\$5
Newfoundland Power	10.55%	1-Aug-14	\$40	First Mortgage	9-Aug-89	117.0 bps	Make Whole (+ 50.0 bps)	651350BD1	\$32
Terasen Inc.	5.560%	15-Sep-14	\$125	MTNs	15-Sep-04	93.0 bps	Make Whole (+ 23 bps)	88079ZAB9	\$125
Fortis Inc.	5.74%	31-Oct-14	US\$150	Senior Note	28-Oct-04	NA	NA	NA	US\$150
FortisAlberta	5.33%	31-Oct-14	\$200	Unsecured Debenture	25-Oct-04	75.0 bps	Make Whole (+ 18 bps)	34957EAA9	\$200
FortisBC Inc.	5.48%	28-Nov-14	\$140	Unsecured Debenture	30-Nov-04	97.0 bps	Make Whole (+ 24 bps)	34957UAA3	\$140
Terasen Gas Inc.	11.800%	30-Sep-15	\$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	\$75
FortisBC Inc.	8.77%	1-Feb-16	\$25	Unsecured Debenture	1-Mar-96	NA	Make Whole (+ 35.0 bps)	NA	\$25
Newfoundland Power	10.90%	12-May-16	\$40	First Mortgage	2-May-91	116.0 bps	Make Whole (+ 50 bps)	651350BE9	\$34
Maritime Electric Co. Ltd.	11.50%	15-Aug-16	\$12	First Mortgage	1-Jan-91	NA	NA	NA	\$12
Terasen Gas Inc.	10.300%	30-Sep-16	\$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	\$200
Maritime Electric Co. Ltd.	8.55%	7-Dec-18	\$15	First Mortgage	7-Dec-93	NA	NA	NA	\$15
Newfoundland Power	9.00%	1-Oct-20	\$40	First Mortgage	1-Oct-92	93.0 bps	Make Whole (+ 40.0 bps)	651350BG4	\$35
FortisBC Inc.	7.81%	1-Dec-21	\$25	Unsecured Debenture	1-Jun-97	NA	Make Whole (+ 25.0 bps)	NA	\$25
Newfoundland Power	10.13%	15-Jun-22	\$40	First Mortgage	15-Jun-92	112.0 bps	Make Whole (+ 37.5 bps)	651350BF6	\$34
FortisBC Inc.	8.80%	28-Aug-23	\$25	Secured Debenture	30-Nov-93	NA	Make Whole (+ 40.0 bps)	95358DAA7	\$25
Maritime Electric Co. Ltd.	7.57%	22-Dec-25	\$15	First Mortgage	22-Dec-00	NA	NA	NA	\$15
Newfoundland Power	8.90%	7-May-26	\$40	First Mortgage	7-May-96	68.0 bps	Make Whole (+ 20 bps)	651350BH2	\$36
Maritime Electric Co. Ltd.	8.63%	15-Jan-27	\$15	First Mortgage	15-Jan-97	NA	NA	NA	\$15
Newfoundland Power	6.80%	20-Nov-28	\$50	First Mortgage	20-Nov-98	130.0 bps	Make Whole (+ 30 bps)	651350BJ8	\$46
Terasen Gas Inc.	6.950%	21-Sep-29	\$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	\$150
Maritime Electric Co. Ltd.	8.92%	3-Jul-31	\$20	First Mortgage	3-Jul-96	NA	NA	NA	\$20
Newfoundland Power	7.52%	1-Nov-32	\$75	First Mortgage	31-Oct-02	185.5 bps	Make Whole (+ 46 bps)	651350BK5	\$72
Terasen Gas Inc.	6.500%	1-May-34	\$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	\$150
FortisAlberta	6.22%	31-Oct-34	\$200	Unsecured Debenture	25-Oct-04	115.0 bps	Make Whole (+ 28 bps)	34957EAB7	\$200
Terasen Gas Inc.	5.900%	26-Feb-35	\$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	\$150
Newfoundland Power	5.44%	15-Aug-35	\$60	First Mortgage	15-Aug-05	NA	NA	NA	\$59
FortisBC Inc.	5.60%	9-Nov-35	\$100	Unsecured Debenture	10-Nov-05	120.0 bps	Make Whole (+ 30 bps)	34957UAB1	\$100
FortisAlberta	5.40%	21-Apr-36	\$100	Unsecured Debenture	21-Apr-06	100.0 bps	Make Whole (+ 25 bps)	34957EAC5	\$100
Terasen Gas Inc.	5.550%	25-Sep-36	\$120	MTNs	25-Sep-06	136.0 bps	Make whole (+ 34 bps)	88078ZAE4	\$120
Newfoundland Power	5.901%	17-Aug-37	\$70	First Mortgage	17-Aug-07	NA	Make Whole (+35 bps)	EG7385503	\$70
Fortis Inc.	6.600%	1-Sep-37	US\$200	Senior Unsecured Note	6-Sep-07	NA	NA	NA	US\$200
Terasen Gas Inc.	6.000%	2-Oct-37	\$250	MTNs	2-Oct-07	148.0 bps	Make Whole (+ 37 bps)	88078ZAF1	\$250
Terasen Gas (Vancouver Island) Inc.	6.050%	15-Feb-38	\$250	Unsecured Debenture	15-Feb-08	183.0 bps	Make Whole (+ 46 bps)	88100BAA7	\$250
Maritime Electric Co. Ltd.	6.054%	2-Apr-38	\$60	First Mortgage	2-Apr-08	205.0 bps	Make Whole (+ 50 bps)	570311AA8	\$60
FortisAlberta	5.850%	15-Apr-38	\$100	Unsecured Debenture	15-Apr-08	180.0 bps	Make Whole (+45 bps)	34957ZAB0	\$100
Terasen Gas Inc.	5.800%	13-May-38	\$250	MTNs	13-May-08	163.0 bps	Make Whole (+40 bps)	88078ZAG9	\$250
Terasen Inc.	8.000%	19-Apr-40	\$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole (+ 55 bps)	05534KAA7	\$125
FortisAlberta	4.99%	3-Jan-47	\$110	Unsecured Debenture	3-Jan-07	97.0 bps	Make Whole (+ 24 bps)	34957ZAA2	\$110
FortisBC Inc.	5.90%	4-Jul-47	\$105	Unsecured Debenture	4-Jul-07	125.0 bps	Make Whole (+ 31 bps)	34957UAC9	\$105

Ownership Structure

Widely Held.

Fortis Inc. (continued)

Credit Facilities (\$mm)

Company	Facility Size	Amount Available		Maturity	Type
		Q3/08	Q2/08		
Fortis Inc.*	\$2,241.0	\$1,532.0	\$1,794.0		Lines of Credit

*Represents the consolidated authorized lines of credit of Fortis Inc. and its subsidiaries.

Corp. Lease Schedule (\$mm) at 12/31/2007

Year	Capital Lease Payments	Operating Lease Payments	Lease Receipts
2008	3.0	21.0	
2009	2.5	17.5	
2010	2.5	17.5	
2011	2.5	16.0	
2012	2.5	16.0	
Thereafter	53.0	108.0	

*Capital lease payments are related to the agreement entered into by FortisBC for the operation of BTS.

Pension Summary

	Pension Benefit Plans		Other Benefit Plans	
	FY 2007 (\$mm)	FY 2006 (\$mm)	FY 2007 (\$mm)	FY 2006 (\$mm)
Accrued Benefit Obligation	667.0	413.4	233.0	125.2
Plan Assets	674.0	390.6	-	-
Funded Status	7.0	(22.8)	(233.0)	(125.2)
Accrued Benefit Asset (Liability)				
Net of Valuation Allowance	120.0	93.0	150.0	63.7
Discount Rate	5.0-5.25%	5.0-5.25%	5.0-5.25%	5.0-5.25%
Expected Long-term Rate of Return on Assets	6.5-7.5%	6.5-7.5%	NA	NA
Rate of Future Increase in Compensation	3.5-4.3%	3.5-4.0%	3.5-4.3%	3.5-4.0%

Historical Ratings

DBRS			S&P			Moody's		
Rating	Trend	Date	Rating	Trend	Date	Rating	Trend	Date
BBB (high)	Stable	5-Nov-03	A-	Stable	19-Jun-07	Not Rated		
BBB (high)	Under Review - Developing	16-Sep-03	BBB	CreditWatch Positive	26-Feb-07			
BBB (high)	Stable	6-Oct-00	BBB	Stable	7-Dec-05			
			BBB	Negative	7-Jan-04			
			BBB	CreditWatch Negative	22-Sep-03			

Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

November 3, 2008
 Research Comment
 Toronto, Ontario

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 Assoc: Benjamin Pham

Q3/08 Earnings Above Expectations, Assisted by Tax Benefits

Event

Fortis reported Q3/08 GAAP EPS of \$0.31. After adjusting for a \$7.5 million tax recovery regarding a settlement related to interprovincial tax structure legislation, comparable Q3/08 EPS of \$0.26 were higher than our estimate of \$0.22 and the First Call Mean estimate of \$0.21. The variance between expected and actual results largely appears to be due to a \$4.5 million (\$0.03/share) recovery of future income taxes related to AESO deferral account balances at FortisAlberta that were previously expensed during the first half of 2008. The remainder of Fortis' business segments (especially Fortis BC and Fortis Generation) performed well during the quarter.

Impact

Slightly Positive.

Forecasts

We have updated our forecasts to reflect reported results, increased our foreign exchange assumption to 1.20 CAD = 1.00 USD from our previous assumption of parity and slightly increased our earnings estimates from Terasen Gas where results have consistently been above our estimates.

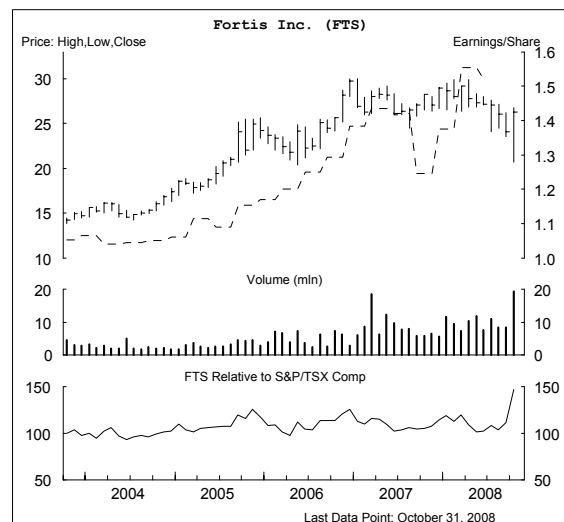
Valuation

Our valuation reflects a weighted approach: 17x diluted 2009E EPS of \$1.57 (12.5%), 1.70x 2009E book value per share of \$18.66 and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04. Our diluted EPS estimates increase to \$1.54 from \$1.50 in 2008 to \$1.57 from \$1.53 in 2009, and we are introducing our 2010 diluted EPS estimate of \$1.63.

Recommendation

We believe that Fortis' shares are attractively valued, considering its relatively low-risk, diversified business model. Our rating is Outperform.

Price (31-Oct) \$26.30 **52-Week High** \$29.94
Target Price \$28.00 **52-Week Low** \$20.70



(FY-Dec.)	2007A	2008E	2009E	2010E
EPS	\$1.29	\$1.54↑	\$1.57↑	\$1.63
P/E		17.1x	16.8x	16.1x
CFPS	\$2.71	\$3.68	\$3.76	\$3.97
P/CFPS		7.1x	7.0x	6.6x
Div.	\$0.82	\$1.00	\$1.04	\$1.08
EV (\$mm)	\$9,795	\$10,323	\$10,756	\$11,178
EBITDA (\$mm)	\$810	\$1,329	\$1,348	\$1,411
EV/EBITDA	12.1x	7.8x	8.0x	7.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.28a	\$0.26a	\$0.44
2009E	\$0.59	\$0.29	\$0.25	\$0.48
Dividend	\$1.00			Yield 3.8%
Book Value	\$16.69			Price/Book 1.6x
Shares O/S (mm)	155.5			Mkt. Cap (\$mm) \$4,090
Float O/S (mm)	155.5			Float Cap (\$mm) \$4,090
Wkly Vol (000s)	2,244			Wkly \$ Vol (mm) \$60.0
Net Debt (\$mm)	\$6,046.8			Next Rep. Date 07-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.53; 2009E: \$1.58; 2010E: \$1.63

Changes

Annual EPS
 2008E \$1.50 to \$1.54
 2009E \$1.53 to \$1.57

Q3/08 Results Exceed Expectations; Expect Steady Hand Over Next Few Quarters

Fortis reported Q3/08 GAAP EPS of \$0.31. After adjusting for a \$7.5 million tax recovery regarding a settlement related to interprovincial tax structure legislation, comparable Q3/08 EPS of \$0.26 were higher than our estimate of \$0.22 and the First Call Mean estimate of \$0.21. The variance between expected and actual results largely appears to be due to a \$4.5 million (\$0.03/share) recovery of future income taxes related to AESO deferral account balances at FortisAlberta that were previously expensed during the first half of 2008. The remainder of Fortis' business segments (especially Fortis BC and Fortis Generation) performed well during the quarter.

Much of Fortis' recent growth has been the result of business combinations: FortisAlberta and FortisBC were acquired in May 2004, and Terasen Inc was acquired in May 2007. Although we believe that Fortis will continue to expand through acquisitions, the difficulty of raising financing in tumultuous equity and credit markets may limit near-term acquisition opportunities.

We therefore believe that in the short term Fortis will continue to optimize its various business segments and progress on its five-year \$4.5 billion capital expenditure program.

We continue to believe that Fortis' shares are attractively valued, considering its relatively low-risk, diversified business model. We are maintaining our \$28 price target and our Outperform rating.

Q3/08 Results

As set out in Table 1, Q3/08 GAAP income of \$49 million was \$18 million higher than net income of \$31 million reported in Q3/07. After adjusting for a \$7.5 million tax recovery regarding a settlement related to interprovincial tax structure legislation, Q3/08 adjusted income of \$41.5 million was 33.9% higher than net income of \$31 million in Q3/07. A discussion of the operating performance of each business segment follows below.

Table 1: Historical Results by Segment

	Q3/08 GAAP	Adjustments	Q3/08 Adjusted	Q3/07	Variance Q3/08 Adj vs. Q3/07	Variance %
Regulated Gas Utilities - Canadian						
Terasen Gas Companies	1.0	(5.5)	(4.5)	(4.0)	(0.5)	12.5%
Regulated Electric Utilities - Canadian						
FortisAlberta	17.0	-	17.0	15.0	2.0	13.3%
FortisBC	8.0	-	8.0	6.0	2.0	33.3%
Newfoundland Power	8.0	-	8.0	2.0	6.0	300.0%
Other Canadian	5.0	-	5.0	5.0	0.0	0.0%
	38.0	-	38.0	28.0	10.0	35.7%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	10.0	(3.0)	-30.0%
Non-Regulated - Fortis Generation	9.0	-	9.0	5.0	4.0	80.0%
Non-Regulated - Fortis Properties	9.0	-	9.0	8.0	1.0	12.5%
Corporate and Other	(15.0)	(2.0)	(17.0)	(16.0)	(1.0)	6.3%
Net Earnings Applicable to Common Shares	49.0	(7.5)	41.5	31.0	10.5	33.9%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

Terasen Inc.'s GAAP results included a \$5.5 million tax benefit regarding the settlement of a case related to interprovincial tax structures. Approximately \$2 million of the \$7.5 million tax benefit received during Q3/08 was recorded in the corporate segment. After adjusting for this tax benefit, reported results at Terasen Gas were consistent with those reported in Q3/07.

Regulated Electric Utilities – FortisAlberta

Net earnings at FortisAlberta in Q3/08 were \$17 million compared to \$15 million in Q2/07. Included in reported results was a \$4.5 million recovery of future income taxes expensed during the first half of 2008, which are related to deferral account balances associated with charges levied by the Alberta Electric System Operator that are either refundable or recoverable in customer rates. Reported results in Q3/07 included approximately \$3 million of tax recoveries related to the AESO deferral account balances. Excluding these tax recoveries, reported results at Fortis Alberta would have been \$12.5 million in Q3/08, or approximately 4.2% higher than net income of \$12 million (excluding tax recoveries) earned in Q3/07.

Regulated Electric Utilities – FortisBC

Net earnings at Fortis BC increased by \$2 million in Q3/08 compared to Q3/07. The increase was largely due to decreased energy supply costs, as the company was able to generate a higher proportion of energy from company-owned hydroelectric facilities as opposed to purchasing power.

Regulated Electric Utilities – Newfoundland Power

Net earnings from Newfoundland Power were \$8 million in Q3/08, up from \$2 million in Q3/07. The quarter-over-quarter variance was primarily due to a regulatory decision that modified the way purchased power expenses are allocated between quarters. Previously, monthly purchased power expenses were recognized based on an estimate of actual costs, with variances between actual and estimated purchased power expenses accrued to a deferral account that was discontinued, effective January 1, 2008. Newfoundland Power now recognizes the actual cost of purchased power each month. Although this change in regulatory accounting is not expected to impact annual earnings, the change in regulatory accounting increased earnings at Newfoundland Power by \$5.5 million in Q3/07.

Regulated Electric Utilities – Caribbean

Net earnings at the Caribbean business segment fell to \$7 million in Q3/08 compared to \$10 million in Q3/07. Lower revenues caused by Hurricane Ike reduced earnings at Fortis Turks and Caicos by approximately \$1 million during Q3/08 and are expected to reduce earnings by a further \$1 million in Q4/08. Fortis is in the preliminary stage of determining a claim under business interruption insurance. Business interruption insurance at Fortis Turks and Caicos carries a 30-day deductible.

The remainder of the decrease was the result of lower earnings at Belize Electricity Limited (BEL, 70.1% Fortis), caused by the Belize Public Utility Commission's final decision on BEL's 2008–2009 rate application, which effectively reduced BEL's allowed return on assets; and reduced earnings at Caribbean Utilities (57% Fortis) due to the elimination of the hurricane cost recovery surcharge effective January 1, 2008.

Unregulated – Fortis Generation

Strong hydrology and higher realized power prices increased earnings at Fortis Generation to \$9 million in Q3/08 compared to \$5 million in Q3/07.

Unregulated – Fortis Properties

Net earnings at Fortis properties increased to \$9 million in Q3/08 compared to \$8 million in Q3/07. The increase largely reflects contributions from the Delta Regina, which was acquired on August 1, 2007, and improved performance at properties located in Atlantic Canada. Revenue per available room (REVPAR) fell during Q3/08, but to \$93.64 from \$95.11 in Q3/07. In addition, occupancy declined slightly to 96.6% in Q3/08 compared to 96.9% in Q3/07.

Capital Expenditure Update

Consistent with guidance contained in the Q2/08 earnings release, Fortis' five-year capital budget remains at \$4.5 billion (up from a target of \$4 billion in early 2008). Approximately \$3.5 billion is expected to be spent in the regulated electricity business, with the majority at FortisAlberta and FortisBC. Capital expenditures at Terasen Gas over the next five years are expected to be approximately \$1 billion.

Details on specific capital projects contained in the Q3/08 earnings release are:

- FortisAlberta has begun the second phase of a program to replace conventional meters in its service area with new automated meters. Overall, FortisAlberta's meter replacement program expected to cost \$124 million and will convert approximately 435,000 customers to automated meters over a four year period that began in 2007.
- In October, FortisBC received approval from the British Columbia Utilities Commission for a \$141 million project to upgrade the transmission system in the Okanagan region of British Columbia. The project includes upgrading the existing overhead transmission line running from Vaseux Lake to the Oliver and Penticton regions of BC from 161 kV to 230 kV. In addition, a new 230 kV transmission line running from Vaseux Lake to Penticton will also be constructed.
- Fortis Properties intends to expand the Holiday Inn in Kelowna, BC, by adding 70 rooms and 4,000 square feet of meeting room space. Construction of this project is expected to begin in late 2008, with completion targeted for January 2010. The capital cost of this initiative is \$13 million.

Our estimate of Fortis' planned capital expenditures for the remainder of 2008 is set out in Table 2.

Table 2: Capital Expenditure by Business Segment

Segment	Q1/08	Q2/08	Q3/08	Q4/08E	2008E	% of Total
Terasen Gas Companies	\$40	\$56	\$56	\$98	\$250	26.9%
FortisAlberta	\$63	\$81	\$78	\$64	\$286	30.8%
FortisBC	\$24	\$26	\$31	\$55	\$136	14.6%
Newfoundland Power	\$13	\$17	\$17	\$6	\$53	5.7%
Other Regulated Utilities - Canadian	\$7	\$10	\$11	\$27	\$55	5.9%
Regulated Utilities - Caribbean	\$11	\$23	\$31	\$36	\$101	10.9%
Non-Regulated Businesses	\$7	\$11	\$10	\$20	\$48	5.2%
Total	\$165	\$224	\$234	\$306	\$929	100.0%

Source: BMO Capital Markets, Company Reports

Other Items

- On October 3, 2008, BEL was granted leave by the Supreme Court of Belize to apply for a judicial review of the Belize Public Utility Commission's final decision on BEL's 2008-2009 rate application. The judicial review is expected to be heard in late 2008.
- The capital cost to repair damage caused by Hurricane Ike has been estimated at approximately \$6 million. Fortis expects that damage repair expenditures made by Fortis Turks and Caicos will qualify as rate base additions and that the company will be allowed to earn a return on and of this capital.

Estimates

Our valuation reflects a weighted approach: 17x diluted 2009E EPS of \$1.57 (12.5%), 1.70x 2009E book value per share of \$18.66 and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04. Our diluted EPS estimates increase to \$1.54 from \$1.50 in 2008 to \$1.57 from \$1.53 in 2009, and we are introducing our 2010 diluted EPS estimate of \$1.63.

Table 3: Consolidated Summary

02-Nov-08

Current Price:

\$26.30

12-Month Target Price:

\$28.00

ROR:

10.3%

Michael McGowan

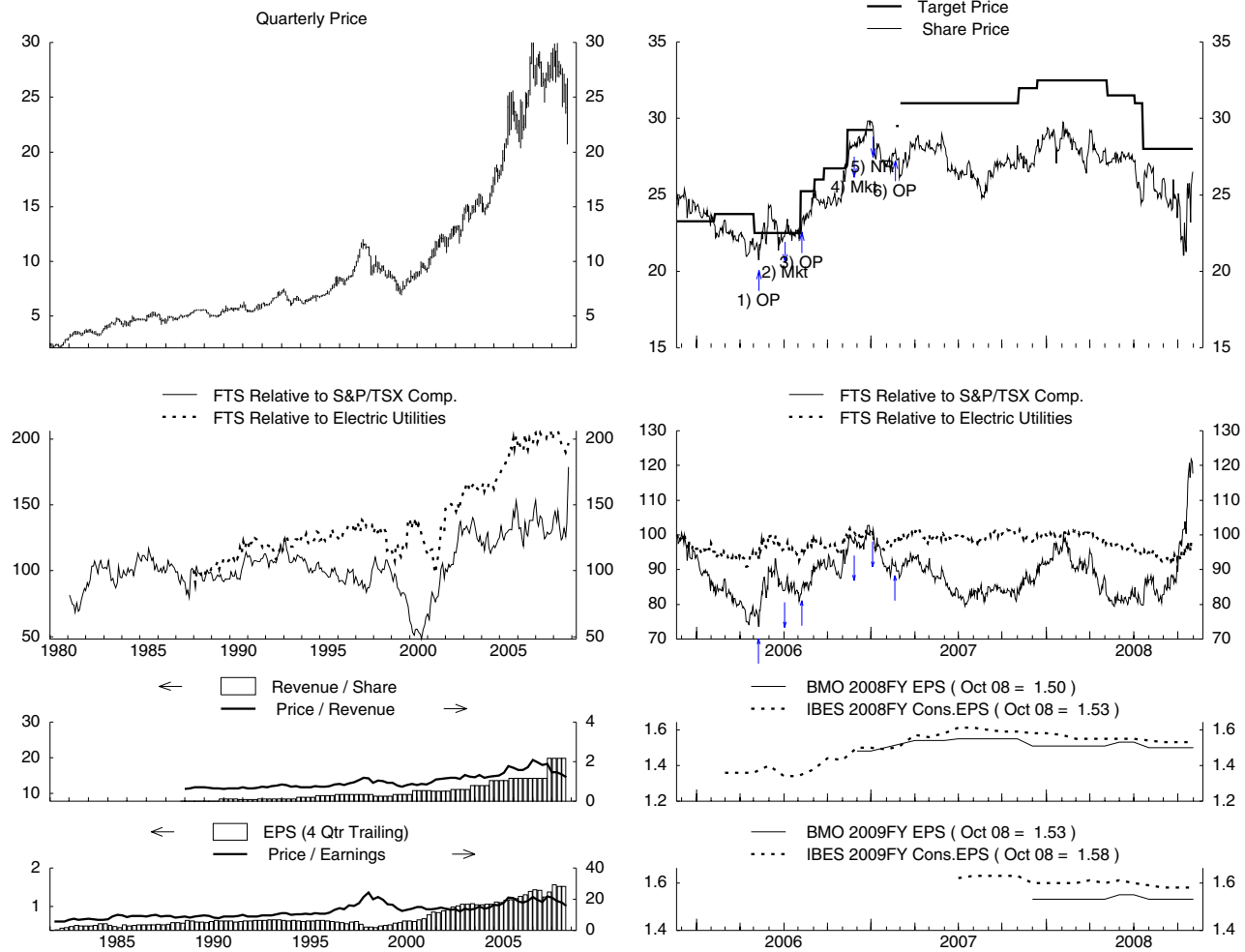
BMO Capital Markets

Recommendation:

Outperform

	Year Ending December 31									
	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.57	\$1.60	\$1.66	
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.54	\$1.57	\$1.63	
Segmented EPS										
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.20	\$0.20	
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.08	\$0.08	\$0.07	
CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.15	\$0.16	
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13	\$0.13	
Belize, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.18	\$0.22	\$0.22	
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.46	\$0.52	\$0.57	
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.70	\$0.69	
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.44)	(\$0.43)	(\$0.42)	
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04	\$1.08	
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	63.7%	65.1%	65.0%	
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	156.5	161.7	166.0	
Net Book Value	8.72	8.98	10.47	11.76	12.19	16.69	17.43	18.66	19.27	
Market Valuation										
Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-	-	
Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-	-	
Price: Current	-	-	-	-	-	-	\$26.30	-	-	
P/E Ratio: High	13.7	14.3	16.8	21.7	22.9	22.9	-	-	-	
P/E Ratio: Low	11.1	11.5	13.7	14.5	15.9	15.9	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	16.8	16.5	15.8	
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	2.4	-	-	-	
Price/Book Value: Low	1.2	1.4	1.4	1.4	1.7	1.7	-	-	-	
Price/Book Value: Current	-	-	-	-	-	-	1.5	1.4	1.4	
Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-	-	
Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-	-	
Yield: Current	-	-	-	-	-	-	3.80%	3.95%	4.11%	
Balance Sheet (\$mm)										
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	448.4	742.5	1,315.9	
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	4,920.9	4,916.9	4,650.6	
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0	475.0	
Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0	115.0	
Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	670.6	670.6	670.6	
Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	52.5	60.0	60.0	
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,268.6</u>	<u>2,596.0</u>	<u>2,745.0</u>	<u>3,095.0</u>	<u>3,201.5</u>	
	1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,427.5	10,075.0	10,488.6	
Balance Sheet (%)										
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	4.8%	7.4%	12.5%	
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	52.2%	48.8%	44.3%	
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%	4.5%	
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%	1.1%	
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	7.1%	6.7%	6.4%	
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.6%	0.6%	0.6%	
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>24.8%</u>	<u>27.9%</u>	<u>29.1%</u>	<u>30.7%</u>	<u>30.5%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	245.5	258.1	275.8	
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	582.5	611.6	666.7	

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.52	16	1.00	4.2	66	16.69	1.4	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	7.6		14.0			14.5		
10 Year:	12.7		8.3			10.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2008.

FTS - Rating as of 21-Nov-05 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: October 30, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	44%	55%	52%
Hold	Market Perform	48%	41%	42%
Sell	Underperform	8%	4%	6%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

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Additional Matters

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Fortis

(FTS-TSX)

November 26, 2008

Research Fact Sheet

Gas & Electric Utilities

Stock Rating: Restricted
Industry Rating: Market Perform

Michael McGowan, CA, CFA

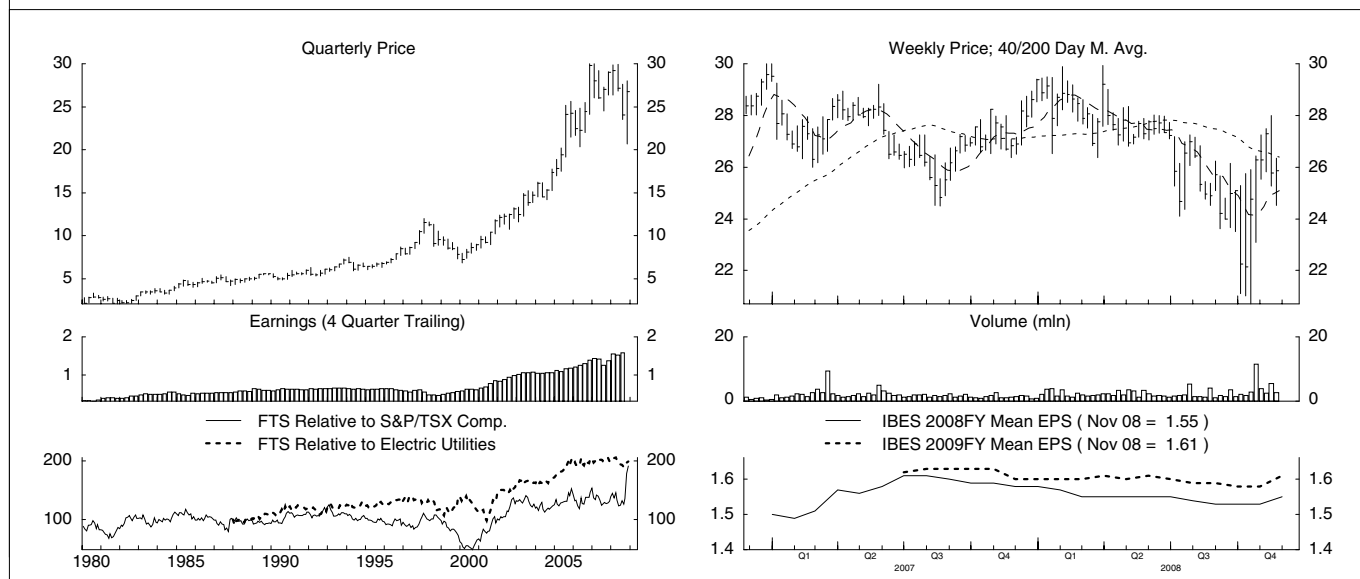
(416) 359-5807

Michael.McGowan@bmo.com

Assoc: Benjamin Pham

				(FY-Dec.)	2007A	2008E	2009E	2010E
Price (26-Nov)	\$25.87	52-Week High	\$29.94	EPS	\$1.29	na	na	na
Target Price	na	52-Week Low	\$20.70	P/E		na	na	na
Dividend	\$1.00	Book Value	\$16.69	CFPS	\$2.71	na	na	na
Yield	3.9%	Price/Book	1.6x	P/CFPS		na	na	na
Shares O/S (mm)	155.5	Mkt. Cap (\$mm)	\$4,023	Div.	\$0.82	na	na	na
Float O/S (mm)	155.5	Float Cap (\$mm)	\$4,023	EV (\$mm)	\$9,795	na	na	na
Wkly Vol (000s)	2,392	Wkly \$ Vol (mm)	\$64.0	EBITDA (\$mm)	\$810	na	na	na
Net Debt (\$mm)	\$6,047	Next Rep. Date	5-Feb (E)	EV/EBITDA	12.1x	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	7.2%	na	na
2007A	\$0.40	\$0.31	\$0.20	\$0.46	Book Value (\$)	\$16.69	na	na
2008E	\$0.58 a	\$0.28 a	\$0.26 a	na	D/Tot. Cap. (%)	64.7%	na	na
2009E	na	na	na	na	Reg. ROE (%)	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC

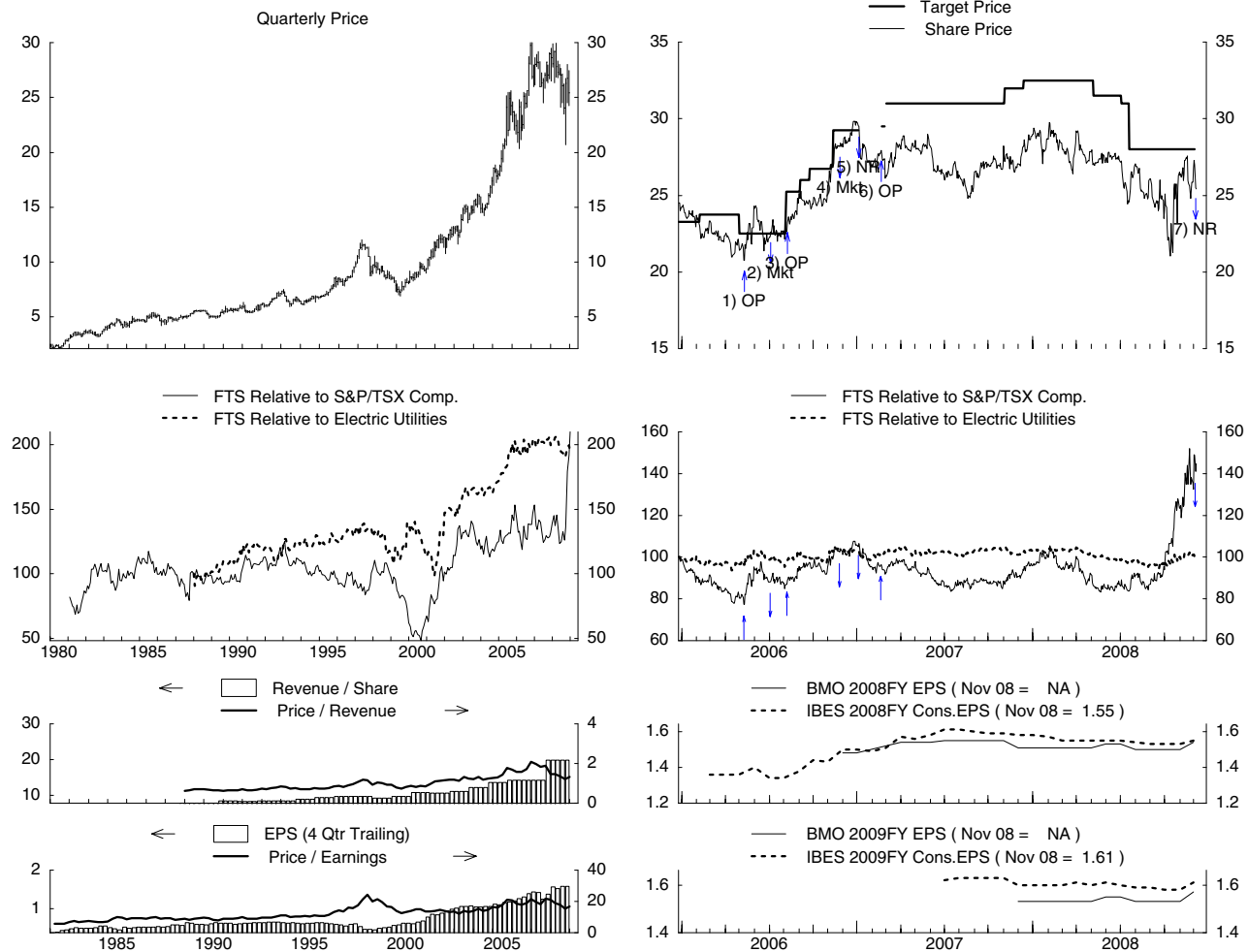


Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include: Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Fort Erie, Ontario), Belize Electricity

(70.1%, Belize), Caribbean Utilities (56%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recommendation – We are currently restricted on Fortis Inc. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.58	17	1.00	3.7	63	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.5		14.0			14.5		
10 Year:	13.1		8.3			10.1		
20 Year:	5.2		5.5			7.5		

* Current EPS is the 4 Quarter Trailing to Q3/2008.

FTS - Rating as of 26-Dec-05 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94
7 3-Dec-08	OP to NR	\$25.48

Last Daily Data Point: December 4, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starmine Universe **
Buy	Outperform	37%	40%	50%
Hold	Market Perform	54%	55%	43%

Sell Underperform 9% 5% 7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

Coverage Resumed After Equity Issuance; Maintaining Outperform Rating

Event

We are resuming coverage of Fortis Inc. following completion of the issuance of 11,700,000 common shares, priced at \$25.65/share, for gross proceeds of \$300.1 million. Approximately \$200 million from the issuance will be used to repay debt incurred to temporarily finance the acquisition of Terasen Gas. Since the company's Q3/08 results were reported, regulated ROE have been released in most jurisdictions in Canada, Fortis increased its dividend by 4% to an annualized rate of \$1.04/share, and a number of regulatory decisions have been issued.

Impact

Mixed. The size of the equity issuance was consistent with our estimates; however, our model had assumed that Fortis would not issue additional common equity until 2009 and at a higher share price. A greater number of shares issued, combined with lower regulated ROE, have reduced our diluted EPS estimates by approximately \$0.03 in each of 2009 and 2010.

Forecasts

We have updated our model to reflect (1) the equity issuance; (2) regulated ROE for 2009; and (3) recent regulatory decisions and filings. Our diluted EPS estimates decline to \$1.53 from \$1.54 in 2008; to \$1.54 from \$1.57 in 2009; and to \$1.60 from \$1.63 in 2010.

Valuation

Our target price of \$28 is based on a weighted valuation approach: 17x diluted 2009E EPS of \$1.54 (12.5%), 1.70x 2009E BVPS of \$18.13 (12.5%) and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04.

Recommendation

We believe that Fortis' shares are attractively valued, considering its relatively low-risk, diversified business model. Our rating is Outperform.

December 22, 2008

Research Comment
 Toronto, Ontario

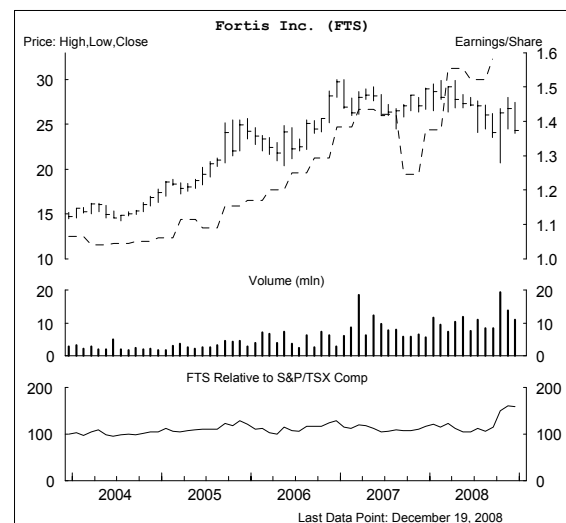
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Assoc: Benjamin Pham

Price (19-Dec) \$24.34 **52-Week High** \$29.94
Target Price \$28.00 **52-Week Low** \$20.70



(FY-Dec.)	2007A	2008E	2009E	2010E
EPS	\$1.29	\$1.53↓	\$1.54↓	\$1.60↓
P/E		15.9x	15.8x	15.2x
CFPS	\$2.71	\$3.67	\$3.77	\$4.01
P/CFPS		6.6x	6.5x	6.1x
Div.	\$0.82	\$1.00	\$1.04	\$1.08
EV (\$mm)	\$9,795	\$9,843	\$10,649	\$10,956
EBITDA (\$mm)	\$810	\$1,114	\$1,188	\$1,214
EV/EBITDA	12.1x	8.8x	9.0x	9.0x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008E	\$0.58a	\$0.28a	\$0.26a	\$0.43↓
2009E	\$0.58↓	\$0.28↓	\$0.24↓	\$0.47↓
Dividend	\$1.00			4.1%
Book Value	\$16.69			Price/Book 1.5x
Shares O/S (mm)	155.5			Mkt. Cap (\$mm) \$3,785
Float O/S (mm)	155.5			Float Cap (\$mm) \$3,785
Wkly Vol (000s)	2,521			Wkly \$ Vol (mm) \$66.8
Net Debt (\$mm)	\$6,046.8			Next Rep. Date 05-Feb (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2008E: \$1.55; 2009E: \$1.60; 2010E: \$1.64

Changes

Annual EPS

2008E \$1.54 to \$1.53
 2009E \$1.57 to \$1.54
 2010E \$1.63 to \$1.60

Quarterly EPS

Q4/08E \$0.44 to \$0.43

Q1/09E \$0.59 to \$0.58
 Q2/09E \$0.29 to \$0.28
 Q3/09E \$0.25 to \$0.24
 Q4/09E \$0.48 to \$0.47

Details & Analysis

We are resuming coverage of Fortis Inc. following the completion of the issuance of 11,700,000 common shares, priced at \$25.65/share, for gross proceeds of \$300.1 million. Approximately \$200 million from the issuance will be used to repay debt incurred to temporarily finance the acquisition of Terasen Gas.

The size of the equity issuance was consistent with our estimates; however, our model had assumed that Fortis would not issue additional common equity until 2009 and at a higher share price. Absent an acquisition, we believe the company is unlikely to require additional equity during our forecast period.

We continue to believe that Fortis' shares are attractively valued, considering its relatively low-risk business model. Our target price of \$28 is based on a weighted valuation approach: 17x diluted 2009E EPS of \$1.54 (12.5%), 1.70x 2009E BVPS of \$18.13 (12.5%) and a target yield of 3.75% (75%), assuming 2009E dividends per share of \$1.04.

A discussion of the events that have occurred since we have been on research restriction is set out below.

Quarterly Dividend Increase; DRIP Amended

On December 10, 2008, Fortis Inc. announced that its board of directors approved a 4% increase in the quarterly dividend to \$0.26 per share from the current rate of \$0.25 per share. The dividend increase is consistent with our expectations and the revised dividend will be payable on March 1, 2009, to common shareholders of record at the close of business on February 6, 2009.

Concurrently, the board of directors amended and restated the company's dividend reinvestment and share purchase plan ("DRIP"). Pursuant to the DRIP, shareholders may elect to receive their dividends in shares issued by treasury at a 2% discount to the market price.

2009 Regulated ROE Released

Regulated rates of return on equity have now been released in most Canadian jurisdictions. Divisions with significant exposure to changes in regulated rates of return include Newfoundland Power, FortisAlberta, FortisBC, Terasen Gas, and Terasen Gas Vancouver Island.

The benchmark regulated rate of return for a low-risk utility operating in British Columbia will fall by 15 basis points in 2009 to 8.47% from 8.62% in 2008. Terasen Gas Inc. is the benchmark utility in British Columbia, and therefore its allowed ROE in 2009 will be set at 8.47%. Terasen Gas (Vancouver Island) is allowed to earn a 70-basis-point risk premium over the benchmark return; therefore its allowed ROE for 2009 will be set at 9.17%. FortisBC is allowed to earn a 40-basis point premium over the benchmark return; therefore its allowed ROE for 2009 will be set at 8.87%.

Surprisingly, the Alberta Utilities Commission (AUC) has decided not to adjust regulated rates of return at this time. The AUC will be holding a generic cost of capital hearing in 2009 and has decided that the 2008 generic ROE of 8.75% will be maintained on a placeholder basis until the cost of capital review has been completed. Accordingly, there will be no immediate change to FortisAlberta's allowed ROE of 8.75%.

On November 28, 2008, Newfoundland Power (100% Fortis Inc.) made its annual cost of capital application to the Board of Commissioners of Public Utilities. In 2007, the Board approved the use of an automatic adjustment mechanism for a three-year period ending 2011. Pursuant to the decision, Newfoundland Power is allowed to earn a return on rate base within a range of 8.19–8.55%. Although the company must calculate its deemed return on rate base annually and present its findings to the regulator, customer rates will not be adjusted unless the calculation yields a figure that is outside of the aforementioned range. Application of the automatic adjustment mechanism resulted in a deemed return on rate base of 8.25% for 2009, which is within the allowed range. Accordingly, application of the automatic adjustment mechanism at Newfoundland Power will not trigger a reduction in rates in 2009.

Terasen Gas – 2009 Rate Applications Approved

On December 11, 2008, the British Columbia Utilities Commission (BCUC) approved Terasen Gas Inc.'s (TGI) application for 2009 revenue requirement and customer rates. The company's existing performance-based rate plan was also extended for the years 2008 and 2009. The key financial terms of the application, which was originally filed on October 8, 2008, are set out in Table 1.

The BCUC also approved Terasen Gas (Vancouver Island) Inc.'s (TGVI) application for 2009 revenue requirement and customer rates on December 11. The key financial terms of TGVI's application are set out in Table 2.

Table 1: TGI 2009 Revenue Requirement and Financial Accounts

	2008E	2009E
Revenue Requirement	\$1,512.8	\$1,689.4
Mid-year rate base	\$2,504.9	\$2,541.4
Net Capital Additions	\$129.6	\$134.9
Depreciation	\$84.1	\$89.7

Source: Regulatory Filings

Table 2: TGVI 2009 Revenue Requirement and Financial Accounts

	2008E	2009E
Revenue Requirement	\$224.8	\$242.7
Mid-year rate base	\$514.2	\$529.4
Net Capital Additions	\$29.6	\$29.7
Mid-Year Contributions	\$61.1	\$56.2
Depreciation	\$18.3	\$19.2

Source: Regulatory Filings

FortisBC – 2009 Rate Application Approved

On December 12, 2008, FortisBC announced that the BCUC had approved a negotiated settlement respecting the company's 2009 rate application. Key terms of the settlement, which was filed on December 2, 2008, include: (i) an average rate increase of 4.6%; (ii) an allowed ROE of 8.87%, consistent with the 2009 return on equity determined by the BCUC; and (iii) an extension of the current performance-based regulation settlement until 2011. Approval of the negotiated settlement by the Commission is in line with expectations and our outlook fully reflects the key financial terms of the agreement.

Key financial details of the company's 2009 rate requirement as set out in the settlement agreement are provided in Table 3:

Table 3: Fortis BC Revenue Requirement and Financial Accounts

	2008E	2009E
Revenue Requirement	\$220.9	\$233.1
Mid-year rate base	\$822.8	\$908.0
Net Capital Additions	\$111.0	\$119.8
Depreciation	\$34.4	\$37.5

Source: Regulatory Filings

Capital Expenditure Update

- On December 2, 2008, Terasen Energy Services (100% - Fortis Inc.) announced that it had signed an agreement with The Beedie Group to design, build and manage a \$25 million alternative district energy system for the developer's mixed-use construction project, located in Coquitlam, BC. The real estate development, which is called The Village at Fraser Mills, is expected to include 3,700 residential units, 275,000 sf of commercial and retail space, and 600,000 sf of business park/light industrial space. Electricity generated by Fortis BC's district energy system would be provided to the Village at Fraser Mills through a long-term contract, which is expected to begin in 2011.
- On November 12, 2008, the BCUC issued an order, in which it denied an application filed by FortisBC's on December 19, 2007, for a certificate of public convenience and necessity related to a project called the "Advanced Metering Initiative." The project contemplated replacing 108,000 conventional meters with new automated meters. The project was expected to begin in 2008 and be completed by the end of 2010, at an estimated cost of \$31.3 million.
- On November 7, 2008, the BCUC issued an order, in which it denied FortisBC's application for a certificate of public convenience and necessity for a project (originally filed on June 27, 2008) called the "Copper Conductor Replacement Project." The project involved replacing 85 percent of the copper distribution conductors in FortisBC's service area with aluminum-based steel reinforced conductors. The project was expected to begin in the first quarter of 2009 and be completed by the fourth quarter of 2018. Capital expenditures of \$103 million were expected over the 10-year life of the project, with \$11.7 million spent during the first two years.

Estimates

We have updated our model to reflect (1) the equity issuance; (2) regulated ROE for 2009; and (3) recent regulatory decisions and filings. Our diluted EPS estimates decline to \$1.53 from \$1.54 in 2008; to \$1.54 from \$1.57 in 2009; and to \$1.60 from \$1.63 in 2010.

Table 4: Consolidated Summary

21-Dec-08

Current Price:

\$24.34

12-Month Target Price:

\$28.00

ROR:

19.1%

Michael McGowan

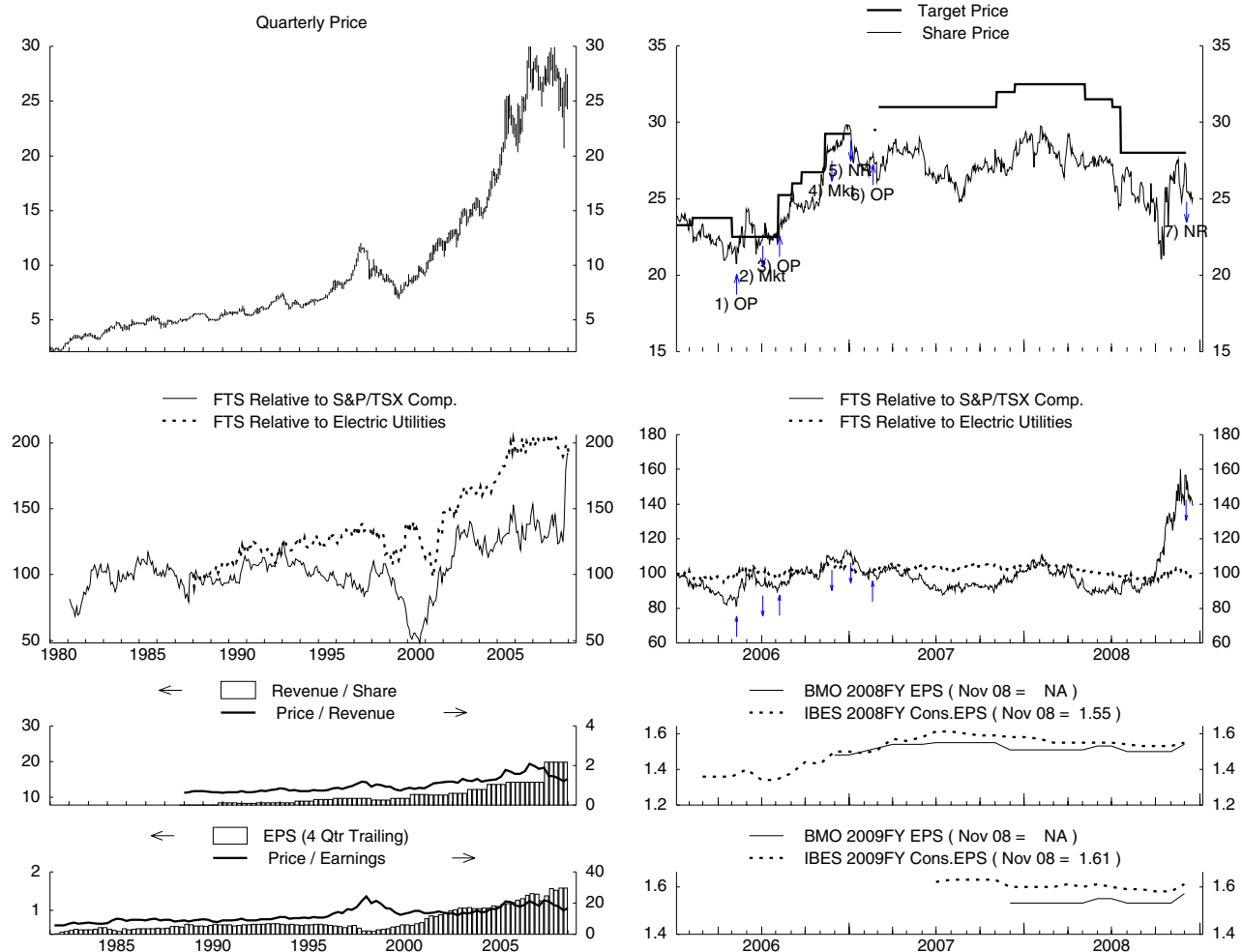
BMO Capital Markets

Recommendation:

Outperform

		Year Ending December 31								
		2002	2003	2004	2005	2006	2007	2008E	2009E	2010E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.55	\$1.57	\$1.62
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.53	\$1.54	\$1.60
Segmented EPS										
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.19
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.07	\$0.07
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.16
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.20	\$0.13	\$0.13
	Belize, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.20	\$0.21
	Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.46	\$0.49	\$0.55
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.66	\$0.68
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.45)	(\$0.33)	(\$0.41)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.00	\$1.04	\$1.08
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	64.4%	66.3%	66.5%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.2	169.2	169.5
Net Book Value		8.72	8.98	10.47	11.76	12.19	16.69	17.58	18.13	18.70
Market Valuation										
	Price: High	\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	-	-	-
	Price: Low	\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	-	-	-
	Price: Current	-	-	-	-	-	-	\$24.34	-	-
	P/E Ratio: High	13.7	14.3	16.8	21.7	22.9	22.9	-	-	-
	P/E Ratio: Low	11.1	11.5	13.7	14.5	15.9	15.9	-	-	-
	P/E Ratio: Current	-	-	-	-	-	-	15.7	15.5	15.0
	Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	2.4	-	-	-
	Price/Book Value: Low	1.2	1.4	1.4	1.4	1.7	1.7	-	-	-
	Price/Book Value: Current	-	-	-	-	-	-	1.4	1.3	1.3
	Yield: High Price	3.65%	3.42%	3.06%	2.41%	2.24%	2.24%	-	-	-
	Yield: Low Price	4.51%	4.24%	3.76%	3.60%	3.23%	3.23%	-	-	-
	Yield: Current	-	-	-	-	-	-	4.11%	4.27%	4.44%
Balance Sheet (\$mm)										
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	872.1	261.8	772.5	1,321.9
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,322.9	4,358.5	4,915.7	4,913.9	4,662.6
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	475.0	475.0	475.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	115.0	115.0	115.0
	Preferred Shares	0.0	125.0	321.5	319.5	440.6	640.6	670.6	670.6	670.6
	Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	52.5	60.0	60.0
	Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,268.6	2,596.0	2,971.1	3,070.6	3,172.8
		1,731.2	2,250.9	3,533.6	3,995.0	5,119.7	9,315.3	9,461.8	10,077.6	10,478.0
Balance Sheet (%)										
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	8.2%	9.4%	2.8%	7.7%	12.6%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	45.4%	46.8%	52.0%	48.8%	44.5%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	9.3%	7.4%	5.0%	4.7%	4.5%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.5%	1.2%	1.2%	1.1%	1.1%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.6%	6.9%	7.1%	6.7%	6.4%
	Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.6%	0.6%	0.6%
	Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	24.8%	27.9%	31.4%	30.5%	30.3%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement										
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.7	244.3	265.4	275.3
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	573.4	616.4	664.2

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.58	17	1.00	3.7	63	16.69	1.6	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.5		14.0			14.5		
10 Year:	13.1		8.3			10.1		
20 Year:	5.2		5.5			7.5		

* Current EPS is the 4 Quarter Trailing to Q3/2008.

FTS - Rating as of 5-Jan-06 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94
7 3-Dec-08	OP to NR	\$25.48

Last Daily Data Point: December 16, 2008

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

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Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	37%	40%	50%
Hold	Market Perform	54%	55%	43%
Sell	Underperform	9%	5%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$23.54
Target Price: \$28.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

February 5, 2009Brief Research Note
Gas & Electric Utilities**Michael McGowan, CA, CFA**(416) 359-5807
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Assoc: Benjamin Pham

Q4/08 Results Exceed Expectations

Impact

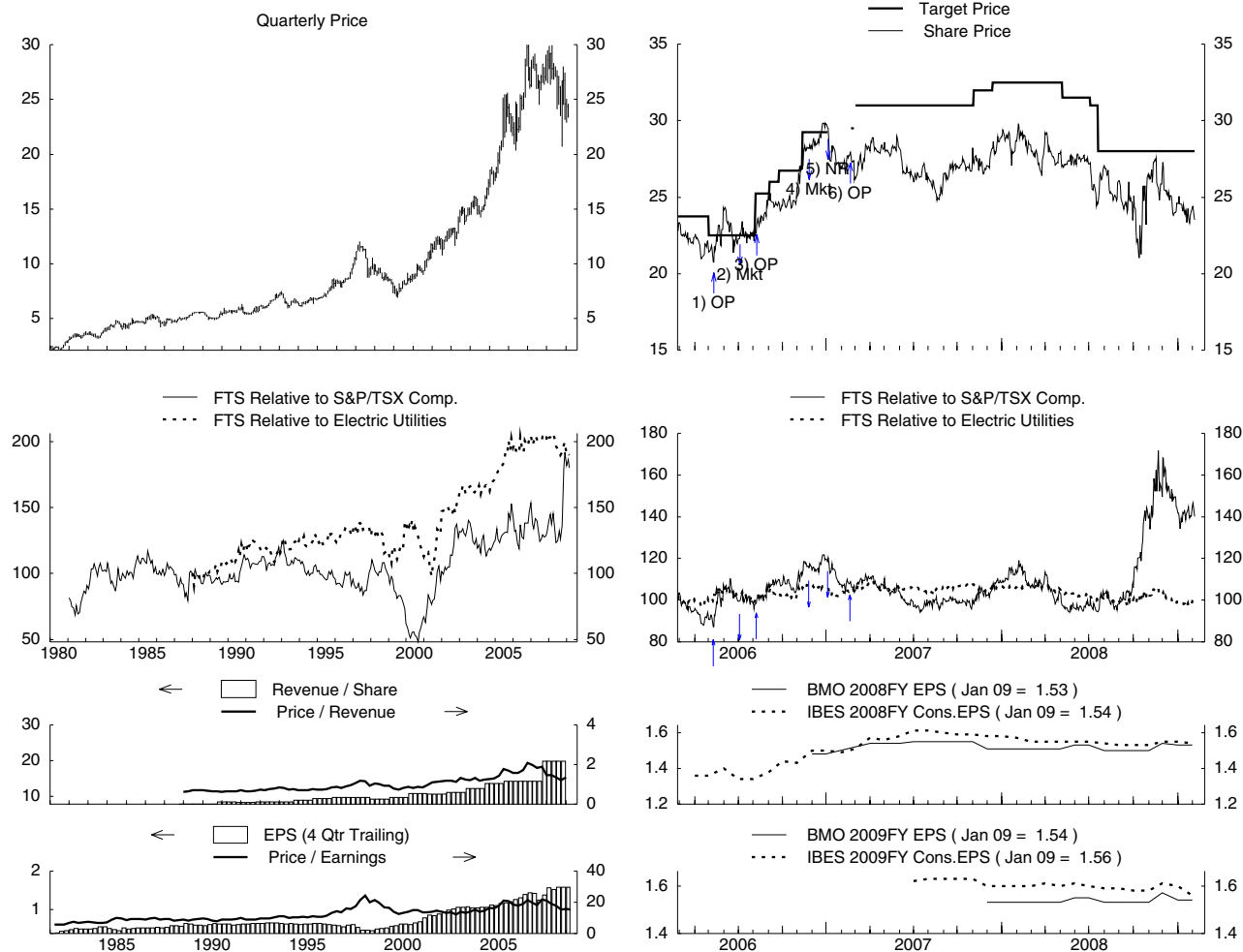
Neutral

Details & Analysis

Fortis reported Q4/08 EPS of \$0.48, higher than our estimate of \$0.43 and the First Call Mean of \$0.46. The variance between actual and expected results appears to largely be due to the contribution from Fortis Alberta, which benefitted from lower future income tax expenses and was \$0.04/share greater than expected. The majority of Fortis' other business segments appear to be performing well, and earnings contributions were generally consistent with our estimates. We believe the following points from the earnings release are relevant: (1) In November 2008, Fortis acquired the Fairmont Newfoundland hotel for \$22 million. The property has since been re-branded the Sheraton Hotel Newfoundland; (2) The dispute between Belize Electricity Limited (BEL, 70.1% Fortis) and the Belize Public Utilities Commission (PUC) regarding the PUC's final decision of BEL's 2008-2009 rate application remains ongoing as BEL continues to challenge the PUC's final decision through the Supreme Court of Belize; and (3) The company's capital budget appears to be consistent with past guidance. Fortis anticipates \$4.5 billion of capital expenditures over the next five years, with \$1 billion being deployed in 2009.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.58	15	1.00	4.1	63	16.69	1.5	9

Average: 14 4.9 64 1.5 10.9

Growth(%):

5 Year:	8.2	14.0	13.6
10 Year:	13.5	8.3	9.7
20 Year:	5.3	5.5	7.2

* Current EPS is the 4 Quarter Trailing to Q3/2008.

FTS - Rating as of 24-Feb-06 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: February 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

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Distribution of Ratings (Dec. 5, 2008)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starline Universe**
Buy	Outperform	37%	40%	50%
Hold	Market Perform	54%	55%	43%
Sell	Underperform	9%	5%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

February 6, 2009
 Research Comment
 Toronto, Ontario

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 Assoc: Benjamin Pham

Q4/08 Results Exceed Expectations; Outperform Rating Maintained

Event

Fortis reported Q4/08 GAAP EPS of \$0.48 (basic), higher than our estimate of \$0.43 and the First Call Mean of \$0.46. The variance between actual and expected results appears to be due largely to the contribution from Fortis Alberta, which was \$0.04 per share greater than expected and benefitted from a reduction in future income tax expenses. The majority of Fortis' other business segments appear to be performing well and earnings contributions were generally consistent with our estimates.

Impact

Neutral.

Forecasts

We have updated our model to reflect actual results through the end of 2008. Our estimates for 2009 and 2010 are unchanged.

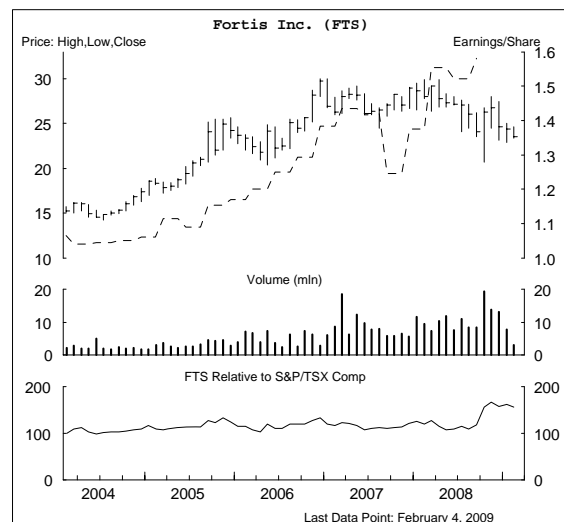
Valuation

Our target price of \$29 is based on weighted valuation approach: 16x diluted 2010E EPS of \$1.60 (12.5%); 1.7x 2010E BVPS of \$19.14; and a target yield of 3.75% (75%), assuming 2010E dividends per share of \$1.08. We have reduced our P/E multiple to 16 from 17 to reflect lower observed market valuations.

Recommendation

We are maintaining our Outperform rating, as we continue to believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. We believe Fortis' shares offer an appealing dividend yield (4.4% at current price levels) and should act as a store of value during a difficult economic period.

Price (5-Feb) \$23.64 **52-Week High** \$29.94
Target Price \$29.00 **52-Week Low** \$20.70



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.54	\$1.60
P/E			15.4x	14.8x
CFPS	\$2.71	\$3.67	\$3.77	\$4.01
P/CFPS			6.3x	5.9x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$9,795	\$10,198	\$10,624	\$10,930
EBITDA (\$mm)	\$810	\$1,114	\$1,188	\$1,214
EV/EBITDA	12.1x	9.2x	8.9x	9.0x
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.58	\$0.27↓	\$0.24	\$0.48↑
Dividend	\$1.04	Yield		4.4%
Book Value	\$18.02	Price/Book		1.3x
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)		\$4,000
Float O/S (mm)	169.2	Float Cap (\$mm)		\$4,000
Wkly Vol (000s)	2,464	Wkly \$ Vol (mm)		\$64.3
Net Debt (\$mm)	\$5,851.0	Next Rep. Date		30-Apr (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2008E: \$1.54; 2009E: \$1.55; 2010E: \$1.59

Changes

Quarterly EPS
 Q2/09E \$0.28 to \$0.27
 Q4/09E \$0.47 to \$0.48

Q4/08 Results Exceed Expectations; Valuation Appears Compelling

Fortis reported Q4/08 GAAP EPS of \$0.48 (basic), higher than our estimate of \$0.43 and the First Call Mean of \$0.46. The variance between actual and expected results appears to largely be due to the contribution from Fortis Alberta, which was \$0.04 per share greater than expected and benefitted from a reduction in future income tax expenses. The majority of Fortis' other business segments appear to be performing well and earnings contributions were generally consistent with our estimates.

During 2009, we believe that Fortis will focus on pursuing profitable rate-base growth through advancing its capital expenditure program and optimizing the operations of its various business segments. Absent a large acquisition, we do not believe that Fortis will require additional equity during our forecast period, which runs through 2010.

EPS growth may temporarily pause in 2009, as water rights at the Rankine Generating Station, which contributed approximately \$15 million/year of earnings, expire on April 30, 2009. Incremental earnings from rate base growth are expected to partially offset the shortfall. We expect EPS growth to resume in 2010 as additional capital expenditures are transferred to rate base and the Vaca Hydroelectric facility comes online in Belize.

The main risk to our earnings outlook centres on the possibility of lower regulated rates of return in 2010. We estimate that our 2010E EPS estimates could fall by approximately \$0.04 per share if interest rates remain at current levels through Q4/09, during the period when regulated ROE for 2010 are established. Although we would not view a reduction in regulated ROE favourably, we note that the corresponding EPS decrease is relatively small compared to the EPS declines that may be experienced by companies operating in unregulated industries with exposure to weak sectors of the economy.

We are maintaining our Outperform rating, as we continue to believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. We believe that Fortis' shares offer an appealing dividend yield (4.4% at current price levels) and should act as a store of value during a difficult economic period.

Our target price of \$29 is based on weighted valuation approach: 16x diluted 2010E EPS of \$1.60 (12.5%); 1.7x 2010E BVPS of \$19.14; and a target yield of 3.75% (75%), assuming 2010E dividends per share of \$1.08. We have reduced our P/E multiple to 16 from 17 to reflect lower observed market valuations.

Q4/08 Results

As set out in Table 1, on a comparable basis, net income increased by 6% in Q4/08 versus Q4/07. A discussion of the operating performance of each segment follows.

Table 1: Historical Results by Segment

	Q4/08 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/08 Adjusted Earnings (\$mm)	Q4/07 GAAP	Adj. (\$mm)	Q4/07 Adjusted Earnings (\$mm)	Variance Q4/08 Adj vs. Q4/07 Adj	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	47.0	-	47.0	52.0	(7.0)	45.0	2.0	4.4%
Regulated Electric Utilities - Canadian								
FortisAlberta	11.0	-	11.0	6.0	-	6.0	5.0	83.3%
FortisBC	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Newfoundland Power	8.0	-	8.0	9.0	-	9.0	(1.0)	-11.1%
Other Canadian	3.0	-	3.0	3.0	(1.3)	1.8	1.3	71.4%
	29.0	-	29.0	25.0	(1.3)	23.8	5.3	22.1%
Regulated Electric Utilities - Caribbean	8.0	-	8.0	9.0	-	9.0	(1.0)	-11.1%
Non-Regulated - Fortis Generation	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Non-Regulated - Fortis Properties	4.0	-	4.0	8.0	(4.0)	4.0	0.0	0.0%
Corporate and Other	(20.0)	-	(20.0)	(22.0)	5.0	(17.1)	(3.0)	17.3%
Net Earnings Applicable to Common Shares	76.0	0.0	76.0	79.0	(7.3)	71.7	(3.0)	6.0%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

The earnings contribution from Terasen Gas Inc. was \$47 million in Q4/08, a \$2 million increase from adjusted Q4/07 earnings of \$45 million. Reported earnings in Q4/07 were \$52 million and included a \$7 million gain related to the sale of surplus land. The increase in earnings during Q4/08 was primarily caused by higher gas distribution rates in 2008 compared to 2007.

Regulated Electric Utilities – FortisAlberta

Net earnings at FortisAlberta were in Q4/08 were \$11 million compared to \$6 million in Q4/07. Included in Q4/07 reported results was a \$3 million future income tax expense related to deferral account balances associated with charges levied by the Alberta Electric System Operator that are either refundable or recoverable in customer rates. The remaining variance between Q4/08 and Q4/07 results appears to be due to incremental income associated with rate base growth.

Regulated Electric Utilities – Fortis BC

Net earnings at Fortis BC were \$7 million in Q4/08, consistent with the \$7 million earned during Q4/07. Higher revenues, caused by increased rates, were offset by an increase in energy supply costs and increased amortization resulting from the company's capital expenditure program.

Regulated Electric Utilities – Newfoundland Power

Net earnings from Newfoundland Power were \$8 million in Q4/08, slightly lower than \$9 million in Q4/07. The quarter-over-quarter variance was primarily due to a regulatory decision that modified the way purchased power expenses are allocated between quarters. Previously, monthly purchased power expenses were recognized based on an estimate of actual costs, with variances between actual and estimated purchased power expenses accrued to a deferral account

that was discontinued, effective January 1, 2008. Newfoundland Power now recognizes the actual cost of purchased power each month. Although this change in regulatory accounting is not expected to impact annual earnings, the change in regulatory accounting decreased earnings at Newfoundland Power by \$2 million in Q4/08 compared to Q4/07.

Regulated Electric Utilities – Caribbean

Net earnings at the Caribbean business segment fell to \$8 million in Q4/08 compared to \$9 million in Q4/07. Incremental earnings include:

- \$1 million resulting from the inclusion of an extra two months of income from Caribbean Utilities (57% Fortis Inc.; CUP/U-T, rated Market Perform) caused by a change in Caribbean Utilities' fiscal year-end to December 31 from April 30 and
- a further \$1 million resulting from foreign exchange gains.

These were partially offset by \$2 million in lost revenue at Fortis Turks and Caicos caused by Hurricane Ike. The remainder of the decrease was caused by lower earnings at Belize Electricity Limited (BEL, 70.1% Fortis) and Caribbean Utilities.

Unregulated – Fortis Generation

Strong hydrology increased earnings at Fortis Generation to \$8 million in Q4/08 compared to \$7 million in Q4/07.

Unregulated – Fortis Properties

Net earnings at Fortis properties were \$4 million in Q4/08, consistent with adjusted earnings of \$4 million in Q4/07. Fortis Properties reported GAAP earnings of \$8 million in Q4/07, inclusive of a \$4 million favourable tax adjustment that we have normalized.

Revenue per available room (REVPAR) fell slightly during Q4/08 to \$72.86 versus \$73.84 in Q4/07. For 2008, annual REVPAR was \$80.39 versus \$79.31 during 2007. At the end of 2008, occupancy was 96.8% consistent with the occupancy level at the end of 2007.

During November 2008, Fortis Properties acquired the Fairmont Newfoundland hotel, a 301-room property for \$22 million (\$73,089/door). In January 2009, the property was re-branded the Sheraton Hotel Newfoundland. Fortis expects to spend approximately \$9 million over the next three years upgrading this property.

Capital Expenditure Update

Consistent with guidance contained in prior earnings releases, Fortis' five-year capital budget remains at \$4.5 billion. Approximately \$3.1 billion of this total is expected to be deployed by the company's electric utilities and capital spending of \$1.2 billion is expected at the gas utilities. Non-regulated capital expenditures are expected to total \$0.2 billion over the next five years. Capital spending of approximately \$1 billion is expected in 2009.

A summary of capital expenditures by business segment is set out in Table 2.

Table 2: Historical and Forecast Capital Expenditures

Segment	Q1/08	Q2/08	Q3/08	Q4/08	2008	2009E
Terasen Gas Companies	\$40.0	\$56.0	\$56.0	\$68.0	\$220.0	\$287.0
FortisAlberta	\$63.0	\$81.0	\$78.0	\$80.0	\$302.0	\$292.0
FortisBC	\$24.0	\$26.0	\$31.0	\$36.0	\$117.0	\$160.0
Newfoundland Power	\$13.0	\$17.0	\$17.0	\$20.0	\$67.0	\$65.0
Other Regulated Utilities - Canadian	\$7.0	\$10.0	\$11.0	\$18.0	\$46.0	\$34.0
Regulated Utilities - Caribbean	\$11.0	\$23.0	\$31.0	\$45.0	\$110.0	\$118.0
Non-Regulated Businesses	\$7.0	\$11.0	\$10.0	\$14.0	\$42.0	\$89.0
Total	\$165.0	\$224.0	\$234.0	\$281.0	\$904.0	\$1,045.0

Source: BMO Capital Markets, Company Reports

Other Items

- The dispute between Belize Electricity Limited (BEL, 70.1% Fortis) and the Belize Public Utilities Commission (PUC) regarding the PUC's final decision of BEL's 2008–2009 rate application remains ongoing. BEL continues to challenge the PUC's final decision through the Supreme Court of Belize.
- Weather and labour-related delays have pushed back the in-service date for the Vaca facility to early 2010 from late 2009.
- The Exploits Partnership (51% Fortis Inc.; 49% AbitibiBowater, ABH-T, rated Underperform by Stephen Atkinson), which was established to develop additional capacity at Abitibi Bowater's hydroelectric plant at Grand Falls, Newfoundland, and redevelop AbitibiBowater's hydro facility located in Bishop's Falls, Newfoundland, was included in expropriation legislation passed by the Government of Newfoundland and Labrador on December 16, 2008. We do not expect the expropriation of these assets (should it occur) to adversely affect Fortis, as the legislation appears to have been directed at AbitibiBowater. The Government of Newfoundland and Labrador has indicated that it is not its intention to adversely affect the independent partners of AbitibiBowater and lenders to the Exploits Partnership. Nonetheless, a \$61 million term loan related to Exploits has been reclassified as a current liability on Fortis' balance sheet. It remains possible that the Government of Newfoundland and Labrador purchases Fortis' interest in Exploits, should it proceed with the expropriation of AbitibiBowaters' hydro and timber resources.
- Material upcoming regulatory decisions are set out in Table 3.

Table 3: Material Upcoming Regulatory Decisions

Regulated Utility	Regulatory Filing	Application Submission	Decision Date	Comment
FortisBC	2009 and 2010 Capital Plan Application	Jun-08	Q1 2009	Requesting approval of \$193 million of capital expenditures in 2009 and \$196 million in 2010.
Maritime Electric	2009 Basic Rate Application	Oct-08	Q1/09	Requesting a maximum allowed ROE of 9.75% for 2009.
Caribbean Utilities	Five-Year Capital Investment Plan	Dec-08	Q1 2009	Requesting approval for US\$255 million of capital expenditures over a five year period. Approximately US\$72 million is related to new generation that is expected to be solicited from third parties.
Belize Electricity	Judicial review and appeal of the Final Decision on 2008/2009 Rate Application	Jul-08	TBD	Filed with the Supreme Court of Belize.

Source: BMO Capital Markets, Company Reports

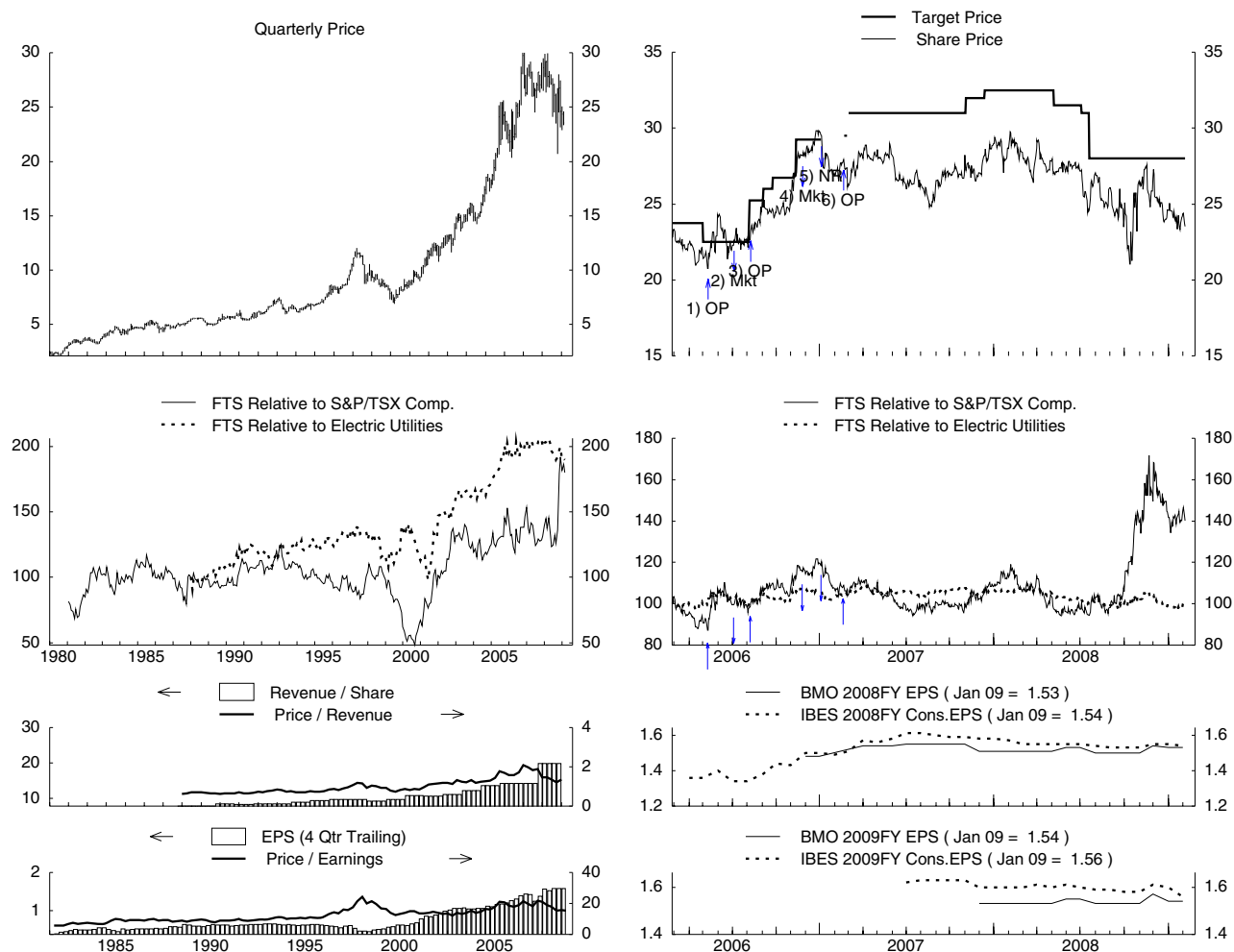
Estimates

We have updated our model to reflect actual results through the end of 2008. Our estimates for 2009 and 2010 are unchanged.

Table 4: Consolidated Summary

05-Feb-09		Michael McGowan BMO Capital Markets								
Current Price:		\$23.64								
12-Month Target Price:		\$29.00								
ROR:		27.0%								
		Recommendation:							Outperform	
		Year Ending December 31								
		2002	2003	2004	2005	2006	2007	2008	2009E	2010E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.57	\$1.63
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.54	\$1.60
Segmented EPS										
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.19
Maritime Electric		\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.07	\$0.07	\$0.07	\$0.07
CNP/Cornwall Elec/Fortis Ontario		\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.03
Fortis Properties		\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.16
Fortis Trust/Fortis Generation		\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.18	\$0.19	\$0.13	\$0.13
Belize,BECOL,CUP/Fortis Caribbean		\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.20	\$0.21
FortisAlberta/FortisBC		\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.51	\$0.49	\$0.55
Terasen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.66	\$0.68
Other/Corporate		(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.40)	(\$0.45)	(\$0.34)	(\$0.40)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.1%	64.2%	66.4%	66.2%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	169.2	169.5
Net Book Value		\$8.72	\$8.98	\$10.47	\$11.76	\$12.26	\$16.72	\$18.02	\$18.57	\$19.14
Market Valuation										
Price: High		\$13.28	\$15.20	\$17.68	\$25.40	\$29.85	\$29.55	\$29.75	-	-
Price: Low		\$10.76	\$12.25	\$14.38	\$17.01	\$20.75	\$24.80	\$21.05	-	-
Price: Current		-	-	-	-	-	-	-	\$23.64	-
P/E Ratio: High		13.7	14.3	16.8	21.7	22.9	22.9	22.9	-	-
P/E Ratio: Low		11.1	11.5	13.7	14.5	15.9	15.9	15.9	-	-
P/E Ratio: Current		-	-	-	-	-	-	-	15.1	14.5
Price/Book Value: High		1.5	1.7	1.7	2.2	2.4	2.4	2.4	-	-
Price/Book Value: Low		1.2	1.4	1.4	1.4	1.7	1.7	1.7	-	-
Price/Book Value: Current		-	-	-	-	-	-	-	1.3	1.2
Yield: High Price		3.7%	3.4%	3.1%	2.4%	2.2%	2.2%	2.2%	-	-
Yield: Low Price		4.5%	4.2%	3.8%	3.6%	3.2%	3.2%	3.2%	-	-
Yield: Current		-	-	-	-	-	-	-	4.4%	4.6%
Balance Sheet (\$mm)										
Debt (S-T)		446.1	421.9	231.3	218.2	418.0	1,042.2	607.2	1,243.1	1,708.1
Debt (L-T)		583.8	910.7	1,855.8	1,990.2	2,558.0	4,623.0	4,884.0	4,800.9	4,533.7
Deposits Due		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits		61.5	107.5	64.6	195.8	475.6	688.0	739.0	739.0	739.0
Minority Interest		40.0	36.8	37.5	35.7	130.5	115.0	145.0	145.0	145.0
Preferred Shares		0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	667.0
Convertible Debentures		15.8	24.5	22.9	22.3	63.5	45.0	53.4	60.0	60.0
Shareholders' Equity		584.2	624.6	1,000.1	1,213.4	1,276.0	2,601.0	3,046.0	3,145.1	3,248.5
		1,731.2	2,250.9	3,533.6	3,995.0	5,363.6	9,556.2	10,141.6	10,800.1	11,101.4
Balance Sheet (%)										
Debt (S-T)		25.8%	18.7%	6.5%	5.5%	7.8%	10.9%	6.0%	11.5%	15.4%
Debt (L-T)		33.7%	40.5%	52.5%	49.8%	47.7%	48.4%	48.2%	44.5%	40.8%
Deposits Due		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits		3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	7.3%	6.8%	6.7%
Minority Interest		2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.3%	1.3%
Preferred Shares		0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	6.6%	6.2%	6.0%
Convertible Debentures		0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.6%	0.5%
Shareholders' Equity		33.7%	27.7%	28.3%	30.4%	23.8%	27.2%	30.0%	29.1%	29.3%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement										
Net Profit to Common		63.3	73.6	89.0	119.2	143.2	187.8	252.5	265.0	276.5
Cash Flow from Operations		134.4	160.7	283.7	320.0	279.8	373.0	663.0	667.9	718.7

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
Current*	1.58	15	1.00	4.1	63	16.69	1.5	9
Average:		14		4.9	64		1.5	10.9
Growth(%):								
5 Year:	8.2		14.0			13.6		
10 Year:	13.5		8.3			9.7		
20 Year:	5.3		5.5			7.2		

* Current EPS is the 4 Quarter Trailing to Q3/2008.

FTS - Rating as of 24-Feb-06 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: February 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings (Dec. 5, 2008)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starline Universe**
Buy	Outperform	37%	40%	50%
Hold	Market Perform	54%	55%	43%
Sell	Underperform	9%	5%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis

(FTS-TSX)

March 5, 2009

Research Fact Sheet
Gas & Electric Utilities

Stock Rating: **Outperform**
Industry Rating: **Market Perform**

Michael McGowan, CA, CFA

(416) 359-5807

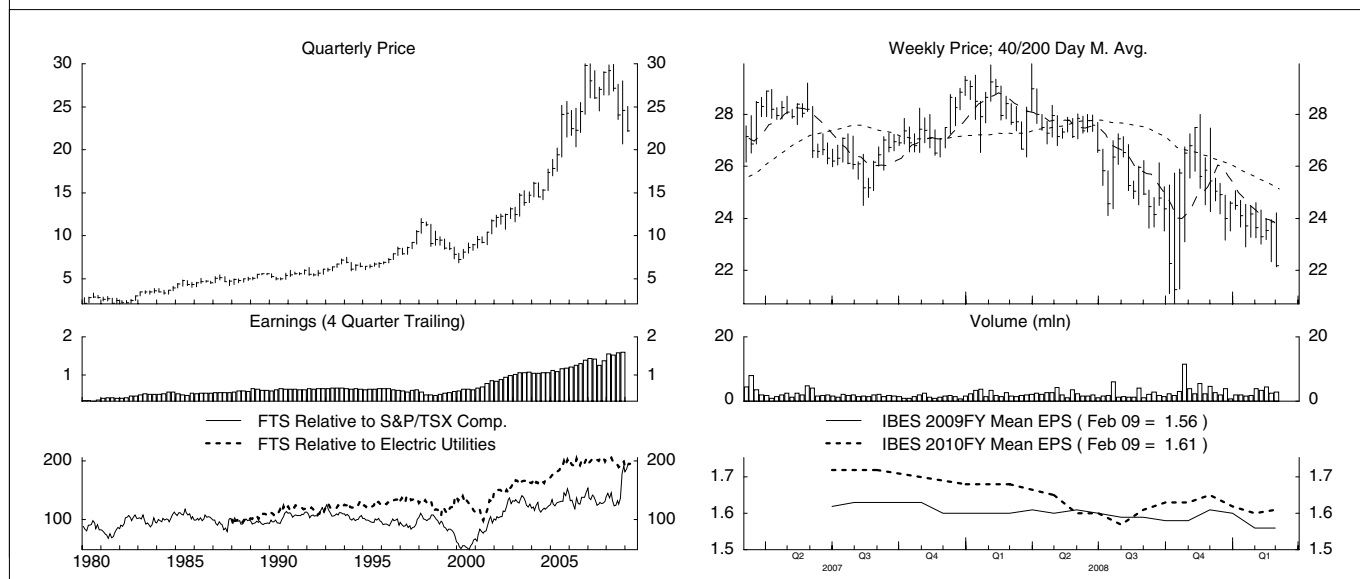
Michael.McGowan@bmo.com

Assoc: Benjamin Pham

Price (5-Mar)	\$22.17	52-Week High	\$29.94
Target Price	\$29.00	52-Week Low	\$20.70
Dividend	\$1.04	Book Value	\$18.02
Yield	4.7%	Price/Book	1.2x
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)	\$3,751
Float O/S (mm)	169.2	Float Cap (\$mm)	\$3,751
Wkly Vol (000s)	2,561	Wkly \$ Vol (mm)	\$66.0
Net Debt (\$mm)	\$5,851	Next Rep. Date	30-Apr (E)
Quarterly EPS			
	Q1	Q2	Q3
2007A	\$0.40	\$0.31	\$0.20
2008A	\$0.58	\$0.28	\$0.26
2009E	\$0.58	\$0.27	\$0.24

(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.54	\$1.60
P/E			14.4x	13.9x
CFPS	\$2.71	\$4.21	\$3.95	\$4.24
P/CFPS			5.6x	5.2x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,015	\$10,544	\$10,666	\$10,872
EBITDA (\$mm)	\$810	\$1,034	\$1,218	\$1,288
EV/EBITDA	12.4x	10.2x	8.8x	8.4x
ROE (%)	7.2%	8.3%	8.4%	8.5%
Book Value (\$)	\$16.72	\$18.02	\$18.57	\$19.14
D/Tot. Cap. (%)	65.6%	62.7%	64.0%	64.1%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic Disclosures: 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Fort Erie, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (56%, Grand Cayman

Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis reported Q4/08 GAAP EPS of \$0.48 (basic), higher than our estimate of \$0.43 and the First Call Mean of \$0.46. The variance between actual and expected results was largely due to the contribution from FortisAlberta, which was \$0.04 per share greater than

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expected and benefitted from a reduction in future income tax expenses. The majority of Fortis' other business segments appear to be performing well and earnings contributions were generally consistent with our estimates.

Corporate Developments – On December 19, 2008, Fortis announced that it had completed the issuance of 11,700,000 common shares, priced at \$25.65/share, for gross proceeds of \$300.1 million. Approximately \$200 million from the issuance will be used to repay debt incurred to temporarily finance the acquisition of Terasen Gas, which was completed in May 2007. The remaining proceeds will be used for general corporate purposes.

On December 10, 2008, Fortis Inc. announced that its board of directors approved a 4% increase in the quarterly dividend to \$0.26 per share from \$0.25 per share. The dividend increase is consistent with our expectations and the revised dividend will be payable on March 1, 2009, to

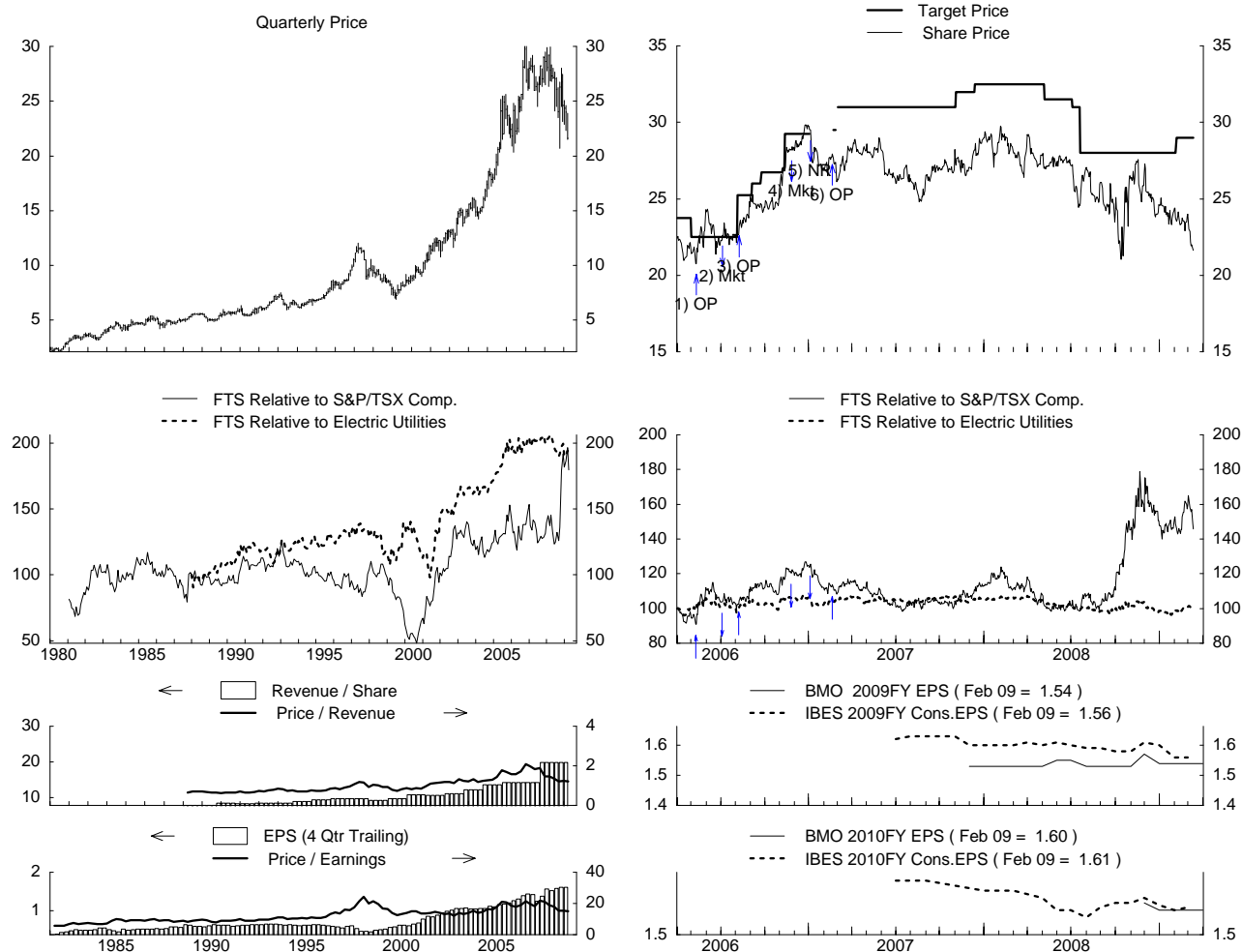
common shareholders of record at the close of business on February 6, 2009.

Forecasts – Our diluted EPS estimates are \$1.54 in 2009 and \$1.60 in 2010.

Valuation – Our target price of \$29 is based on a weighted valuation approach: 16x diluted 2010E EPS of \$1.60 (12.5%); 1.7x 2010E BVPS of \$19.14; and a target yield of 3.75% (75%), assuming 2010E dividends per share of \$1.08.

Recommendation – We continue to believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. We believe Fortis' shares offer an appealing dividend yield and should act as a store of value during a difficult economic period. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	16.69	1.5	9
Current*	1.60	15	1.04	4.3	65	18.02	1.3	9
Average:		14		4.9	64		1.5	10.8
Growth(%):								
5 Year:	8.5		14.0			15.4		
10 Year:	13.6		8.7			10.5		
20 Year:	5.4		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q4/2008.

FTS - Rating as of 31-Mar-06 = Mkt

Date	Rating Change	Share Price
1 10-May-06	Mkt to OP	\$20.75
2 4-Jul-06	OP to Mkt	\$22.60
3 8-Aug-06	Mkt to OP	\$23.24
4 24-Nov-06	OP to Mkt	\$28.20
5 3-Jan-07	Mkt to NR	\$29.51
6 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: March 11, 2009

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Distribution of Ratings (Mar. 5, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starmine Universe **
Buy	Outperform	29%	44%	47%
Hold	Market Perform	59%	51%	45%

Sell Underperform 12% 5% 8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://equityresearch.bmogc.net/conflict_statement.asp

Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$22.77
Target Price: \$29.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

April 30, 2009

Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA

(416) 359-5807
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Assoc: Benjamin Pham

Q1/09 Results Slightly Below Expectations

Impact

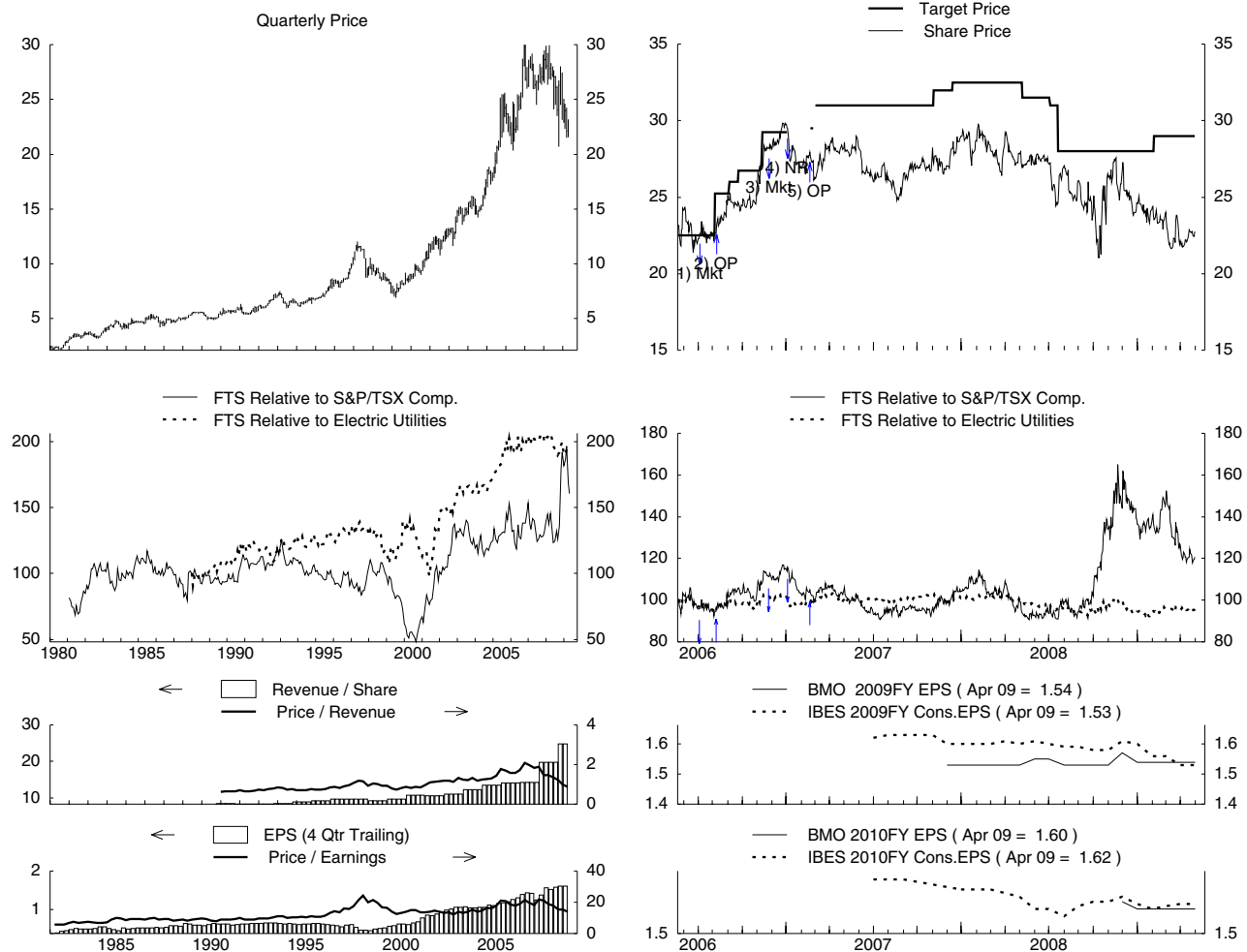
Slightly Negative

Details & Analysis

Fortis Inc. reported Q1/09 EPS of \$0.54 (basic), slightly lower than our estimate of \$0.58 and the First Call Mean of \$0.57 (range of \$0.59-0.55). The difference between expected and actual results appears to be due to lower-than-expected income from Fortis Properties (\$0.01/share); Terasen Inc. (\$0.01/share); Fortis Generation (\$0.01/share); and corporate costs that were (\$0.01/share) above our estimates. We believe the following points from the earnings release are relevant: (1) Q1/09 net income of \$92 million exceeded Q1/08 net income of \$91 million, but the issuance of 11.7 million common shares on December 19, 2008, appears to have resulted in some short-term dilution; (2) Although occupancy at Fortis properties remained relatively strong at 96% vs. 96.6% in Q1/08, transition costs associated with the acquisition of the Sheraton Hotel Newfoundland reduced earnings from the segment; and (3) a number of Fortis' regulated utilities (Terasen Gas, Terasen Gas Vancouver Island, Fortis Alberta, and Newfoundland Power) are expected to file rate applications in H1/09.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.60	14	1.04	4.7	65	18.02	1.2	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	9.0		14.0			15.4		
10 Year:	12.7		8.7			10.5		
20 Year:	4.8		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q4/2008.

FTS - Rating as of 19-May-06 = OP

Date	Rating Change	Share Price
1 4-Jul-06	OP to Mkt	\$22.60
2 8-Aug-06	Mkt to OP	\$23.24
3 24-Nov-06	OP to Mkt	\$28.20
4 3-Jan-07	Mkt to NR	\$29.51
5 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 29, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Buy	Outperform	29%	44%	47%
Hold	Market Perform	59%	51%	45%
Sell	Underperform	12%	5%	8%

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

May 1, 2009
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Benjamin Pham

Q1/09 Earnings Below Expectations; Maintaining Outperform Rating

Event

Fortis Inc. reported Q1/09 EPS of \$0.54 (basic). After adjusting for \$2 million of non-recurring income from Fortis Turks and Caicos, comparable EPS of \$0.53 were lower than our estimate of \$0.58 and the First Call Mean of \$0.57 (range of \$0.59-0.55). The difference between expected and actual results appears to be due to lower-than-expected income from the Caribbean utility companies (\$0.01/share); Fortis Properties (\$0.01/share); Terasen Inc. (\$0.01/share); Fortis Generation (\$0.01/share); and corporate costs that were (\$0.01/share) above our estimates.

Impact

Slightly Negative.

Forecasts

We have adjusted our forecasts to reflect Q1/09 results and increased our operating cost assumptions to be consistent with those reported this quarter. Our 2009E diluted EPS estimate declines to \$1.47 from \$1.54. Our 2010E EPS estimates are unchanged.

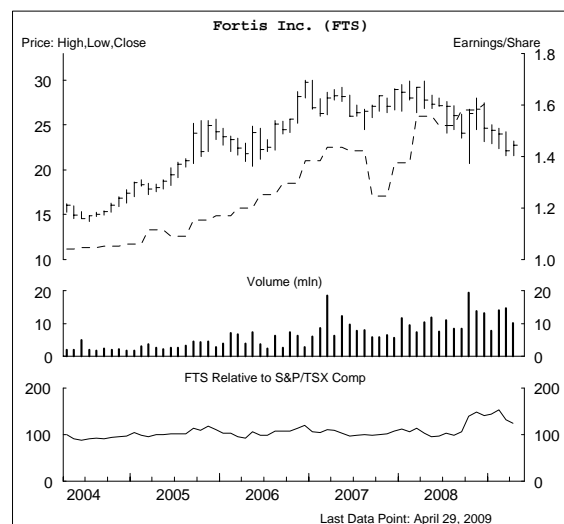
Valuation

Our revised target price of \$27 is based on a weighted valuation approach: 14x diluted 2010E EPS of \$1.60 (12.5%); 1.5x 2010E BVPS of \$19.05 (12.5%); and a target yield of 4.00%, assuming 2010E dividends per share of \$1.08.

Recommendation

We believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. We believe Fortis' shares offer an appealing dividend yield (4.7% at current price levels) and should act as a store of value during a difficult economic period.

Price (30-Apr) \$22.15
Target Price \$27.00↓
52-Week High \$28.34
52-Week Low \$20.70



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.47↓	\$1.60
P/E			15.1x	13.8x
CFPS	\$2.71	\$4.21	\$3.95	\$4.24
P/CFPS			5.6x	5.2x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$10,704	\$10,909
EBITDA (\$mm)	\$810	\$1,034	\$1,219	\$1,288
EV/EBITDA	12.4x	10.2x	8.8x	8.5x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.26↓	\$0.22↓	\$0.48
Dividend	\$1.04	Yield		4.7%
Book Value	\$18.02	Price/Book		1.2x
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)		\$3,748
Float O/S (mm)	169.2	Float Cap (\$mm)		\$3,748
Wkly Vol (000s)	2,700	Wkly \$ Vol (mm)		\$67.2
Net Debt (\$mm)	\$5,851.0	Next Rep. Date		05-Aug (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (CS) 2009E: \$1.53; 2010E: \$1.62

Changes

Annual EPS
 2009E \$1.54 to \$1.47

Quarterly EPS
 Q2/09E \$0.27 to \$0.26
 Q3/09E \$0.24 to \$0.22

Target
 \$29.00 to \$27.00

2009 Likely a Transition Year; Expect Growth to Resume in 2010

Fortis Inc. reported Q1/09 EPS of \$0.54 (basic). After adjusting for \$2 million of non-recurring income from Fortis Turks and Caicos, comparable EPS of \$0.53 were lower than our estimate of \$0.58 and the First Call Mean of \$0.57 (range of \$0.59–0.55). The difference between expected and actual results appears to be due to lower-than-expected income from the Caribbean utility companies (\$0.01/share); Fortis Properties (\$0.01/share); Terasen Inc. (\$0.01/share); Fortis Generation (\$0.01/share); and corporate costs that were (\$0.01/share) above our estimates.

Comparable net income of \$90 million was generally consistent with Q1/08 net income of \$91 million, suggesting that the issuance of 11.7 million common shares on December 19, 2008, may result in some near-term dilution (Q1/09 recurring EPS were \$0.53 (basic) versus recurring EPS of \$0.58 (basic) in Q1/08). We expect some weakness in earnings during 2009, as the expiry of water rights associated with the Rankine Generating Station will occur on April 30, 2009 (Rankine contributed approximately \$15 million/year of earnings), and note that the weak economy could affect occupancy and margins at Fortis Properties. We expect EPS growth to resume in 2010 as additional capital expenditures are transferred to rate base and the Vaca Hydroelectric facility comes online in Belize.

2009 will be an important year for regulatory applications. Rate applications are expected to be filed by Terasen Gas, Terasen Gas Vancouver Island, FortisAlberta and Newfoundland Power. We expect cost of capital reviews in British Columbia and possibly in Newfoundland in conjunction with these applications. Provincial regulators in Alberta and Ontario are expected to conduct generic cost of capital proceedings.

Many believe that the National Energy Board set a precedent when it issued its decision on the TransQuebec and Maritime Pipeline (TQM) cost of capital application (relating to the years 2007 and 2008) on March 19, 2009. Therein, the NEB departed from the Multi-Pipeline Cost of Capital decision (RH-2-94) by: (1) shifting to an ATWAAC approach that does not specifically outline a capital structure; and, (2) granting TQM a total return on capital of 6.4%, a level that is 90 basis points higher than would otherwise be calculated using the formula set out in Decision RH-2-94. Although we do not know whether provincial regulators will grant utilities higher deemed ROE, and do not incorporate a change in the methodology used to set regulated ROE in our outlook for Fortis, we believe that the prospect of higher regulated rates of return is positive for Fortis.

We are maintaining our Outperform rating, as we continue to believe that Fortis' shares are attractively valued, considering the company's low-risk, diversified business model. We believe that Fortis' shares offer an appealing dividend yield (4.7% at current price levels) and should act as a store of value during a difficult economic period.

We are revising our target price to \$27 from \$29. Our revised target price of \$27 is based on a weighted valuation approach: 14x diluted 2010E EPS of \$1.60 (12.5%); 1.5x 2010E BVPS of \$19.05 (12.5%); and a target yield of 4.00%, assuming 2010E dividends per share of \$1.08.

We have modified our valuation multiples to reflect higher market risk premiums. Our previous target price assumed the following valuation multiples: P/E of 16x, BVPS of 1.7x and a target dividend yield of 3.75%.

Q1/09 Results

As set out in Table 1, comparable income of \$90 million reported during Q1/09 was slightly below income of \$91 million reported during Q1/08.

Table 1: Historical Q1 Income by Business Segment

	Q1/09 GAAP Earnings (\$mm)		Q1/09 Adjusted Earnings (\$mm)	Q1/08 GAAP Adj. (\$mm)		Q1/08 Adjusted Earnings (\$mm)	Variance Q1/09 Adj. vs. Q1/08 Adj.	
		Adj. (\$mm)						Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	58.0	-	58.0	58.0	-	58.0	0.0	0.0%
Regulated Electric Utilities - Canadian								
FortisAlberta	12.0	-	12.0	11.0	-	11.0	1.0	9.1%
FortisBC	14.0	-	14.0	12.0	-	12.0	2.0	16.7%
Newfoundland Power	6.0	-	6.0	6.0	-	6.0	0.0	0.0%
Other Canadian	5.0	-	5.0	4.0	-	4.0	1.0	25.0%
	37.0	-	37.0	33.0	-	33.0	4.0	12.1%
Regulated Electric Utilities - Caribbean	6.0	(2.0)	4.0	7.0	-	7.0	(3.0)	-42.9%
Non-Regulated - Fortis Generation	6.0	-	6.0	6.0	-	6.0	0.0	0.0%
Non-Regulated - Fortis Properties	2.0	-	2.0	3.0	-	3.0	(1.0)	-33.3%
Corporate and Other	(17.0)	-	(17.0)	(16.0)	-	(16.0)	(1.0)	6.3%
Net Earnings Applicable to Common Shares	92.0	(2.0)	90.0	91.0	0.0	91.0	(1.0)	-1.1%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

Q1/09 net income of \$58 million from Terasen Gas was consistent with Q1/08 net income of \$58 million, but slightly lower than our estimate of \$60 million. Although Terasen Gas reported an increase in revenue, rising labour and benefit costs increased operating expenses. A lower regulated return on equity (8.47% during Q1/09 vs. 8.62% in Q1/08 at Terasen Gas Inc. and 9.17% during Q1/09 vs. 9.32% in Q1/08 at Terasen Gas Vancouver Island) also affected net income.

Regulated Electric Utilities – FortisAlberta

Q1/09 net income of \$12 million was consistent with our estimate of \$12.2 million and \$1 million higher than Q1/08 net income of \$11 million.

Regulated Electric Utilities – FortisBC

Q1/09 net income of \$14 million exceeded our estimate of \$12.9 million and Q1/08 net income of \$12 million. The variance between Q1/09 and Q1/08 results was largely due to a combination of increased revenue from higher customer rates and customer growth.

Regulated Electric Utilities – Newfoundland Power

Q1/09 net income of \$6 million was consistent with our estimate of \$6.3 million and Q1/08 net income of \$6 million.

Regulated Electric Utilities – Caribbean

The Caribbean Utility companies reported net income of \$6 million. After adjusting for non-recurring items of (1) \$1 million at Fortis Turks and Caicos related to a favourable court of appeal ruling regarding rates charged to certain industrial customers and (2) \$1 million related to a change in the method of accruing unbilled fuel factor revenue at Fortis Turks and Caicos, comparable net income of \$4 million was lower than Q1/08 net income of \$7 million and our \$6 million estimate. The difference between actual and expected results appears to be due to a combination of a reduction in sales volume (Q1/09 sales were 247 GWh vs. 258 GWh in Q1/08) and higher-than-expected operating and amortization expenses.

Unregulated – Fortis Generation

Fortis Generation reported Q1/09 net income of \$6 million, consistent with Q1/08 net income of \$6 million but lower than our estimate of \$7 million. The difference between actual and expected results was due to a combination of decreased energy sales of 257 GWh, which was lower than our forecast production of 270 GWh.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$2 million, which was below our estimate of \$3.4 million and Q1/08 net income of \$3 million. Although Q1/09 occupancy of 96% was relatively consistent with 96.6% in Q1/08, revenue per available room fell to \$64.40 in Q1/09 versus \$67.82 in Q1/08. Earnings were also affected by incremental transitional operating costs associated with the acquisition of the Fairmont Newfoundland, which has been rebranded as the Sheraton Hotel Newfoundland.

During April, Fortis acquired the Holiday Inn Select in Windsor, Ontario, for \$7 million (\$32,710/door). Although the economy in Windsor is contracting due to exposure to the automobile industry, Fortis believes that on a per-unit basis, the price of this property was very compelling.

Capital Expenditure Update

Consistent with guidance contained in prior earnings releases, Fortis' five-year capital budget remains at \$4.5 billion. Approximately \$3.1 billion of this total is expected to be deployed by the company's electric utilities, and \$1.2 billion by the gas utilities. The company continues to forecast capital expenditures of \$1 billion in 2009.

FortisAlberta recently revised the capital cost of its Automated Meter Infrastructure initiative to \$161 million from \$124 million, as disclosed in the Q4/08 earnings release. The increase arises

from direction from the Alberta Department of Energy, which mandated the installation of “smart meters” with more advanced capabilities than those the company was originally planning to install. We understand that the total cost of \$161 million should be eligible for rate base inclusion and recoverable in customer rates over time.

Regulatory Update

We expect 2009 to be a busy year from a regulatory perspective. FortisAlberta, Terasen Gas Inc., Terasen Gas Vancouver Island, and Newfoundland Power are all expected to file rate applications by this summer.

We understand that as part of its application, Terasen Gas will request a review of its regulated ROE, the automatic adjustment mechanisms used to set ROE and the deemed equity component of its capital structure. Newfoundland Power may also request a cost of capital review in its rate application.

On May 19, the Alberta Utilities Commission will commence a generic cost of capital hearing. The outcome of this hearing will affect the regulated rate of return at FortisAlberta.

A summary of recent regulatory decisions is set out in Table 2.

Table 2: Recent Regulatory Decisions

Regulated Utility	Type of Decision	Outcome	Date Approved	Comment
Maritime Electric	2009 Rate Application	Approval of maximum allowed ROE of 9.75% for 2009; Residential rate increase of 5.3%, based on average consumption of 650 kWh per month.	Mar-09	25 bps decrease in allowed ROE from prior allowed return on equity of 10%.
FortisBC	2009 and 2010 Capital Expenditure Plan	Gross capital expenditures approved of \$165 million in 2009 and \$156 million in 2010	Feb-09	An additional \$16 million of capital expenditures is subject to further regulatory processes.
FortisBC	2009 Revenue Requirements	4.6% increase in rates, effective January 1, 2009	Dec-08	Rates reflect ROE of 8.87%. Performance-based rate setting mechanism has been extended to 2011 from 2009.
FortisAlberta	2009 Rate Application	Distribution rate increase of 8.6%, effective January 1, 2009	Dec-08	2007 ROE of 8.51% will be used for 2009, pending the outcome of the AUC's 2009 Generic Cost of Capital Proceeding.
Newfoundland Power	2009 Capital Budget	Approval of approximately \$62 million	Nov-08	Half of the proposed capital expenditures relate to replacing aged and deteriorated components of the electricity system.

Source: BMO Capital Markets, Company Reports

A summary of pending material regulatory decisions is set out in Table 3.

Table 3: Pending Material Regulatory Decisions

Regulated Utility	Regulatory Filing	Application Submission	Decision Date	Comment
Caribbean Utilities	Five-Year Capital Investment Plan	Dec-08	Q2 2009	Requesting approval for US\$246 million of capital expenditures over a five year period. Approximately US\$72 million is related to new generation that is expected to be solicited from third parties. In March 2009, the ERA approved 2009 capital expenditures of US\$48 million. Capital investment relating to 2010-2013 is still under review by the ERA.
Belize Electricity	Judicial review and appeal of the Final Decision on 2008/2009 Rate Application	Jul-08	TBD	Filed with the Supreme Court of Belize. Judicial process is ongoing with interim rulings, judgements, and appeals. Timing of the outcome of the proceedings is uncertain.

Source: BMO Capital Markets, Company Reports

Other Items

- The dispute between Belize Electricity Limited (BEL, 70.1% Fortis) and the Belize Public Utilities Commission regarding the PUC's final decision on BEL's 2008–2009 rate application is ongoing. BEL continues to challenge the PUC's final decision through the Supreme Court of Belize. We understand that a hearing regarding this matter is expected to occur in July 2009. We also understand that Fortis continues to collect rates consistent with the PUC's final decision.
- Following the Government of Newfoundland and Labrador's decision to expropriate the Newfoundland-based assets owned by AbitibiBowater, Fortis has de-consolidated its interest in the Exploits Partnership (51% Fortis Inc.; 49% AbitibiBowater) and now accounts for its interest in Exploits by using the equity method. Nalcor (100% Government of Newfoundland and Labrador) is now operating the facilities owned by Exploits (Grand Falls and Bishop's Falls); however, Fortis has not received payments for energy produced by the facility since February 13, 2009, the date at which the expropriation occurred. Fortis continues to accrue equity earnings that are equivalent to the amount which would have been earned prior to expropriation since the Government of Newfoundland and Labrador has publicly stated that it is not its intention to adversely affect the business interests of lenders or independent business partners of AbitibiBowater.

Estimates

We have adjusted our forecasts to reflect Q1/09 results and increased our operating cost assumptions to be consistent with those reported this quarter. Our 2009E diluted EPS estimate declines to \$1.47 from \$1.54. Our 2010E EPS estimates are unchanged.

Table 4: Consolidated Summary

30-Apr-09

Current Price:

\$22.15

12-Month Target Price:

\$27.00

ROR:

26.5%

Michael McGowan

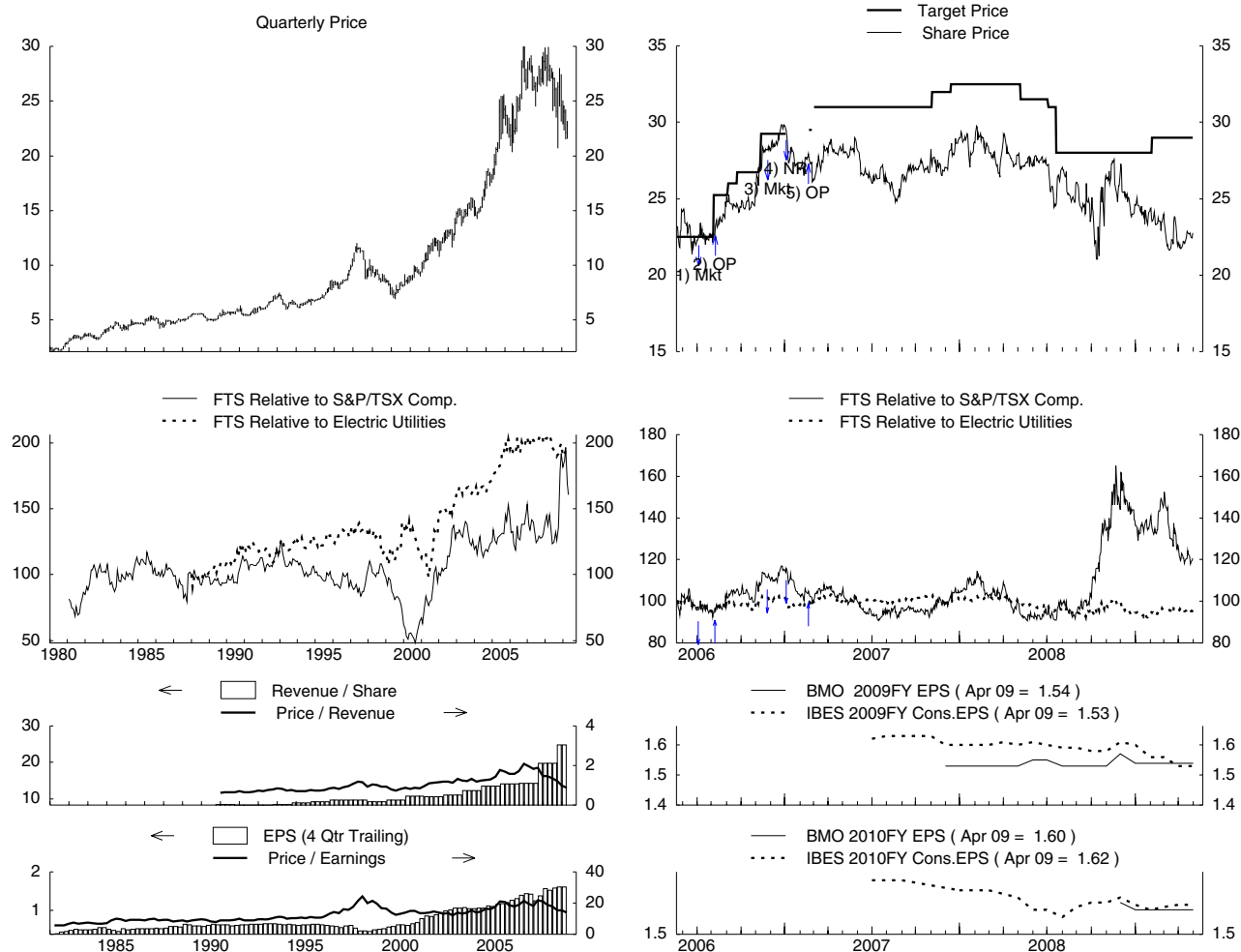
BMO Capital Markets

Recommendation:

Outperform

	Year Ending December 31								
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.50	\$1.63
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.47	\$1.60
Segmented EPS									
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.19
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.08	\$0.07
CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.16
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.13	\$0.13
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.18	\$0.21
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.51	\$0.50	\$0.55
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.67	\$0.69
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.41)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.2%	64.2%	69.6%	66.2%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	157.4	169.4	169.7
Net Book Value	\$8.72	\$8.98	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.48	\$19.05
Market Valuation									
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	-	-
Price: Current	-	-	-	-	-	-	-	\$22.15	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	14.8	13.6
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	-	-
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	1.2	1.2
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	-	-
Yield: Current	-	-	-	-	-	-	-	4.7%	4.9%
Balance Sheet (\$mm)									
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	1,042.2	607.2	1,017.0	1,468.2
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,558.0	4,623.0	4,884.0	5,039.1	4,785.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	739.0	739.0	739.0
Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	145.0	145.0	145.0
Preferred Shares	0.0	125.0	321.5	319.5	439.0	439.0	667.0	667.0	667.0
Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	44.0	48.0	48.0
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,276.0</u>	<u>2,601.0</u>	<u>3,046.0</u>	<u>3,133.1</u>	<u>3,236.5</u>
	1,731.2	2,250.9	3,533.6	3,995.0	5,360.6	9,553.2	10,132.2	10,788.2	11,088.9
Balance Sheet (%)									
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	7.8%	10.9%	6.0%	9.4%	13.2%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	47.7%	48.4%	48.2%	46.7%	43.2%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	7.3%	6.9%	6.7%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.3%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	6.6%	6.2%	6.0%
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.4%	0.4%	0.4%
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>23.8%</u>	<u>27.2%</u>	<u>30.1%</u>	<u>29.0%</u>	<u>29.2%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.4	252.5	253.2	276.7
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	637.2	700.1

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.60	14	1.04	4.7	65	18.02	1.2	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	9.0		14.0			15.4		
10 Year:	12.7		8.7			10.5		
20 Year:	4.8		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q4/2008.

FTS - Rating as of 19-May-06 = OP

Date	Rating Change	Share Price
1 4-Jul-06	OP to Mkt	\$22.60
2 8-Aug-06	Mkt to OP	\$23.24
3 24-Nov-06	OP to Mkt	\$28.20
4 3-Jan-07	Mkt to NR	\$29.51
5 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: April 29, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings (Mar. 5, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	29%	44%	47%
Hold	Market Perform	59%	51%	45%
Sell	Underperform	12%	5%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

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Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at:

http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

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Fortis Inc

(FTS-TSX)

June 23, 2009
Brief Research Note
Gas & Electric Utilities

Stock Rating: Outperform
Stock Price: \$25.21
Target Price: \$27.00

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(416) 359-5807
Michael.McGowan@bmo.com

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

Acquisition of Great Lakes Power Distribution

Impact

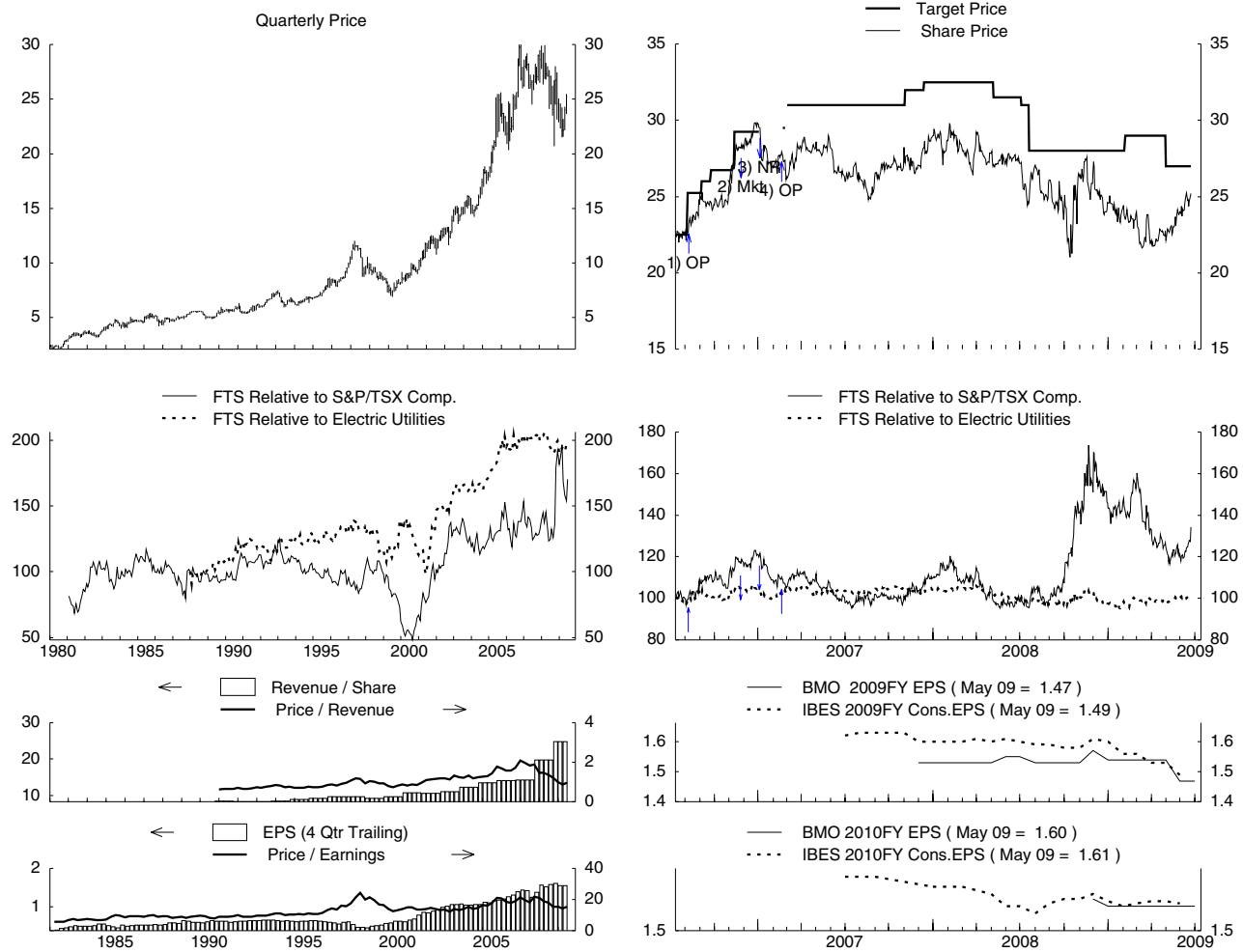
Slightly Positive

Details & Analysis

Fortis has announced that it has entered into an agreement to acquire Great Lakes Power Distribution Inc. from Brookfield Renewable Power Inc. for approximately \$68 million. We understand that the acquisition was priced at approximately 1.07x rate base or 98% of book value, and we estimate that the transaction could add \$0.01–0.02/share in earnings accretion. The acquisition is expected to close by the end of 2009 and is subject to regulatory approval (Competition Act and Ontario Energy Board).

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	15	1.04	4.3	67	18.02	1.3	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.3		14.0			15.4		
10 Year:	12.3		8.7			10.5		
20 Year:	4.6		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 12-Jul-06 = Mkt

Date	Rating Change	Share Price
1 8-Aug-06	Mkt to OP	\$23.24
2 24-Nov-06	OP to Mkt	\$28.20
3 3-Jan-07	Mkt to NR	\$29.51
4 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 22, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

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Additional Matters

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Fortis

(FTS-TSX)

June 11, 2009

Research Fact Sheet
Gas & Electric Utilities

Stock Rating: Outperform
Industry Rating: Market Perform

Michael McGowan, CA, CFA

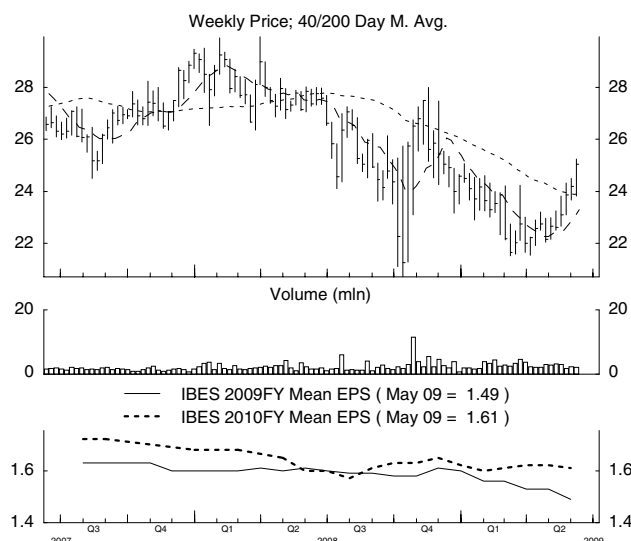
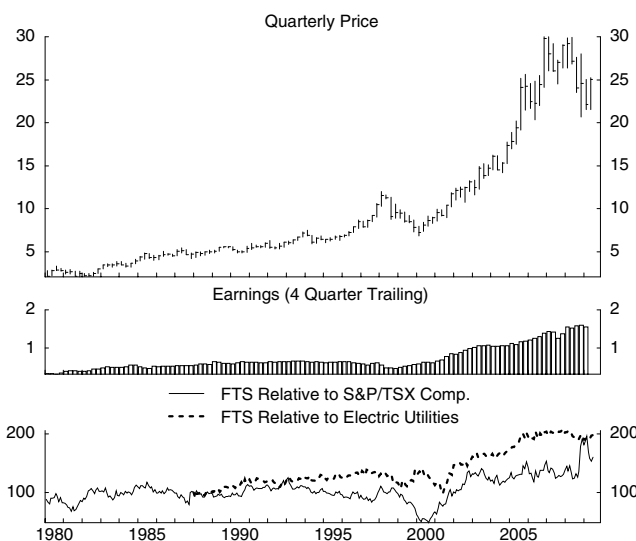
(416) 359-5807

Michael.McGowan@bmo.com

Price (11-Jun)	\$25.05	52-Week High	\$28.00	
Target Price	\$27.00	52-Week Low	\$20.70	
Dividend	\$1.04	Book Value	\$18.02	
Yield	4.2%	Price/Book	1.4x	
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)	\$4,238	
Float O/S (mm)	169.2	Float Cap (\$mm)	\$4,238	
Wkly Vol (000s)	2,707	Wkly \$ Vol (mm)	\$66.1	
Net Debt (\$mm)	\$5,851	Next Rep. Date	5-Aug (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53 a	\$0.26	\$0.22	\$0.48

(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.47	\$1.60
P/E			17.0x	15.7x
CFPS	\$2.71	\$4.21	\$3.76	\$4.13
P/CFPS			6.7x	6.1x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,158	\$11,364
EBITDA (\$mm)	\$810	\$1,034	\$1,161	\$1,289
EV/EBITDA	12.4x	10.2x	9.6x	8.8x
ROE (%)	7.2%	8.3%	8.1%	8.5%
Book Value (\$)	\$16.72	\$18.00	\$18.48	\$19.05
D/Tot. Cap. (%)	65.6%	67.6%	68.8%	68.7%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (56%, Grand Cayman Island),

Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis Inc. reported Q1/09 EPS of \$0.54 (basic). After adjusting for \$2 million of non-recurring income from Fortis Turks and Caicos, comparable EPS of \$0.53 were lower than our estimate of \$0.58 and the First Call Mean of \$0.57. The difference between expected and

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 5.

actual results appears to be due to lower-than-expected income from the Caribbean utility companies (\$0.01/share); Fortis Properties (\$0.01/share); Terasen Inc. (\$0.01/share); Fortis Generation (\$0.01/share); and corporate costs that were (\$0.01/share) above our estimates.

Corporate Developments – 2009 will be an important year for regulatory applications. Rate applications are expected to be filed by Terasen Gas, Terasen Gas Vancouver Island, FortisAlberta and Newfoundland Power. We expect cost of capital reviews in British Columbia and possibly in Newfoundland in conjunction with these applications. In addition, provincial regulators in Alberta and Ontario are expected to conduct generic cost of capital proceedings.

On December 19, 2008, Fortis announced that it had completed the issuance of 11,700,000 common shares, priced at \$25.65/share, for gross proceeds of \$300.1 million. Approximately \$200 million from the issuance will be used

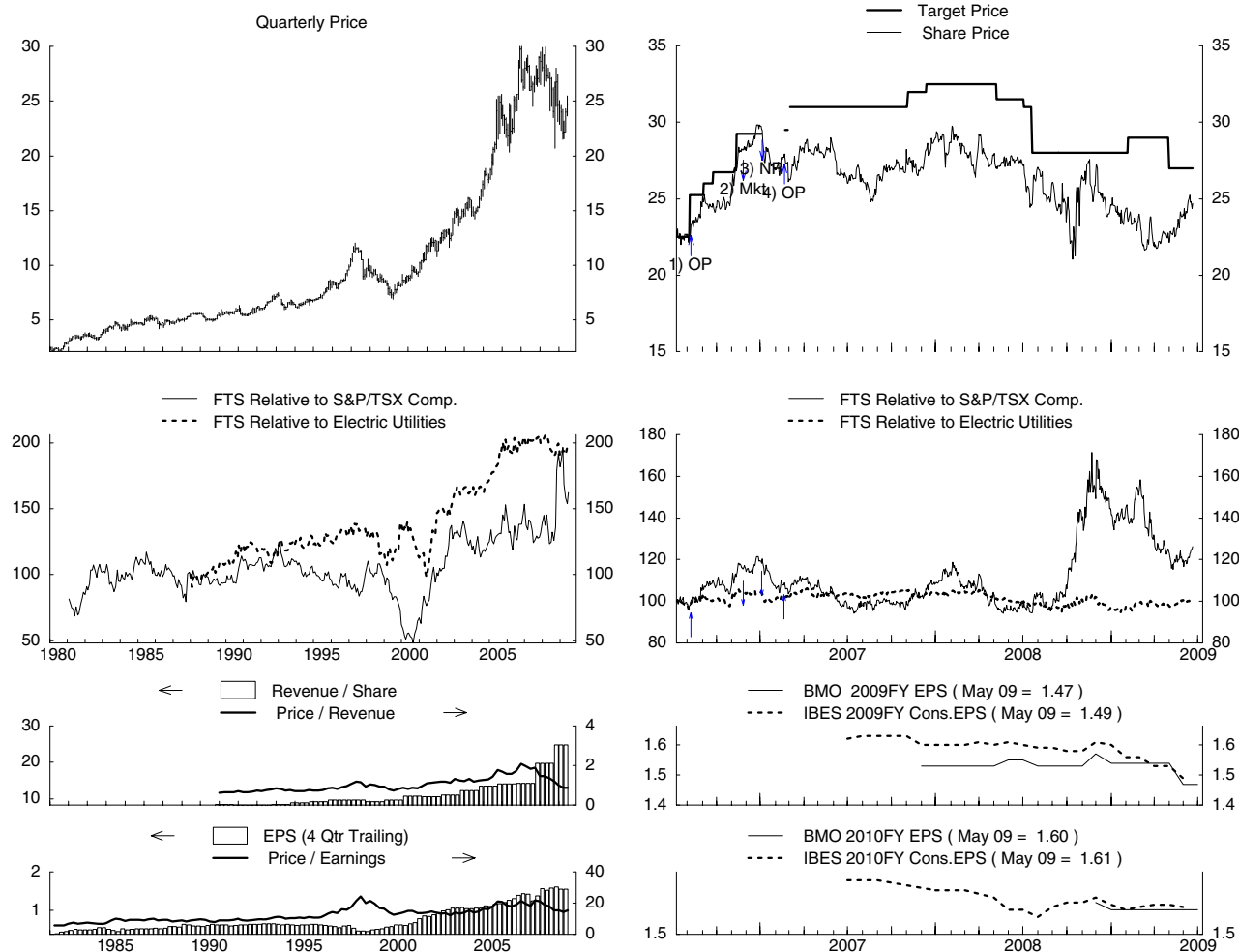
to repay debt incurred to temporarily finance the acquisition of Terasen Gas, which was completed in May 2007. The remaining proceeds will be used for general corporate purposes.

Forecasts – Our diluted EPS estimates are \$1.47 in 2009 and \$1.60 in 2010.

Valuation – Our target price of \$27 is based on a weighted valuation approach: 14x diluted 2010E EPS of \$1.60 (12.5%); 1.5x 2010E BVPS of \$19.05 (12.5%); and a target yield of 4.00%, assuming 2010E dividends per share of \$1.08.

Recommendation – We believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	15	1.04	4.3	67	18.02	1.3	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.3		14.0			15.4		
10 Year:	12.3		8.7			10.5		
20 Year:	4.6		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 10-Jul-06 = Mkt

Date	Rating Change	Share Price
1 8-Aug-06	Mkt to OP	\$23.24
2 24-Nov-06	OP to Mkt	\$28.20
3 3-Jan-07	Mkt to NR	\$29.51
4 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: June 18, 2009

Company Risk Disclosure

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Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starmine Universe **
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Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

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Fortis Inc/ Caribbean Utilities Co. Ltd

July 22, 2009

Brief Research Note
Gas & Electric Utilities**Michael McGowan, CA, CFA**

(416) 359-5807

Michael.McGowan@bmo.com

Assoc: Mark Laing, CA

(FTS-TSX)

Stock Rating: Outperform

Stock Price: \$25.69

Target Price: \$27.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections**(CUP.U-TSX)**

Stock Rating: Market Perform

Stock Price: US\$8.60

Target Price: US\$9.00

Stake in Caribbean Utilities Co. Increased to 59.5% from 57%

Impact

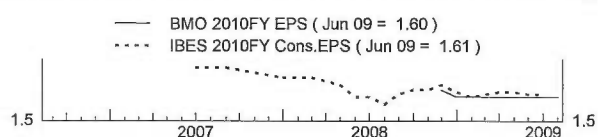
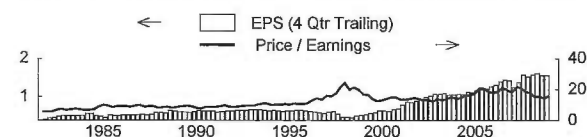
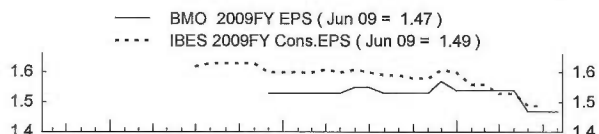
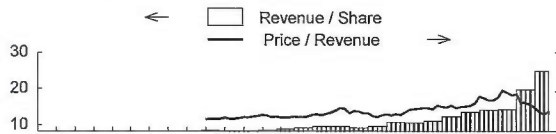
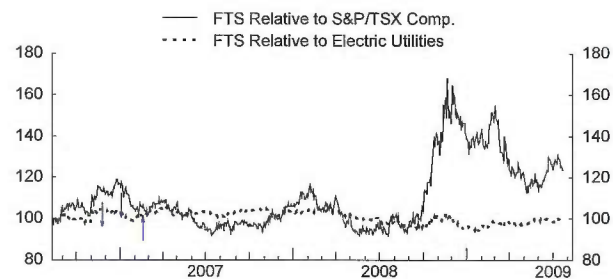
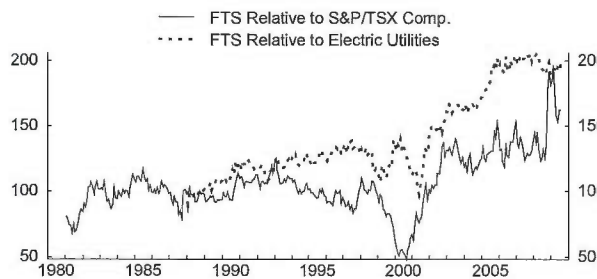
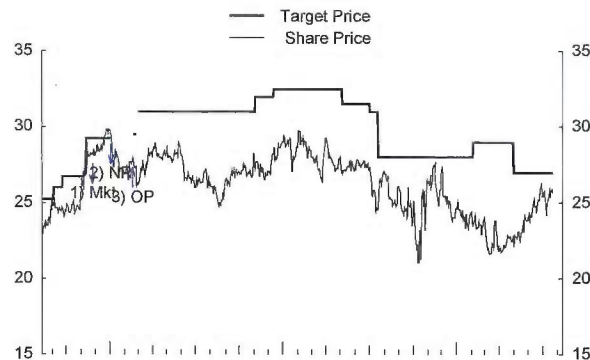
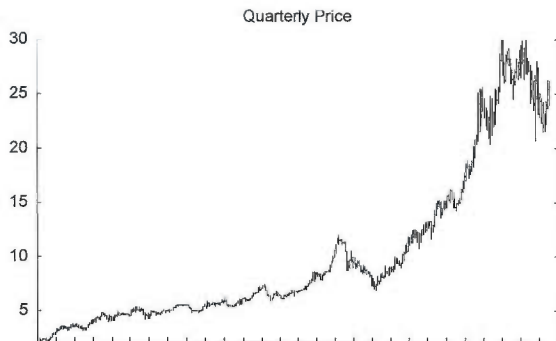
Neutral

Details & Analysis

Fortis announced that it has acquired an additional 768,200 Class A Ordinary Shares of Caribbean Utilities Co. Ltd. at a price of \$8.78/share, pursuant to a private agreement dated July 22, 2009. As a result of this acquisition, Fortis has increased its interest in Caribbean Utilities to approximately 59.5% from approximately 57%. Given the small size of Caribbean Utilities relative to Fortis' consolidated business, we do not expect that this transaction will have a material impact on Fortis' financial results.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 6.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.3	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	16	1.04	4.1	67	18.02	1.4	9

Average: 14 4.9 64 1.4 10.8

Growth(%):
 5 Year: 8.2 14.0 15.4
 10 Year: 11.8 8.7 10.5
 20 Year: 4.7 5.7 7.6

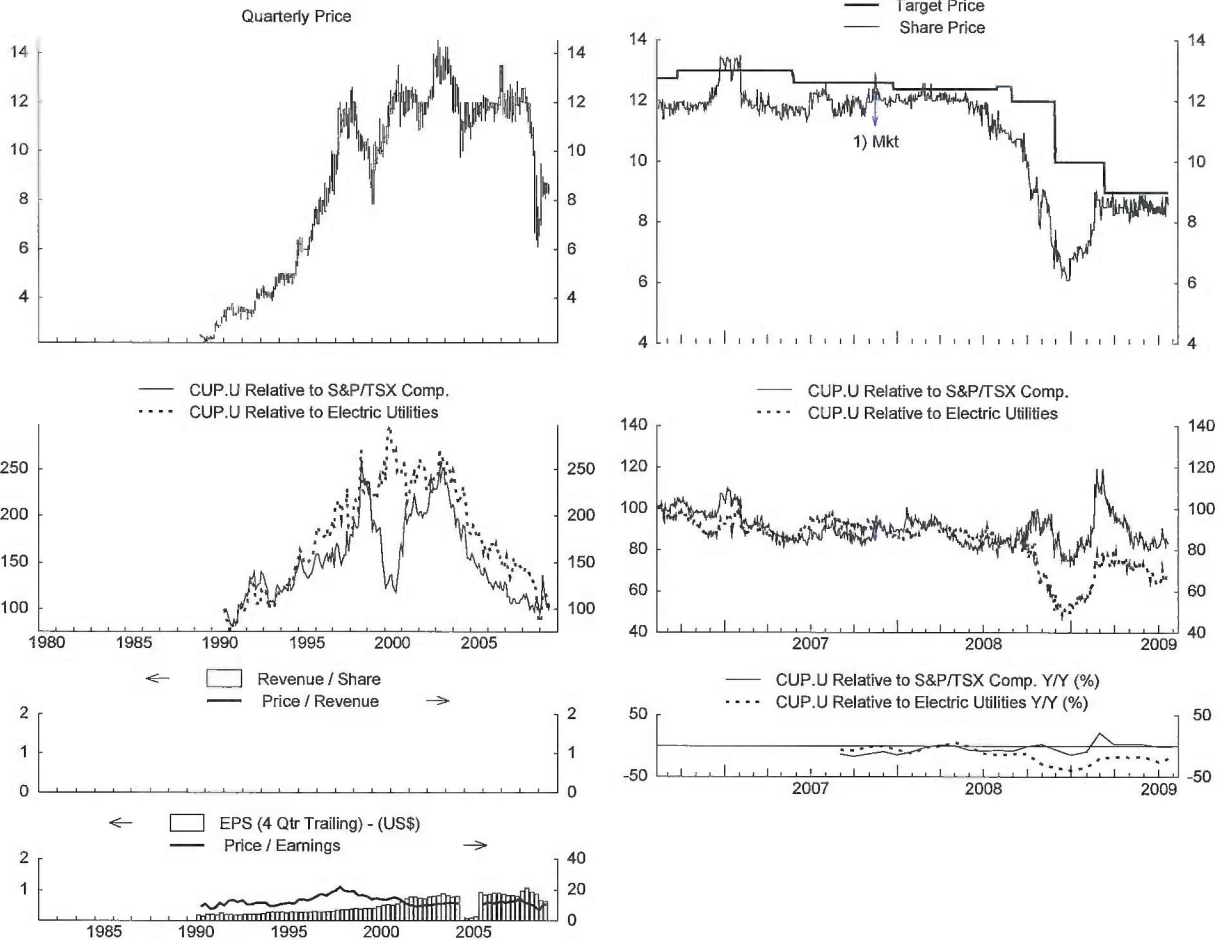
* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 10-Aug-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: July 21, 2009

Caribbean Utilities Co. Ltd. (CUP.U)



FYE (Dec.)	EPS US\$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1990	ND	11	0.17	7.3	79	ND	nm	nm
1991	ND	10	0.19	5.9	59	ND	nm	nm
1992	ND	13	0.22	6.0	79	ND	nm	nm
1993	ND	12	0.25	6.2	74	ND	nm	nm
1994	ND	11	0.28	5.6	60	ND	nm	nm
1995	ND	13	0.30	5.1	69	ND	nm	nm
1996	ND	16	0.33	4.2	68	4.73	1.6	nm
1997	ND	19	0.33	3.4	66	4.43	2.2	nm
1998	ND	19	0.33	2.7	52	4.80	2.5	nm
1999	ND	14	0.33	3.6	51	5.55	1.6	nm
2000	ND	15	0.71	5.9	86	5.49	2.2	nm
2001	ND	10	0.62	5.1	53	6.93	1.8	nm
2002	ND	10	0.64	5.3	55	7.43	1.6	nm
2003	ND	11	0.86	6.2	71	7.43	1.9	nm
2004	ND	11	0.86	7.7	>100	7.43	1.5	nm
2005	ND	11	0.77	6.5	69	7.43	1.6	nm
2006	ND	13	0.75	5.7	73	7.43	1.8	nm
2007	0.84	14	0.65	5.3	77	7.43	1.6	11
2008	0.90	7	0.67	9.8	69	7.43	0.9	15
Current*	0.66	11	0.67	8.0	87	7.03	1.2	11
Average:		13		5.6	68		1.8	13.0
Growth(%):								
5 Year:	-3.6		-6.2			-1.1		
10 Year:	4.7		7.4			2.4		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

CUP.U - Rating as of 10-Aug-06 = OP

Date	Rating Change	Share Price
1 14-Nov-07	OP to Mkt	\$12.85

Last Daily Data Point: July 21, 2009

Company Risk Disclosures**(FTS-TSX)**

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

(CUP.U-TSX)

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. The company's operations may be disrupted and assets may be damaged by hurricanes and/or tropical storms. Caribbean Utilities' cash flow is sensitive to commercial development and tourism on Grand Cayman Island and the U.S. economy.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure**(FTS-TSX)**

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

(CUP.U-TSX)

Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starline Universe**
Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at: http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together

referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

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Fortis Inc

(FTS-TSX)

August 5, 2009Brief Research Note
Gas & Electric Utilities**Stock Rating:** Outperform
Stock Price: \$25.75
Target Price: \$27.00**Member of:** Top 15 Value Stock Selections
Top 15 Income Stock Selections**Michael McGowan, CA, CFA**(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Q2/09 Results Exceed Expectations

Impact

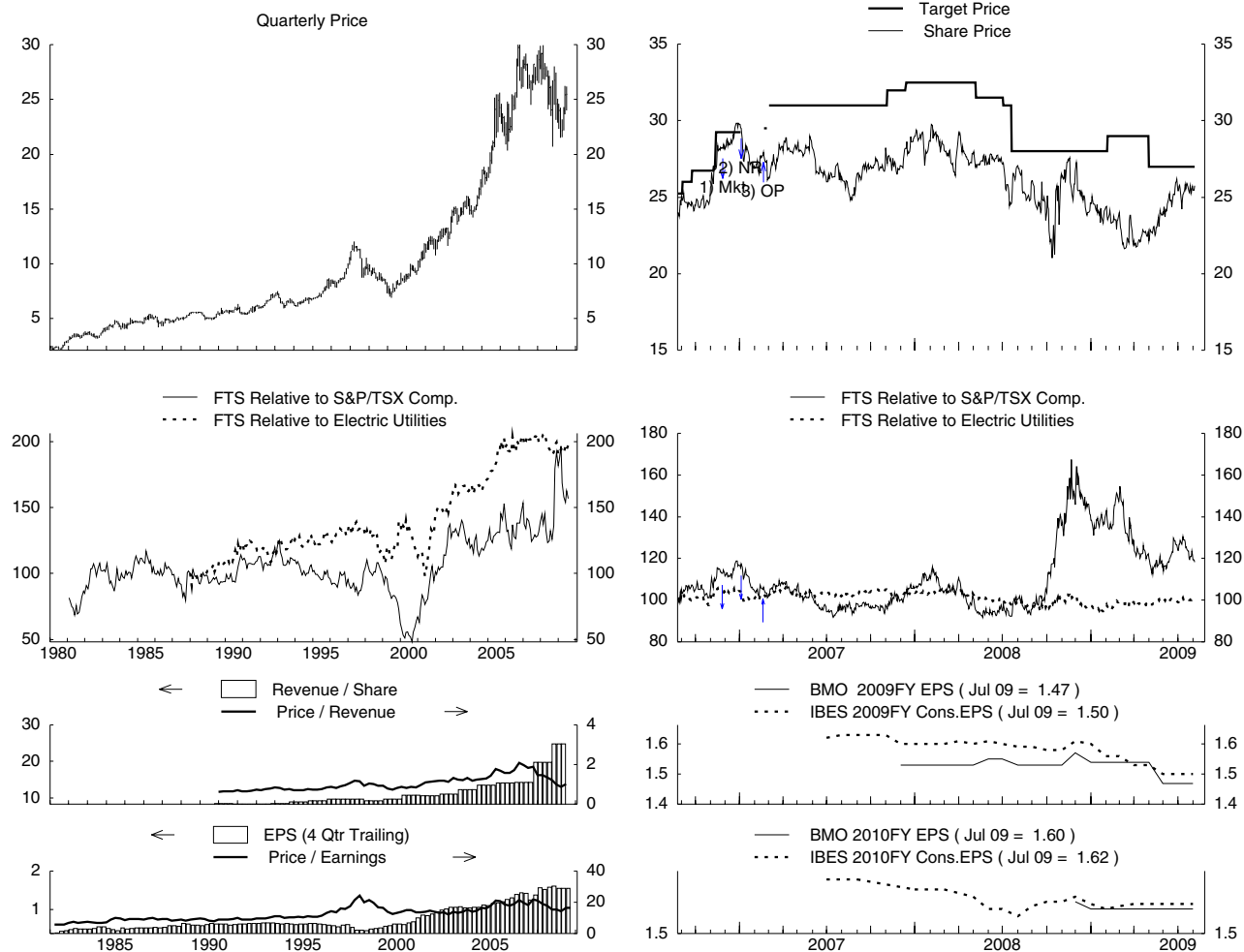
Slightly Positive

Details & Analysis

Fortis reported Q2/09 EPS of \$0.31 vs. our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong performance at Terasen Gas (\$0.03/share greater than expected) and FortisAlberta (\$0.03/share greater than expected), although earnings at FortisAlberta may have benefitted from a reduction in corporate income taxes. Earnings from the remainder of the company's business segments were generally in line with expectations. 2009 will be a busy year from a regulatory perspective. During Q2/09 FortisAlberta, the Terasen Companies, and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are engaged in cost of capital reviews. For example, Terasen Gas is requesting an increase in its allowed ROE to 11% from 8.47% and an increase in its equity thickness to 40% from 35% currently. Newfoundland Power is requesting an increase in its allowed ROE to 11% from 8.95%, and FortisAlberta is participating in the generic cost of capital proceeding being administered by the Alberta Utilities Commission. Decisions on these applications and cost of capital proceedings are expected in late 2009 or early 2010.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	16	1.04	4.1	67	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.2		14.0			15.4		
10 Year:	11.8		8.7			10.5		
20 Year:	4.7		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 24-Aug-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

General Disclosure

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Company Specific Disclosure

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Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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Additional Matters

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$25.75
Target Price: \$27.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

August 5, 2009
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Q2/09 Results Exceed Expectations

Impact

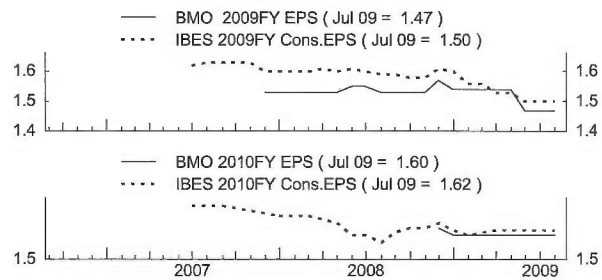
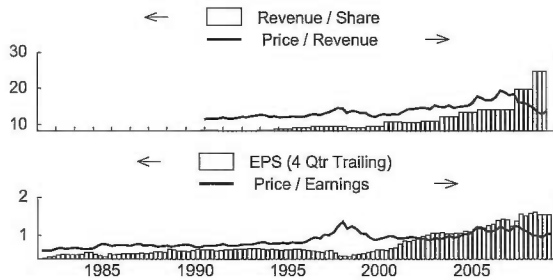
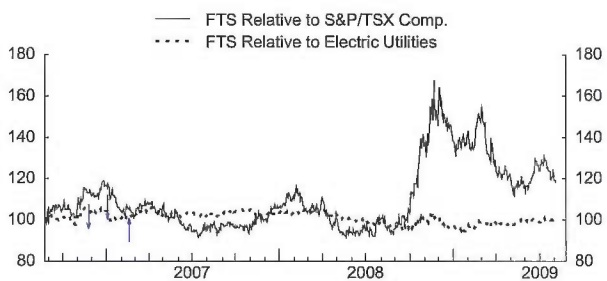
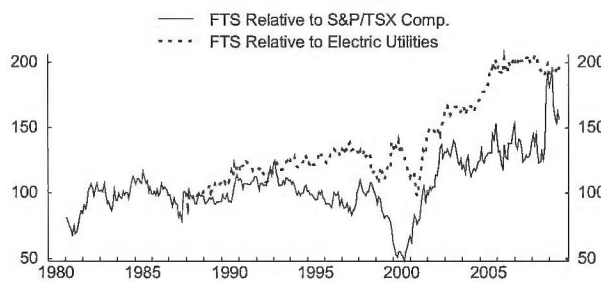
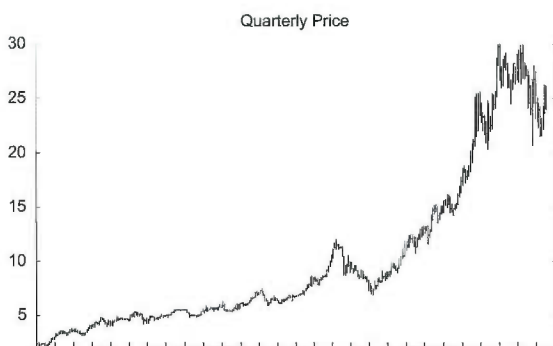
Slightly Positive

Details & Analysis

Fortis reported Q2/09 EPS of \$0.31 vs. our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong performance at Terasen Gas (\$0.03/share greater than expected) and FortisAlberta (\$0.03/share greater than expected), although earnings at FortisAlberta may have benefitted from a reduction in corporate income taxes. Earnings from the remainder of the company's business segments were generally in line with expectations. 2009 will be a busy year from a regulatory perspective. During Q2/09 FortisAlberta, the Terasen Companies, and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are engaged in cost of capital reviews. For example, Terasen Gas is requesting an increase in its allowed ROE to 11% from 8.47% and an increase in its equity thickness to 40% from 35% currently. Newfoundland Power is requesting an increase in its allowed ROE to 11% from 8.95%, and FortisAlberta is participating in the generic cost of capital proceeding being administered by the Alberta Utilities Commission. Decisions on these applications and cost of capital proceedings are expected in late 2009 or early 2010.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.8	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	16	1.04	4.1	67	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.2		14.0			15.4		
10 Year:	11.8		8.7			10.5		
20 Year:	4.7		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 24-Aug-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

August 6, 2009
 Research Comment
 Toronto, Ontario

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 Assoc. Mark Laing, CA

Q2/09 Earnings Exceed Expectations; Maintaining Outperform Rating

Event

Fortis reported Q2/09 EPS of \$0.31 versus our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong earnings at Terasen Gas (\$0.03/share greater than our estimate) and FortisAlberta (\$0.03/share greater than our estimate), both of which benefitted from lower-than-expected income tax expenses. Earnings from the remainder of the company's business segments were generally in line with expectations.

Impact

Neutral.

Forecasts

We have updated our estimates to reflect Q2/09 results and forecast 2010 and 2011 rate base balances as set out in the rate applications filed by the Terasen Gas companies, FortisAlberta and Newfoundland Power. We have not adjusted our estimates to reflect requested changes to capital structure or allowed rates or return on equity. Our diluted EPS estimates increase to \$1.51 in 2009E from \$1.47 and to \$1.63 in 2010E from \$1.60.

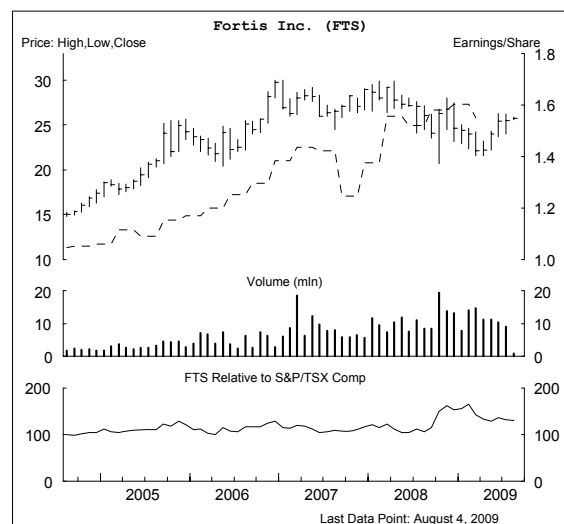
Valuation

Our revised target price of \$29 is based on a weighted valuation approach: 15x diluted 2010E EPS of \$1.63 (12.5%); 1.75x 2010E BVPS of \$19.13 (12.5%) and a target yield of 3.75%, assuming 2010E dividends per share of \$1.08 (75%). We increased our valuation multiples to reflect lower market risk premiums.

Recommendation

We believe Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (4-Aug) \$25.75
Target Price \$29.00↑
52-Week High \$28.00
52-Week Low \$20.70



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.51↑	\$1.63↑
P/E			17.1x	15.8x
CFPS	\$2.71	\$4.21	\$3.76	\$4.13
P/CFPS			6.8x	6.2x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,538	\$12,029
EBITDA (\$mm)	\$810	\$1,034	\$1,195	\$1,313
EV/EBITDA	12.4x	10.2x	9.7x	9.2x
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.22	\$0.48
Dividend	\$1.04	Yield		4.0%
Book Value	\$18.02	Price/Book		1.4x
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)		\$4,357
Float O/S (mm)	169.2	Float Cap (\$mm)		\$4,357
Wkly Vol (000s)	2,721	Wkly \$ Vol (mm)		\$66.0
Net Debt (\$mm)	\$5,851.0	Next Rep. Date		05-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
Major Shareholders: Widely held
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.49; 2010E: \$1.61

Changes

Annual EPS
 2009E \$1.47 to \$1.51
 2010E \$1.60 to \$1.63

Target
 \$27.00 to \$29.00

Q2/09 Results Exceed Expectations; Many Important Regulatory Proceedings to Conclude in H2/09

Fortis reported Q2/09 EPS of \$0.31 versus our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong earnings at Terasen Gas (\$0.03/share greater than our estimate) and FortisAlberta (\$0.03/share greater than our estimate), both of which benefitted from lower-than-expected income tax expenses. Earnings from the remainder of the company's business segments were generally in line with expectations.

As previously noted, 2009 will be an important year from a regulatory perspective. During Q2/09, FortisAlberta, the Terasen Companies and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are engaged in cost of capital reviews. For example, Terasen Gas is requesting an increase in its allowed ROE to 11% from 8.47% and an increase in its equity thickness to 40% from 35% currently. Newfoundland Power is requesting an increase in its allowed ROE to 11% from 8.95%, and FortisAlberta is participating in the generic cost of capital proceeding being administered by the Alberta Utilities Commission. Decisions on these applications and cost of capital proceedings are expected in late 2009 or early 2010.

Our estimates do not assume that provincial regulators grant the requested changes to capital structure and deemed return on equity. We believe, however, that the capital structure/deemed ROE proceedings are positive for regulated utilities in Canada, as they signify that regulators are willing to address the possibility that the current method of setting regulated rates of return may not adequately compensate investors for the risks they are incurring.

We are maintaining our Outperform rating, as we continue to believe that Fortis' shares are attractively valued, considering the company's low-risk, diversified business model.

We are increasing our price target to \$29 from \$27. Our \$29 target is based on a weighted valuation approach: 15x diluted 2010E EPS of \$1.63 (12.5%); 1.75x 2010E BVPS of \$19.13 (12.5%) and a target yield of 3.75%, assuming 2010E dividends per share of \$1.08 (75%).

We have increased our valuation multiples to reflect lower market risk premiums. Our previous target price assumed the following valuation multiples: P/E of 14x, BVPS of 1.5x, and a target dividend yield of 4.00%.

Q2/09 Results

As set out in Table 1, Q2/09 GAAP net income of \$53 million was \$9 million greater than comparable income of \$44 million reported in Q2/08. In order to present Q2/08 results on a comparable basis, Q2/08 GAAP income was adjusted for the following non-recurring expenses: 1) \$13 million of regulatory disallowances at Belize Electricity Limited (BEL); and 2) a charge of \$2 million at Fortis Ontario related to the Q2/08 repayment of amounts received in 2007 related to cross-border interconnection agreements.

A discussion of the operating performance of each business segment follows below.

Table 1: Historical Q2 Income by Business Segment

	Q2/09 GAAP Earnings (\$mm)		Q2/09 Adjusted Earnings (\$mm)	Q2/08 GAAP Adj. (\$mm)		Q2/08 Adjusted Earnings (\$mm)	Variance Q2/09 Adj. vs. Q2/08 Adj.	
								Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	14.0	-	14.0	12.0	-	12.0	2.0	16.7%
Regulated Electric Utilities - Canadian								
FortisAlberta	17.0	-	17.0	7.0	-	7.0	10.0	142.9%
FortisBC	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Newfoundland Power	11.0	-	11.0	10.0	-	10.0	1.0	10.0%
Other Canadian	4.0	-	4.0	2.0	2.0	4.0	0.0	0.0%
	39.0	-	39.0	26.0	2.0	28.0	11.0	39.3%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	(5.0)	13.0	8.0	(1.0)	-12.5%
Non-Regulated - Fortis Generation	3.0	-	3.0	7.0	-	7.0	(4.0)	-57.1%
Non-Regulated - Fortis Properties	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Corporate and Other	(18.0)	-	(18.0)	(18.0)	-	(18.0)	0.0	0.0%
Net Earnings Applicable to Common Shares	53.0	0.0	53.0	29.0	15.0	44.0	24.0	20.5%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

Q2/09 net income of \$14 million from Terasen Gas exceeded our estimate of \$9.5 million and Q2/08 net income of \$12 million. Increased earnings in Q2/09 were primarily the result of a \$3 million reduction in income taxes, which declined to \$2 million in Q2/09 versus \$5 million in Q2/08. Per our discussion with management, the decrease in the Q2/09 income tax provision resulted from an increase in capital cost allowance rates for compressor equipment that was enacted during the quarter.

Regulated Electric Utilities – FortisAlberta

Q2/09 net income of \$17 million exceeded our estimate of \$11.6 million and Q2/08 net income of \$7 million. The variance between actual and expected results was largely related to a \$3 million income tax recovery recorded during Q2/09. We understand that approximately \$2 million of the recovery relates to a reversal of income tax provisions expensed during prior quarters, while the remaining \$1 million resulted from a future income tax benefit that was triggered by the collection of amounts held in a deferral account related to 2007 transmission tariffs paid to the Alberta Electric System Operator.

Regulated Electric Utilities – FortisBC

Q2/09 net income of \$7 million was consistent with our estimate of \$7 million and Q2/08 net income of \$7 million.

Regulated Electric Utilities – Newfoundland Power

Q2/09 net income of \$11 million was slightly greater than Q2/08 net income of \$10 million and our estimate of \$9.9 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q2/09 versus our estimate of approximately \$8 million and adjusted Q2/08 earnings of \$8 million. The decrease in Q2/09 earnings was primarily caused by a lower allowed return on assets resulting from the Belize Public Utilities Commission's final decision on Belize Electricity Limited's 2008/2009 rate application.

Unregulated – Fortis Generation

Fortis Generation reported Q2/09 net income of \$3 million, which was consistent with our estimate of \$3 million and \$4 million lower than Q2/08 net income of \$7 million. The variance between Q2/09 and Q2/08 results was largely due to the expiration of the power-for-water exchange agreement at Rankine hydroelectric generating facility on April 30, 2009.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$8 million, which was generally consistent with our estimate of \$7.4 million and Q2/08 net income of \$7 million. Occupancy decreased slightly during Q2/09 to 95.9% at the end of the quarter versus 96.7% at the end of Q2/08. Revenue per available room fell to \$83.15 during Q2/09 versus \$87.54 during Q2/08.

Regulatory Update

During Q2/09 FortisAlberta, the Terasen Companies and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are engaged in cost of capital reviews. Summaries of key applications filed during the quarter follow below:

Terasen Gas Inc. (TGI) / Terasen Gas Vancouver Island (TGVl)

- In May 2009, TGI filed a Return on Equity and Capital Structure Application with the British Columbia Utilities Commission (BCUC) requesting an increase in allowed ROE to 11% from 8.47%, effective July 1, 2009, and an increase in its allowed common equity

thickness to 40% from 35%, effective January 1, 2010. TGVI did not request a change to the 70-basis-point risk premium used to determine its regulated ROE.

- In June 2009, TGI and TGVI filed revenue requirement applications for the years 2010 and 2011 with the BCUC. The rate applications will be updated to reflect any changes to TGI or TGVI's financial profile, pursuant to the outcome of the Return on Equity and Capital Structure Application. The revenue requirement applications assume that TGI has average rate bases of approximately \$2,536 million and \$2,620 million in 2010 and 2011, respectively, while TGVI's application assumes forecast average rate bases of approximately \$555 million and \$730 million for 2010 and 2011, respectively.
- In June 2009, TGI prepared an application to internalize customer care services, effective January 2012 for an estimated capital cost of approximately \$145 million. TGI currently outsources customer care services to a third party. TGI has requested a decision on this application by the end of 2009.

Fortis Alberta

- In June 2009, FortisAlberta filed a revenue requirement application for the years 2010–2011 with the Alberta Utilities Commission (AUC). The application utilizes an interim allowed ROE of 8.75 percent with a deemed equity thickness of 37 percent, pending the outcome of the current Generic Cost of Capital proceeding, which is under way. Fortis Alberta's rate application assumes average rate bases of \$1,538 million and \$1,724 million for 2010 and 2011, respectively. The rate hearing is expected to begin in late 2009, and a regulatory decision by the AUC is expected to be finalized by the spring of 2010, with any changes to customer rates effective by the summer of 2010.

Newfoundland Power

- In May 2009, Newfoundland Power filed its 2010 General Rate Application, which seeks a 6.1% average increase in basic customer electricity rates, effective January 1, 2010. The application also requests the company's allowed ROE be increased to 11% from 8.95% and that the current equity thickness of 45% is maintained. The application assumes an average 2010 rate base of approximately \$867 million. The rate hearing is expected to commence during the fall of 2009.
- In June 2009, Newfoundland Power filed its 2010 Capital Budget Application, which requested the approval of \$65 million of capital expenditures.

Other Items

- Fortis increased its capital expenditure estimate by \$500 million and the company is now planning to invest approximately \$5 billion during the next five years. Approximately 70% of the total relates to planned capital expenditures at the regulated electric utilities, while 25% relates to the Terasen Companies, and 5% relates to Fortis' non-regulated businesses.

- The dispute between Belize Electricity Limited (BEL, 70.1% Fortis) and the Belize Public Utilities Commission (PUC) regarding the PUC's final decision on BEL's 2008/2009 rate application continues. A court date to hear BEL's appeal of the PUC's final decision is now scheduled for October 2009. The Supreme Court of Belize was originally expected to hear the appeal during July 2009.
- In a related matter, the Minister of Public Utilities of Belize recently issued a statutory instrument purporting to declare providers of electricity generation and water services, including the Belize Electric Company Limited ("BECOL", 100% Fortis), as public utility providers within the meaning of the Public Utilities Commission Act as of May 1, 2009. Fortis is currently assessing the impact of this proposal. We believe that the Supreme Court of Belize's ruling on the appeal of the PUC's final decision regarding BEL's 2008/2009 rate application may provide guidance about the eventual outcome of this ministerial initiative.

Estimates

We have updated our estimates to reflect Q2/09 results and the forecast 2010 and 2011 rate base balances as set out in the rate applications filed by the Terasen Gas companies, FortisAlberta and Newfoundland Power. We have not increased our estimates to reflect requested changes to capital structure or allowed rates or return on equity. Our diluted EPS estimates increase to \$1.51 in 2009E from \$1.47 and to \$1.63 in 2010E from \$1.60.

Table 2: Consolidated Summary

05-Aug-09

Current Price:

\$25.63

12-Month Target Price:

\$29.00

ROR:

17.2%

Michael McGowan

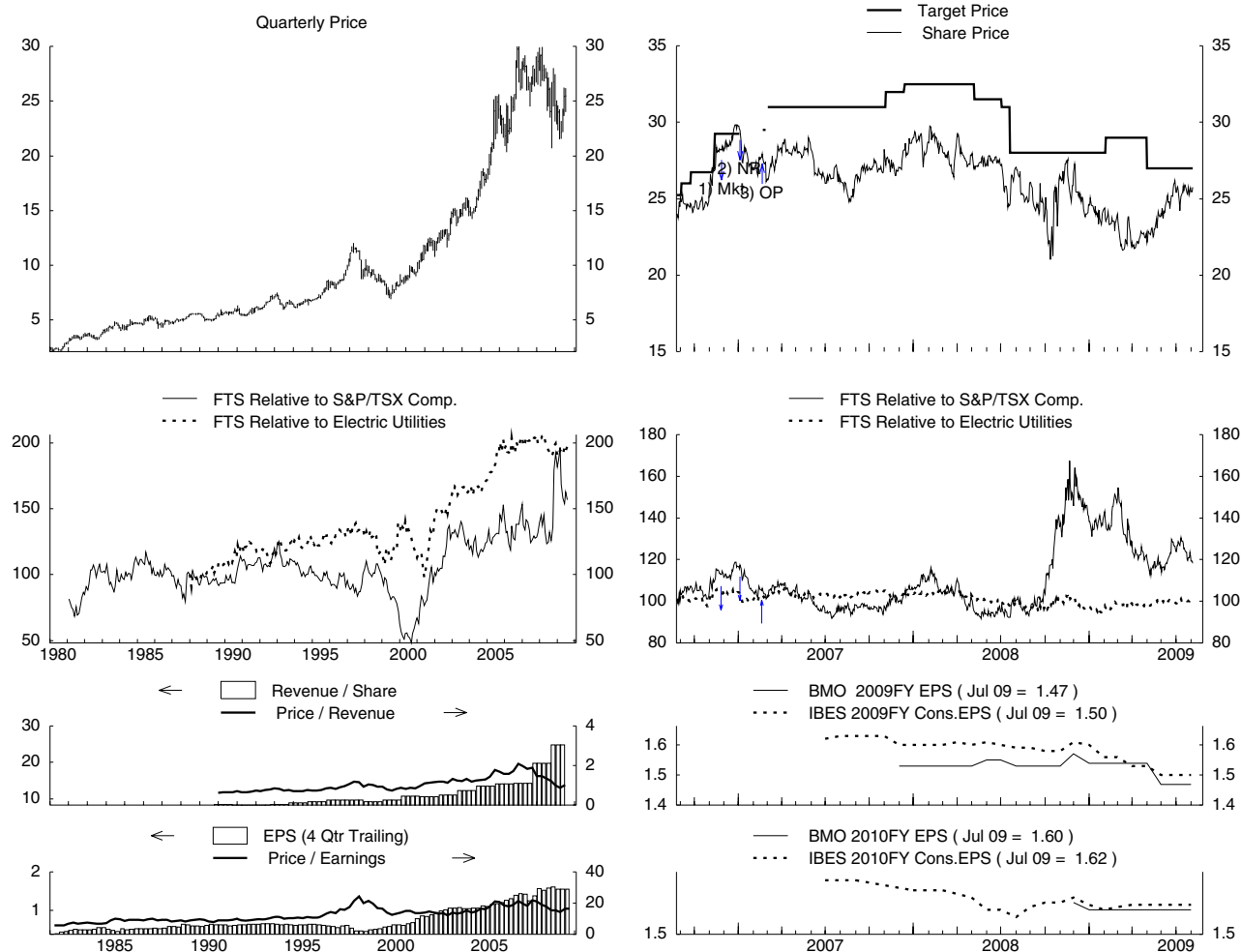
BMO Capital Markets

Recommendation:

Outperform

	Year Ending December 31									
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.66	
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.63	
Segmented EPS										
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07	
CNP/Corwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.16	
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.13	\$0.13	
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.16	\$0.20	
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.51	\$0.53	\$0.58	
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.69	\$0.71	
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.43)	
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08	
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.2%	64.2%	67.6%	65.0%	
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	157.4	169.4	169.7	
Net Book Value	\$8.72	\$8.98	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.53	\$19.13	
Market Valuation										
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-	
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	-	-	
Price: Current	-	-	-	-	-	-	-	\$25.63	-	
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	-	-	
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	16.7	15.4	
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	-	-	
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-	
Price/Book Value: Current	-	-	-	-	-	-	-	1.4	1.3	
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-	
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	-	-	
Yield: Current	-	-	-	-	-	-	-	4.1%	4.2%	
Balance Sheet (\$mm)										
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	1,042.2	607.2	1,276.2	2,012.9	
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,558.0	4,623.0	4,884.0	5,039.1	4,785.1	
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0				
Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	145.0	145.0	145.0	
Preferred Shares	0.0	125.0	321.5	319.5	439.0	439.0	667.0	667.0	667.0	
Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	44.0	48.0	48.0	
Shareholders' Equity	<u>584.2</u>	<u>624.6</u>	<u>1,000.1</u>	<u>1,213.4</u>	<u>1,276.0</u>	<u>2,601.0</u>	<u>3,046.0</u>	<u>3,140.5</u>	<u>3,249.0</u>	
	1,731.2	2,250.9	3,533.6	3,995.0	5,360.6	9,553.2	9,393.2	10,315.9	10,907.1	
Balance Sheet (%)										
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	7.8%	10.9%	6.5%	12.4%	18.5%	
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	47.7%	48.4%	52.0%	48.8%	43.9%	
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	0.0%	0.0%	0.0%	
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.5%	1.4%	1.3%	
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	7.1%	6.5%	6.1%	
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%	0.4%	
Shareholders' Equity	<u>33.7%</u>	<u>27.7%</u>	<u>28.3%</u>	<u>30.4%</u>	<u>23.8%</u>	<u>27.2%</u>	<u>32.4%</u>	<u>30.4%</u>	<u>29.8%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.4	252.5	260.6	281.7	
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	645.3	727.1	

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	16	1.04	4.1	67	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.2		14.0			15.4		
10 Year:	11.8		8.7			10.5		
20 Year:	4.7		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 24-Aug-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

August 6, 2009
 Research Comment
 Toronto, Ontario

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Q2/09 Earnings Exceed Expectations; Maintaining Outperform Rating

Event

Fortis reported Q2/09 EPS of \$0.31 versus our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong earnings at Terasen Gas (\$0.03/share greater than our estimate) and FortisAlberta (\$0.03/share greater than our estimate), both of which benefitted from lower-than-expected income tax expenses. Earnings from the remainder of the company's business segments were generally in line with expectations.

Impact

Neutral.

Forecasts

We have updated our estimates to reflect Q2/09 results and forecast 2010 and 2011 rate base balances as set out in the rate applications filed by the Terasen Gas companies, FortisAlberta and Newfoundland Power. We have not adjusted our estimates to reflect requested changes to capital structure or allowed rates or return on equity. Our diluted EPS estimates increase to \$1.51 in 2009E from \$1.47 and to \$1.63 in 2010E from \$1.60.

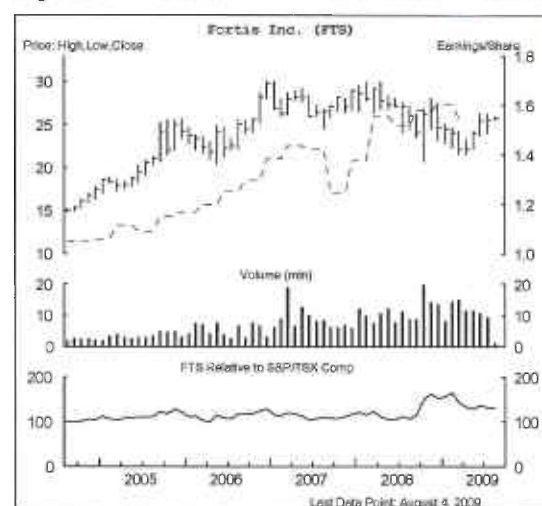
Valuation

Our revised target price of \$29 is based on a weighted valuation approach: 15x diluted 2010E EPS of \$1.63 (12.5%); 1.75x 2010E BVPS of \$19.13 (12.5%) and a target yield of 3.75%, assuming 2010E dividends per share of \$1.08 (75%). We increased our valuation multiples to reflect lower market risk premiums.

Recommendation

We believe Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (4-Aug) \$25.75 52-Week High \$28.00
 Target Price \$29.00↑ 52-Week Low \$20.70



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.51↑	\$1.63↑
P/E			17.1x	15.8x
CFPS	\$2.71	\$4.21	\$3.76	\$4.13
P/CFPS			6.8x	6.2x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,538	\$12,029
EBITDA (\$mm)	\$810	\$1,034	\$1,195	\$1,313
EV/EBITDA	12.4x	10.2x	9.7x	9.2x
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.22	\$0.48
Dividend	\$1.04	Yield		4.0%
Book Value	\$18.02	Price/Book		1.4x
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)		\$4,357
Float O/S (mm)	169.2	Float Cap (\$mm)		\$4,357
Wkly Vol (000s)	2,721	Wkly \$ Vol (mm)		\$66.0
Net Debt (\$mm)	\$5,851.0	Next Rep. Date		05-Nov (E)

Notes: EPS estimates are diluted; Quarterly numbers are basic
 Major Shareholders: Widely held
 First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.49; 2010E: \$1.61

Changes

Annual EPS
 2009E \$1.47 to \$1.51
 2010E \$1.60 to \$1.63

Target
 \$27.00 to \$29.00

Q2/09 Results Exceed Expectations; Many Important Regulatory Proceedings to Conclude in H2/09

Fortis reported Q2/09 EPS of \$0.31 versus our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong earnings at Terasen Gas (\$0.03/share greater than our estimate) and FortisAlberta (\$0.03/share greater than our estimate), both of which benefitted from lower-than-expected income tax expenses. Earnings from the remainder of the company's business segments were generally in line with expectations.

As previously noted, 2009 will be an important year from a regulatory perspective. During Q2/09, FortisAlberta, the Terasen Companies and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are engaged in cost of capital reviews. For example, Terasen Gas is requesting an increase in its allowed ROE to 11% from 8.47% and an increase in its equity thickness to 40% from 35% currently. Newfoundland Power is requesting an increase in its allowed ROE to 11% from 8.95%, and FortisAlberta is participating in the generic cost of capital proceeding being administered by the Alberta Utilities Commission. Decisions on these applications and cost of capital proceedings are expected in late 2009 or early 2010.

Our estimates do not assume that provincial regulators grant the requested changes to capital structure and deemed return on equity. We believe, however, that the capital structure/deemed ROE proceedings are positive for regulated utilities in Canada, as they signify that regulators are willing to address the possibility that the current method of setting regulated rates of return may not adequately compensate investors for the risks they are incurring.

We are maintaining our Outperform rating, as we continue to believe that Fortis' shares are attractively valued, considering the company's low-risk, diversified business model.

We are increasing our price target to \$29 from \$27. Our \$29 target is based on a weighted valuation approach: 15x diluted 2010E EPS of \$1.63 (12.5%); 1.75x 2010E BVPS of \$19.13 (12.5%) and a target yield of 3.75%, assuming 2010E dividends per share of \$1.08 (75%).

We have increased our valuation multiples to reflect lower market risk premiums. Our previous target price assumed the following valuation multiples: P/E of 14x, BVPS of 1.5x, and a target dividend yield of 4.00%.

Q2/09 Results

As set out in Table 1, Q2/09 GAAP net income of \$53 million was \$9 million greater than comparable income of \$44 million reported in Q2/08. In order to present Q2/08 results on a comparable basis, Q2/08 GAAP income was adjusted for the following non-recurring expenses: 1) \$13 million of regulatory disallowances at Belize Electricity Limited (BEL); and 2) a charge of \$2 million at Fortis Ontario related to the Q2/08 repayment of amounts received in 2007 related to cross-border interconnection agreements.

A discussion of the operating performance of each business segment follows below.

Table 1: Historical Q2 Income by Business Segment

	Q2/09 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/09 Adjusted Earnings (\$mm)	Q2/08 GAAP	Adj. (\$mm)	Q2/08 Adjusted Earnings (\$mm)	Variance Q2/09 Adj. vs. Q2/08 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	14.0	-	14.0	12.0	-	12.0	2.0	16.7%
Regulated Electric Utilities - Canadian								
FortisAlberta	17.0	-	17.0	7.0	-	7.0	10.0	142.9%
FortisBC	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Newfoundland Power	11.0	-	11.0	10.0	-	10.0	1.0	10.0%
Other Canadian	4.0	-	4.0	2.0	2.0	4.0	0.0	0.0%
	39.0	-	39.0	26.0	2.0	28.0	11.0	39.3%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	(5.0)	13.0	8.0	(1.0)	-12.5%
Non-Regulated - Fortis Generation	3.0	-	3.0	7.0	-	7.0	(4.0)	-57.1%
Non-Regulated - Fortis Properties	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Corporate and Other	(18.0)	-	(18.0)	(18.0)	-	(18.0)	0.0	0.0%
Net Earnings Applicable to Common Shares	53.0	0.0	53.0	29.0	15.0	44.0	24.0	20.5%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

Q2/09 net income of \$14 million from Terasen Gas exceeded our estimate of \$9.5 million and Q2/08 net income of \$12 million. Increased earnings in Q2/09 were primarily the result of a \$3 million reduction in income taxes, which declined to \$2 million in Q2/09 versus \$5 million in Q2/08. Per our discussion with management, the decrease in the Q2/09 income tax provision resulted from an increase in capital cost allowance rates for compressor equipment that was enacted during the quarter.

Regulated Electric Utilities – FortisAlberta

Q2/09 net income of \$17 million exceeded our estimate of \$11.6 million and Q2/08 net income of \$7 million. The variance between actual and expected results was largely related to a \$3 million income tax recovery recorded during Q2/09. We understand that approximately \$2 million of the recovery relates to a reversal of income tax provisions expensed during prior quarters, while the remaining \$1 million resulted from a future income tax benefit that was triggered by the collection of amounts held in a deferral account related to 2007 transmission tariffs paid to the Alberta Electric System Operator.

Regulated Electric Utilities – FortisBC

Q2/09 net income of \$7 million was consistent with our estimate of \$7 million and Q2/08 net income of \$7 million.

Regulated Electric Utilities – Newfoundland Power

Q2/09 net income of \$11 million was slightly greater than Q2/08 net income of \$10 million and our estimate of \$9.9 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q2/09 versus our estimate of approximately \$8 million and adjusted Q2/08 earnings of \$8 million. The decrease in Q2/09 earnings was primarily caused by a lower allowed return on assets resulting from the Belize Public Utilities Commission's final decision on Belize Electricity Limited's 2008/2009 rate application.

Unregulated – Fortis Generation

Fortis Generation reported Q2/09 net income of \$3 million, which was consistent with our estimate of \$3 million and \$4 million lower than Q2/08 net income of \$7 million. The variance between Q2/09 and Q2/08 results was largely due to the expiration of the power-for-water exchange agreement at Rankine hydroelectric generating facility on April 30, 2009.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$8 million, which was generally consistent with our estimate of \$7.4 million and Q2/08 net income of \$7 million. Occupancy decreased slightly during Q2/09 to 95.9% at the end of the quarter versus 96.7% at the end of Q2/08. Revenue per available room fell to \$83.15 during Q2/09 versus \$87.54 during Q2/08.

Regulatory Update

During Q2/09 FortisAlberta, the Terasen Companies and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are engaged in cost of capital reviews. Summaries of key applications filed during the quarter follow below:

Terasen Gas Inc. (TGI) / Terasen Gas Vancouver Island (TGVI)

- In May 2009, TGI filed a Return on Equity and Capital Structure Application with the British Columbia Utilities Commission (BCUC) requesting an increase in allowed ROE to 11% from 8.47%, effective July 1, 2009, and an increase in its allowed common equity

thickness to 40% from 35%, effective January 1, 2010. TGVI did not request a change to the 70-basis-point risk premium used to determine its regulated ROE.

- In June 2009, TGI and TGVI filed revenue requirement applications for the years 2010 and 2011 with the BCUC. The rate applications will be updated to reflect any changes to TGI or TGVI's financial profile, pursuant to the outcome of the Return on Equity and Capital Structure Application. The revenue requirement applications assume that TGI has average rate bases of approximately \$2,536 million and \$2,620 million in 2010 and 2011, respectively, while TGVI's application assumes forecast average rate bases of approximately \$555 million and \$730 million for 2010 and 2011, respectively.
- In June 2009, TGI prepared an application to internalize customer care services, effective January 2012 for an estimated capital cost of approximately \$145 million. TGI currently outsources customer care services to a third party. TGI has requested a decision on this application by the end of 2009.

Fortis Alberta

- In June 2009, FortisAlberta filed a revenue requirement application for the years 2010–2011 with the Alberta Utilities Commission (AUC). The application utilizes an interim allowed ROE of 8.75 percent with a deemed equity thickness of 37 percent, pending the outcome of the current Generic Cost of Capital proceeding, which is under way. Fortis Alberta's rate application assumes average rate bases of \$1,538 million and \$1,724 million for 2010 and 2011, respectively. The rate hearing is expected to begin in late 2009, and a regulatory decision by the AUC is expected to be finalized by the spring of 2010, with any changes to customer rates effective by the summer of 2010.

Newfoundland Power

- In May 2009, Newfoundland Power filed its 2010 General Rate Application, which seeks a 6.1% average increase in basic customer electricity rates, effective January 1, 2010. The application also requests the company's allowed ROE be increased to 11% from 8.95% and that the current equity thickness of 45% is maintained. The application assumes an average 2010 rate base of approximately \$867 million. The rate hearing is expected to commence during the fall of 2009.
- In June 2009, Newfoundland Power filed its 2010 Capital Budget Application, which requested the approval of \$65 million of capital expenditures.

Other Items

- Fortis increased its capital expenditure estimate by \$500 million and the company is now planning to invest approximately \$5 billion during the next five years. Approximately 70% of the total relates to planned capital expenditures at the regulated electric utilities, while 25% relates to the Terasen Companies, and 5% relates to Fortis' non-regulated businesses.

- The dispute between Belize Electricity Limited (BEL, 70.1% Fortis) and the Belize Public Utilities Commission (PUC) regarding the PUC's final decision on BEL's 2008/2009 rate application continues. A court date to hear BEL's appeal of the PUC's final decision is now scheduled for October 2009. The Supreme Court of Belize was originally expected to hear the appeal during July 2009.
- In a related matter, the Minister of Public Utilities of Belize recently issued a statutory instrument purporting to declare providers of electricity generation and water services, including the Belize Electric Company Limited ("BECOL", 100% Fortis), as public utility providers within the meaning of the Public Utilities Commission Act as of May 1, 2009. Fortis is currently assessing the impact of this proposal. We believe that the Supreme Court of Belize's ruling on the appeal of the PUC's final decision regarding BEL's 2008/2009 rate application may provide guidance about the eventual outcome of this ministerial initiative.

Estimates

We have updated our estimates to reflect Q2/09 results and the forecast 2010 and 2011 rate base balances as set out in the rate applications filed by the Terasen Gas companies, FortisAlberta and Newfoundland Power. We have not increased our estimates to reflect requested changes to capital structure or allowed rates or return on equity. Our diluted EPS estimates increase to \$1.51 in 2009E from \$1.47 and to \$1.63 in 2010E from \$1.60.

Table 2: Consolidated Summary

05-Aug-09

Current Price:

\$25.63

12-Month Target Price:

\$29.00

ROR:

17.2%

Michael McGowan

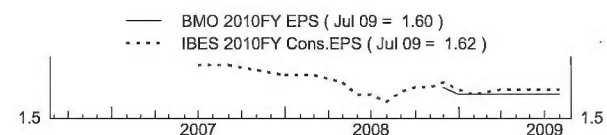
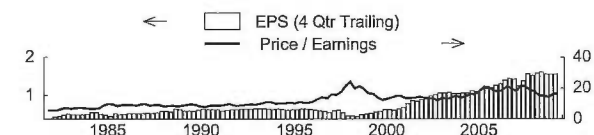
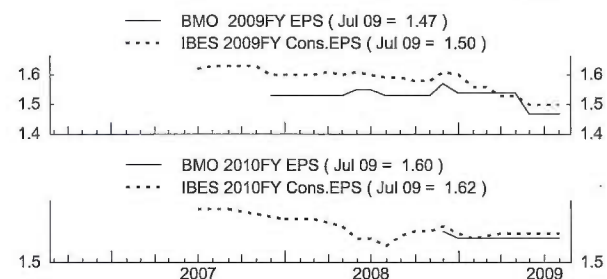
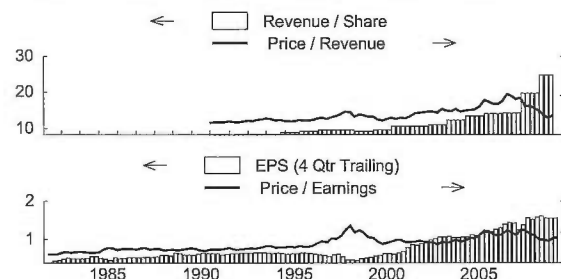
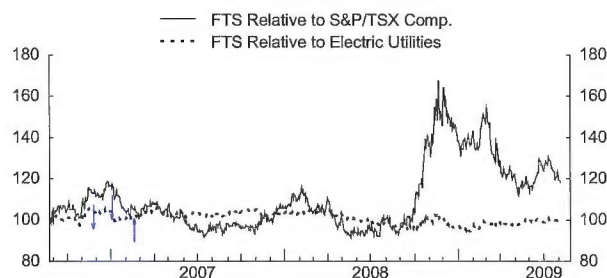
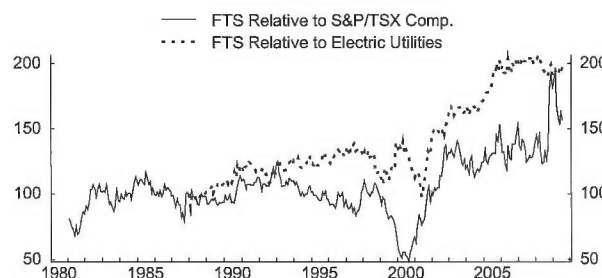
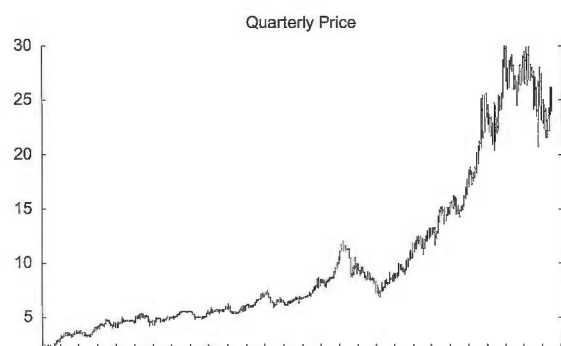
BMO Capital Markets

Recommendation:

Outperform

	Year Ending December 31								
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E
Total Earnings Per Share	\$0.97	\$1.05	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.65
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.63
Segmented EPS									
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07
CNR/Corwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.16
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.13	\$0.13
Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.16	\$0.20
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.34	\$0.66	\$0.57	\$0.51	\$0.53	\$0.58
Teraset Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.69	\$0.71
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.43)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.2%	64.2%	67.6%	65.0%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	157.4	169.4	169.7
Net Book Value	\$8.72	\$8.68	\$10.47	\$11.75	\$12.26	\$16.72	\$18.00	\$18.53	\$19.13
Market Valuation									
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	-	-
Price: Current	-	-	-	-	-	-	-	\$25.63	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	16.7	15.4
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.6	1.7	-	-
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	1.4	1.3
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.8%	3.3%	3.3%	5.0%	-	-
Yield: Current	-	-	-	-	-	-	-	4.1%	4.2%
Balance Sheet (\$mm)									
Debt (\$-T)	446.1	421.9	231.3	218.2	418.0	1,042.2	607.2	1,276.2	2,012.9
Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,556.0	4,523.0	4,884.0	5,039.1	4,785.1
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	51.5	107.5	64.5	195.8	475.6	688.0	-	-	-
Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	145.0	145.0	145.0
Preferred Shares	0.0	125.0	321.5	319.5	439.0	439.0	667.0	667.0	667.0
Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	44.0	46.0	48.0
Shareholders' Equity	584.2	624.6	1,030.1	1,213.4	1,276.0	2,601.0	3,046.0	3,140.5	3,249.0
	1,731.2	2,350.9	3,532.6	3,995.0	5,360.6	9,553.2	9,393.2	10,315.9	10,607.1
Balance Sheet (%)									
Debt (\$-T)	25.6%	18.7%	6.5%	5.5%	7.8%	10.9%	6.5%	12.4%	18.5%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	47.7%	48.4%	52.0%	48.8%	43.9%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	0.0%	0.0%	0.0%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.5%	1.4%	1.3%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	7.1%	6.5%	6.1%
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.5%	0.5%	0.4%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	23.8%	27.2%	32.4%	30.4%	29.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement									
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.4	252.5	260.5	281.7
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	645.3	727.1

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.55	16	1.04	4.1	67	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.2		14.0			15.4		
10 Year:	11.8		8.7			10.5		
20 Year:	4.7		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q1/2009.

FTS - Rating as of 24-Aug-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: August 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis

(FTS-TSX)

September 10, 2009

Research Fact Sheet

Gas & Electric Utilities

Stock Rating: Outperform
Industry Rating: Market Perform

Michael McGowan, CA, CFA

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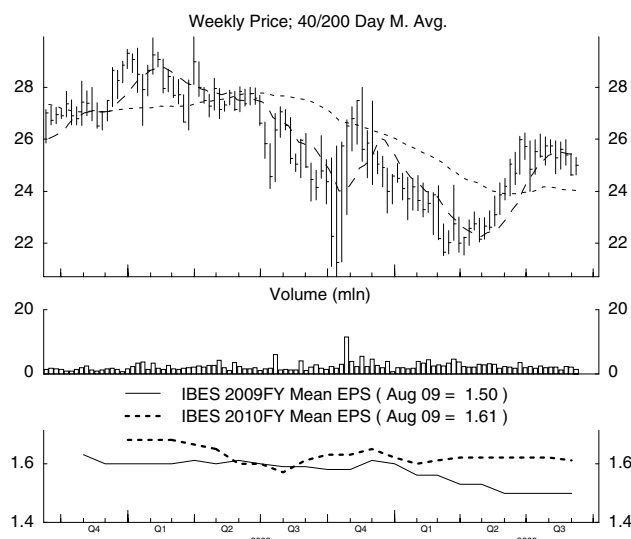
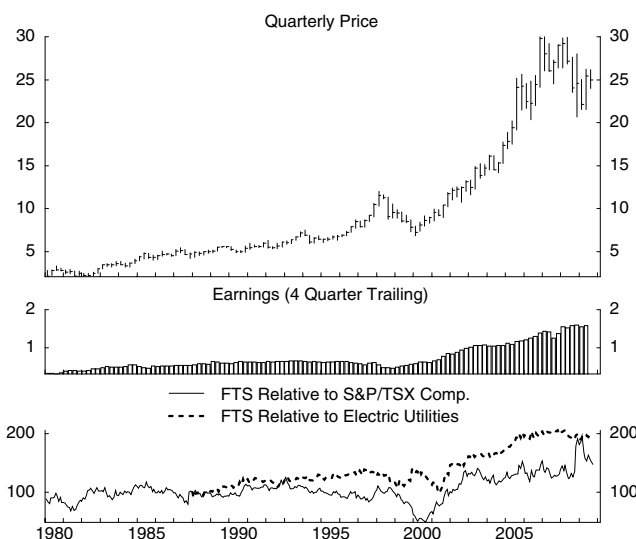
Michael.McGowan@bmo.com

Assoc: Mark Laing, CA

Price (10-Sep)	\$24.99	52-Week High	\$28.00	
Target Price	\$29.00	52-Week Low	\$20.70	
Dividend	\$1.04	Book Value	\$18.02	
Yield	4.2%	Price/Book	1.4x	
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)	\$4,228	
Float O/S (mm)	169.2	Float Cap (\$mm)	\$4,228	
Wkly Vol (000s)	2,736	Wkly \$ Vol (mm)	\$66.1	
Net Debt (\$mm)	\$5,393	Next Rep. Date	05-Nov (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53 a	\$0.31 a	\$0.22	\$0.48

(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.51	\$1.63
P/E			16.5x	15.3x
CFPS	\$2.71	\$4.21	\$3.81	\$4.28
P/CFPS			6.6x	5.8x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,407	\$11,899
EBITDA (\$mm)	\$810	\$1,034	\$1,195	\$1,313
EV/EBITDA	12.4x	10.2x	9.5x	9.1x
ROE (%)	7.2%	8.3%	8.3%	8.7%
Book Value (\$)	\$16.72	\$18.00	\$18.53	\$19.13
D/Tot. Cap. (%)	65.6%	62.6%	64.9%	65.8%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (56%, Grand Cayman Island),

Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis Inc. reported Q2/09 EPS of \$0.31 versus our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong earnings at Terasen Gas (\$0.03/share greater than our estimate) and FortisAlberta (\$0.03/share

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greater than our estimate), both of which benefitted from lower-than-expected income tax expenses. Earnings from the remainder of the company's business segments were generally in line with expectations.

Corporate Developments – During Q2/09, FortisAlberta, the Terasen Companies and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are currently engaged in cost of capital reviews. Decisions on these applications and cost of capital proceedings are expected in late 2009 or early 2010.

Fortis has increased its capital expenditure estimate by \$500 million and the company is now planning to invest approximately \$5 billion during the next five years. Approximately 70% of the total relates to planned capital expenditures at the regulated electric utilities, 25% relates to

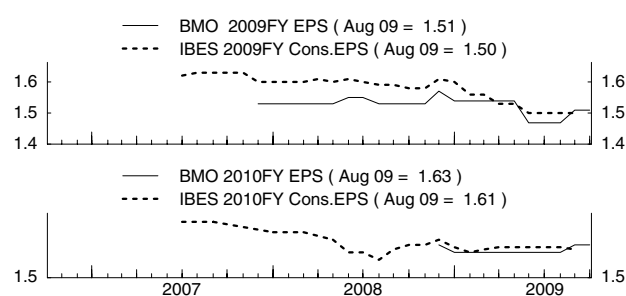
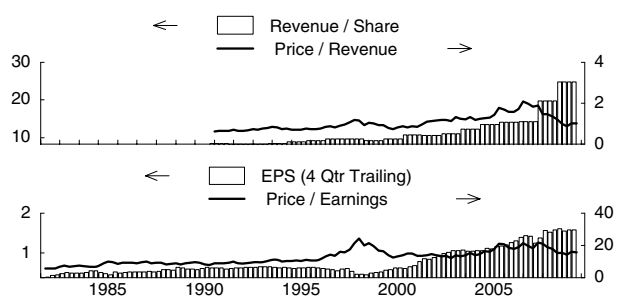
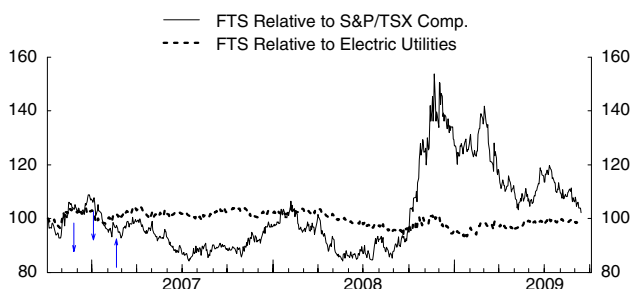
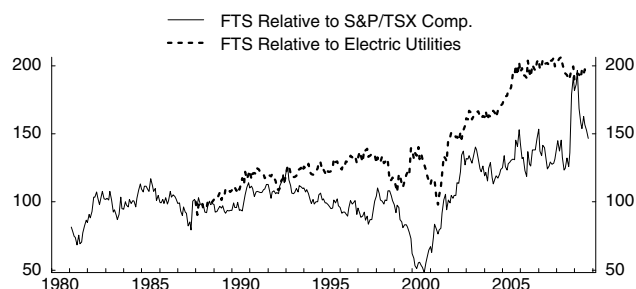
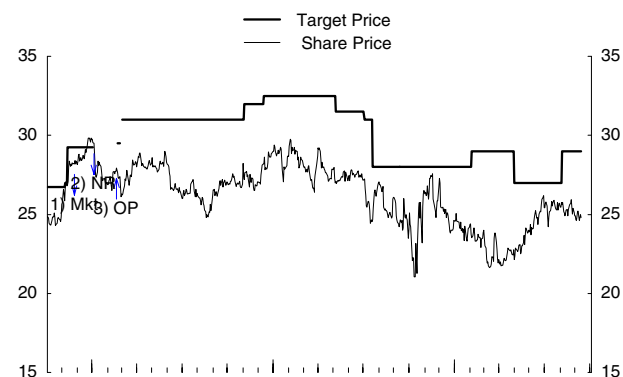
the Terasen Companies, and 5% relates to Forts' non-regulated businesses.

Forecasts – Our diluted EPS estimates are \$1.51 in 2009 and \$1.63 in 2010.

Valuation – Our target price of \$29 is based on a weighted valuation approach: 15x diluted 2010E EPS of \$1.63 (12.5%); 1.75x 2010E BVPS of \$19.13 (12.5%); and a target yield of 3.75%, assuming 2010E dividends per share of \$1.08.

Recommendation – We believe that Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.58	16	1.04	4.2	66	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.6		14.0			15.4		
10 Year:	12.0		8.7			10.5		
20 Year:	4.8		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q2/2009.

FTS - Rating as of 3-Oct-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: September 11, 2009

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In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (June 11, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starmine Universe **
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Buy	Outperform	31%	46%	46%
Hold	Market Perform	57%	47%	46%
Sell	Underperform	12%	7%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

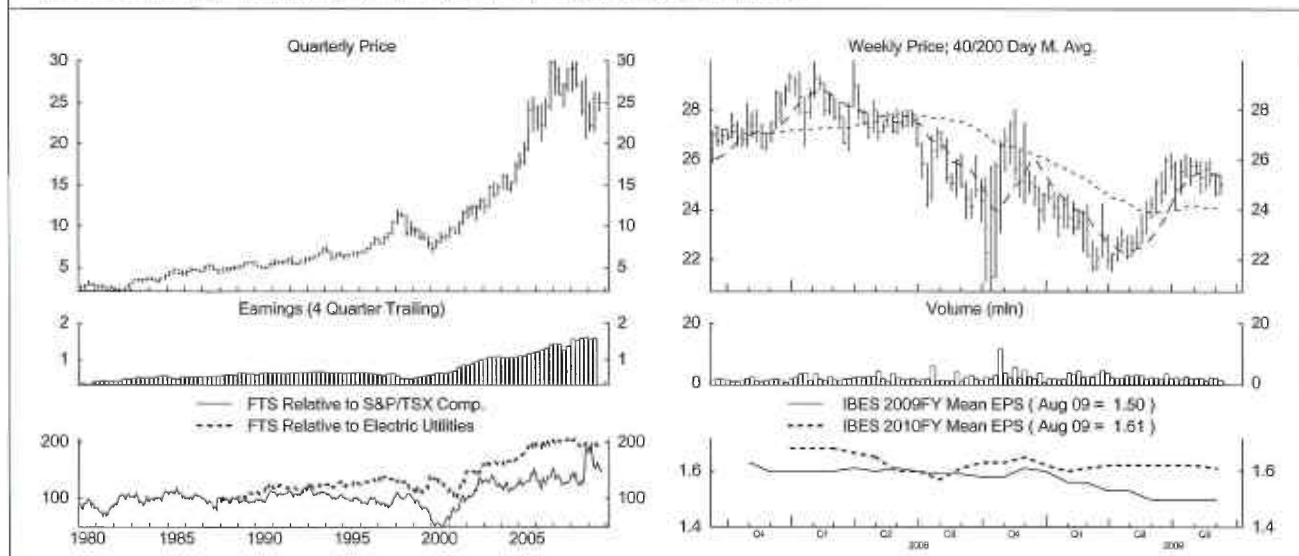
September 10, 2009
Research Fact Sheet
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Price (10-Sep)	\$24.99	52-Week High	\$28.00	
Target Price	\$29.00	52-Week Low	\$20.70	
Dividend	\$1.04	Book Value	\$18.02	
Yield	4.2%	Price/Book	1.4x	
Shares O/S (mm)	169.2	Mkt. Cap (\$mm)	\$4,228	
Float O/S (mm)	169.2	Float Cap (\$mm)	\$4,228	
Wkly Vol (000s)	2,736	Wkly \$ Vol (mm)	\$66.1	
Net Debt (\$mm)	\$5,393	Next Rep. Date	05-Nov (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53 a	\$0.31 a	\$0.22	\$0.48

(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.51	\$1.63
P/E			16.5x	15.3x
CFPS	\$2.71	\$4.21	\$3.81	\$4.28
P/CFPS			6.6x	5.8x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,407	\$11,899
EBITDA (\$mm)	\$810	\$1,034	\$1,195	\$1,313
EV/EBITDA	12.4x	10.2x	9.5x	9.1x
ROE (%)	7.2%	8.3%	8.3%	8.7%
Book Value (\$)	\$16.72	\$18.00	\$18.53	\$19.13
D/Tot. Cap. (%)	65.6%	62.6%	64.9%	65.8%
Reg. ROE (%)	na	na	na	na

Notes: EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Electric power operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (56%, Grand Cayman Island),

Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta) and FortisBC (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis Inc. reported Q2/09 EPS of \$0.31 versus our estimate of \$0.26 and the First Call Mean of \$0.27. The difference between actual and expected results was due to strong earnings at Terasen Gas (\$0.03/share greater than our estimate) and FortisAlberta (\$0.03/share

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 5.

greater than our estimate), both of which benefitted from lower-than-expected income tax expenses. Earnings from the remainder of the company's business segments were generally in line with expectations.

Corporate Developments – During Q2/09, FortisAlberta, the Terasen Companies and Newfoundland Power all filed rate applications with their respective regulators. In addition, all of these utilities are currently engaged in cost of capital reviews. Decisions on these applications and cost of capital proceedings are expected in late 2009 or early 2010.

Fortis has increased its capital expenditure estimate by \$500 million and the company is now planning to invest approximately \$5 billion during the next five years. Approximately 70% of the total relates to planned capital expenditures at the regulated electric utilities, 25% relates to

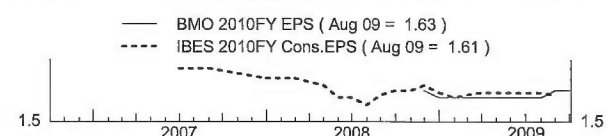
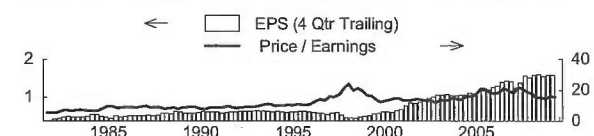
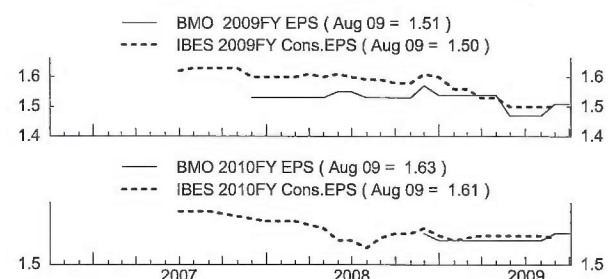
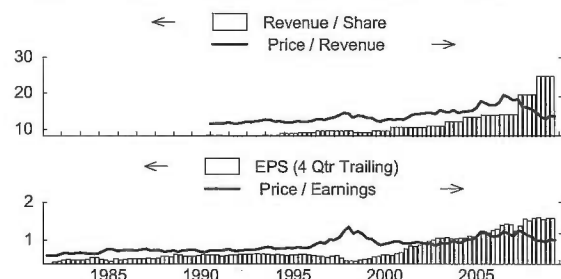
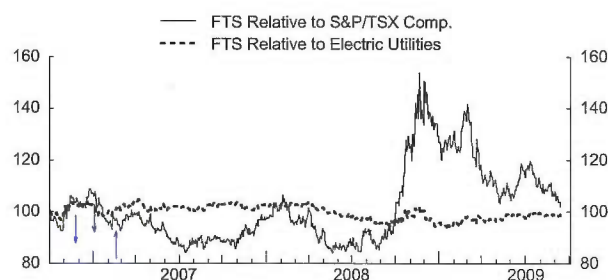
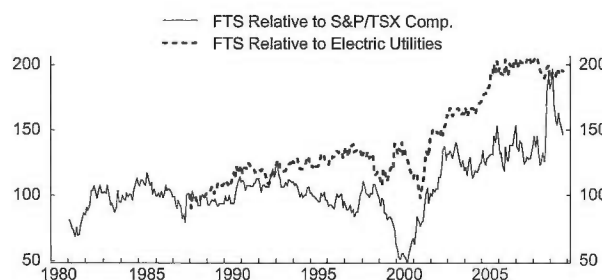
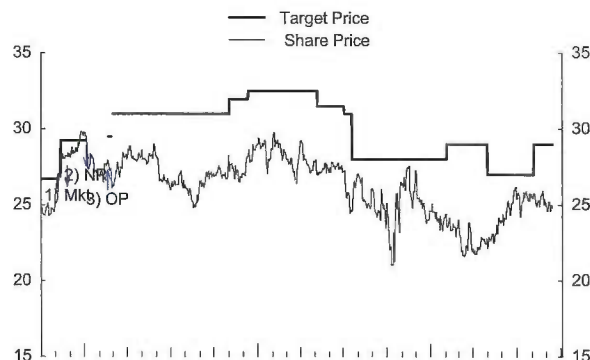
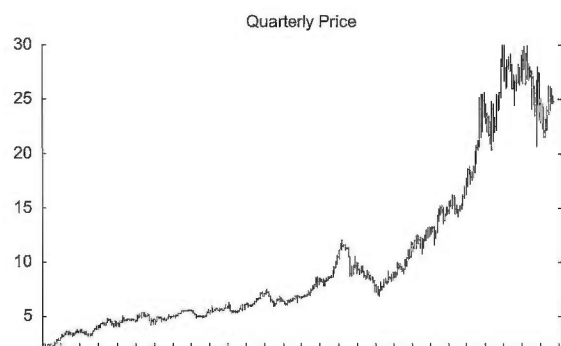
the Terasen Companies, and 5% relates to Forts' non-regulated businesses.

Forecasts – Our diluted EPS estimates are \$1.51 in 2009 and \$1.63 in 2010.

Valuation – Our target price of \$29 is based on a weighted valuation approach: 15x diluted 2010E EPS of \$1.63 (12.5%); 1.75x 2010E BVPS of \$19.13 (12.5%); and a target yield of 3.75%, assuming 2010E dividends per share of \$1.08.

Recommendation – We believe that Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
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Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.6		14.0			15.4		
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* Current EPS is the 4 Quarter Trailing to Q2/2009.

FTS - Rating as of 3-Oct-06 = OP

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$25.40
Target Price: \$29.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

November 5, 2009
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Q3/09 Results in Line

Impact

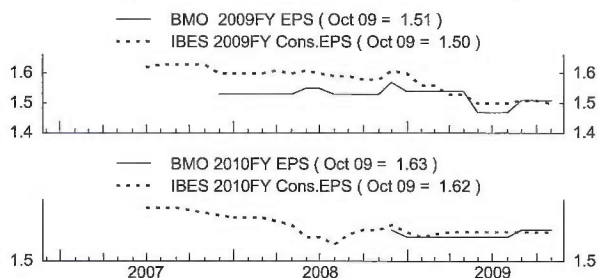
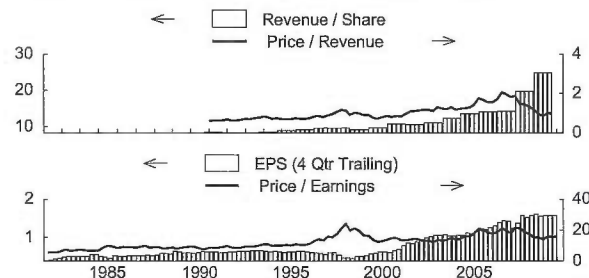
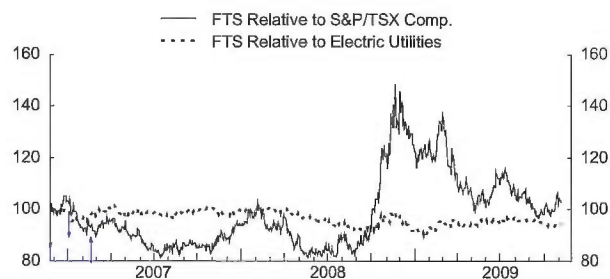
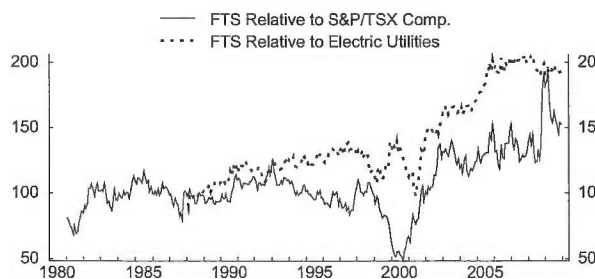
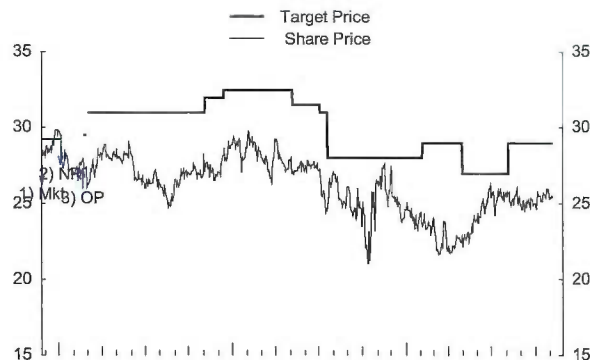
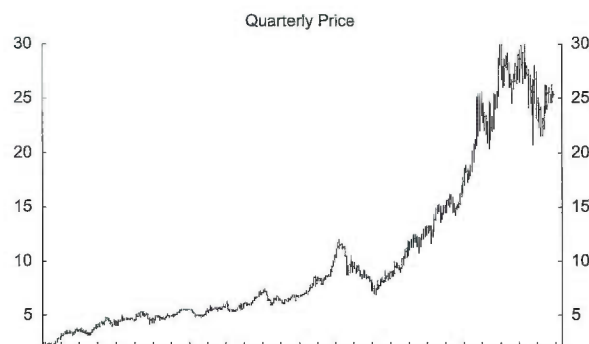
Neutral

Details & Analysis

Fortis reported Q3/09 EPS of \$0.21, consistent with our estimate of \$0.22 and the First Call Mean of \$0.21 (range \$0.19-0.23). The company's regulated utilities in Canada appear to be performing well and better-than-expected results at Fortis Alberta and the Terasen Gas Companies were offset by slightly lower-than-expected results at Caribbean Utilities, Fortis Generation and Fortis Properties. Broad capital expenditure forecasts were maintained: Fortis continues to expect capital expenditures of over \$1 billion in 2009 and approximately \$5 billion over the five-year period of 2009-2013.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.3	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.58	16	1.04	4.1	66	18.02	1.4	9

Average: 14 4.9 64 1.4 10.8

Growth(%):
 5 Year: 8.5 14.0 15.4
 10 Year: 11.8 8.7 10.5
 20 Year: 5.0 5.7 7.6

* Current EPS is the 4 Quarter Trailing to Q2/2009.

FTS - Rating as of 24-Nov-06 = OP

Date	Rating Change	Share Price
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Last Daily Data Point: November 4, 2009

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (Sept. 10, 2009)

Rating	BMO	BMO	BMO	Starmine
Category	Rating	Universe	I.B. Clients*	Universe**
Buy	Outperform	36%	48%	48%
Hold	Market Perform	55%	48%	44%
Sell	Underperform	9%	4%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

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Additional Matters

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$25.40
Target Price: \$29.00

Member of: Top 15 Value Stock Selections
Top 15 Income Stock Selections

November 5, 2009
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Q3/09 Results in Line

Impact

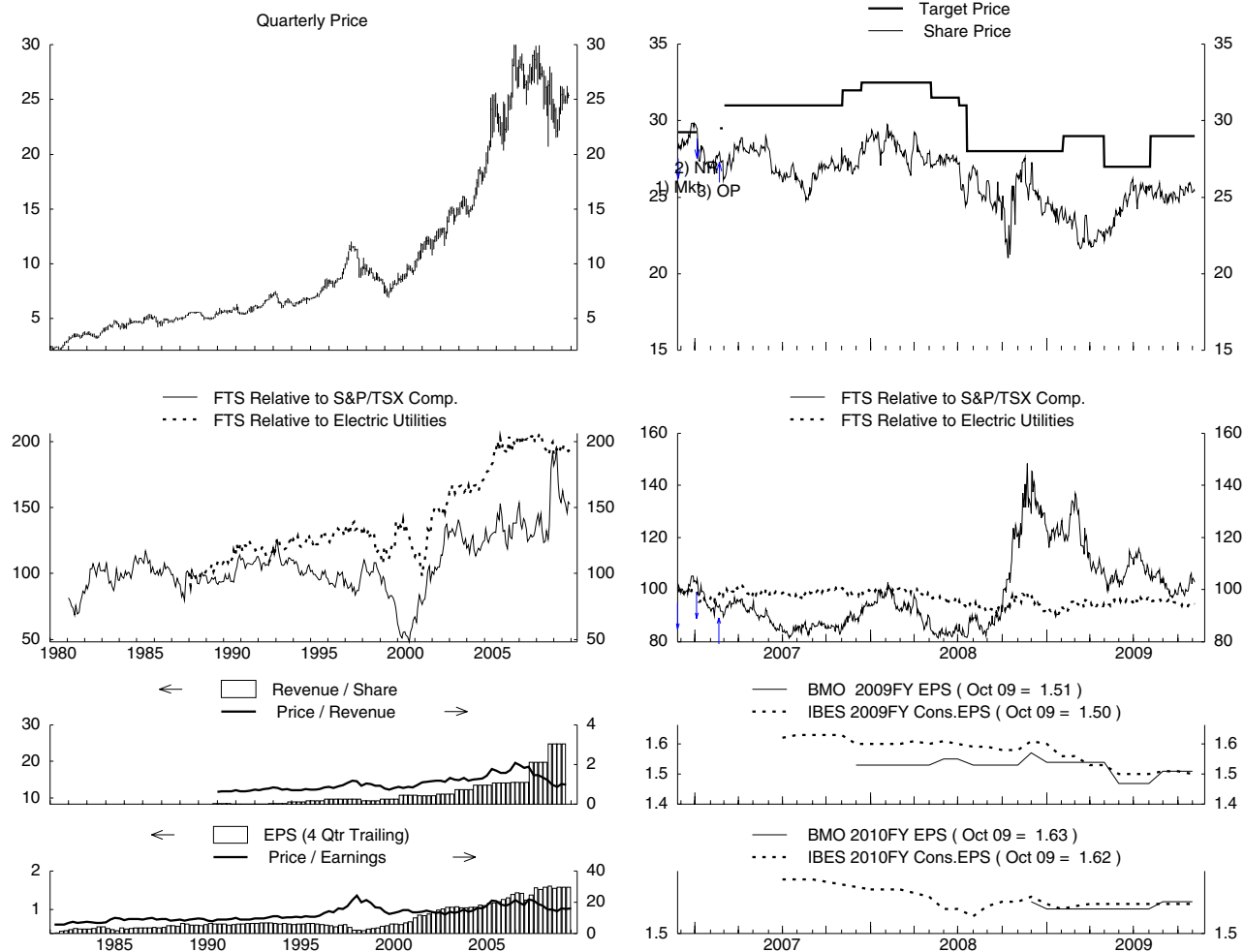
Neutral

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Current*	1.58	16	1.04	4.1	66	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.5		14.0			15.4		
10 Year:	11.8		8.7			10.5		
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* Current EPS is the 4 Quarter Trailing to Q2/2009.

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Distribution of Ratings (Sept. 10, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starline Universe**
Buy	Outperform	36%	48%	48%
Hold	Market Perform	55%	48%	44%
Sell	Underperform	9%	4%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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Conflict Statement

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

November 6, 2009
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA

Q3/09 Results in Line; Maintaining Outperform Rating

Event

Fortis reported Q3/09 EPS of \$0.21, consistent with our estimate of \$0.22 and the First Call Mean of \$0.21 (range \$0.19–0.23). The company's regulated utilities in Canada appear to be performing well and better-than-expected results at Fortis Alberta and the Terasen Gas Companies were offset by slightly lower-than-expected results at the Caribbean utility companies (primarily Belize Electricity Limited and Fortis Turks and Caicos), Fortis Generation and Fortis Properties.

Impact

Neutral.

Forecasts

There are no changes to our estimates. We are introducing 2011E diluted EPS of \$1.75.

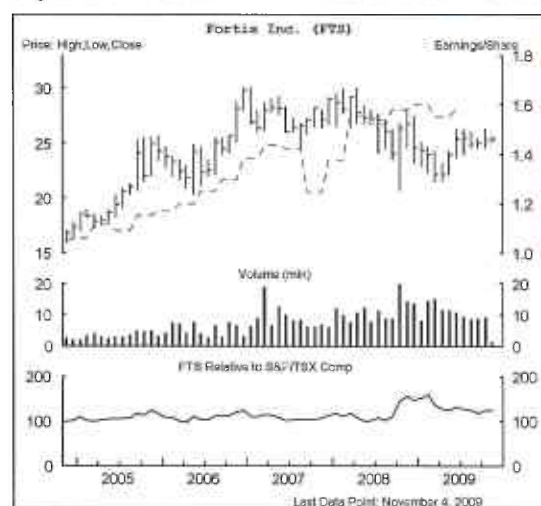
Valuation

Our revised target price of \$30 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.75 (12.5%); 1.75x 2011E BVPS of \$19.68 (12.5%) and a target yield of 3.75%, assuming 2011E dividends per share of \$1.08 (75%). The increase in our target price to \$30 from \$29 results from applying current valuation multiples to our 2011E estimates.

Recommendation

We believe Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (5-Nov) \$25.40
Target Price \$30.00↑
52-Week High \$28.00
52-Week Low \$21.52



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.51	\$1.63
P/E			16.8x	15.6x
CFPS	\$2.71	\$4.21	\$3.81	\$4.28
P/CFPS			6.7x	5.9x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,477	\$11,968
EBITDA (\$mm)	\$809.8	\$1,034.0	\$1,196.3	\$1,276.0
EV/EBITDA	12.4x	10.2x	9.6x	9.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.21a	\$0.48
Dividend	\$1.04	Yield		4.1%
Book Value	\$18.16	Price/Book		1.4x
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)		\$4,335
Float O/S (mm)	169.0	Float Cap (\$mm)		\$4,291
Wkly Vol (000s)	2,517	Wkly \$ Vol (mm)		\$61.3
Net Debt (\$mm)	\$6,030.0	Next Rep. Date		04-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.51; 2010E: \$1.62

Changes

Target
 \$29.00 to \$30.00

Q3/09 Results in Line; Receipt of Regulatory Decisions Expected to Commence During Q4

Fortis reported Q3/09 EPS of \$0.21, consistent with our estimate of \$0.22 and the First Call Mean of \$0.21 (range \$0.19-0.23). The company's regulated utilities in Canada appear to be performing well and better-than-expected results at Fortis Alberta and the Terasen Gas Companies were offset by slightly lower-than-expected results at the Caribbean utility companies (primarily Belize Electricity Limited and Fortis Turks and Caicos), Fortis Generation and Fortis Properties.

We anticipate that Q4/09 will be active from a regulatory perspective. A decision on the Alberta Utilities Commission's Generic Cost of Capital proceeding is expected in mid-November, and a decision on Newfoundland Power's 2010 rate application is expected by the end of the year. It is also possible that the British Columbia Utilities Commission issues a decision on the Terasen Gas ROE and capital structure application by December 31.

Our estimates do not assume that provincial regulators grant the requested changes to capital structure and deemed return on equity. We believe, however, that the capital structure/deemed ROE proceedings are positive for regulated utilities in Canada, as they signify that regulators are willing to address the possibility that the current method of setting regulated rates of return may not adequately compensate investors for the risks they are incurring.

We are maintaining our Outperform rating as we continue to believe that Fortis' shares are attractively valued, considering the company's low-risk, diversified business model.

Our revised target price of \$30 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.75 (12.5%); 1.75x 2011E BVPS of \$19.68 (12.5%) and a target yield of 3.75%, assuming 2011E dividends per share of \$1.08 (75%). The increase in our target price to \$30 from \$29 results from applying current valuation multiples to our 2011E estimates.

Q3/09 Results

As set out in Table 1, Q3/09 GAAP net income of \$36 million was \$5.5 million less than comparable income of \$41.5 million reported in Q3/08. In order to present Q3/08 results on a comparable basis, Q3/08 GAAP income was adjusted for a \$7.5 million tax recovery regarding a settlement related to interprovincial tax legislation. Approximately \$5.5 million of this amount related to the Terasen Gas companies while \$2 million was allocated to the corporate segment.

A discussion of the operating performance of each business segment follows below.

Table 1: Historical Q3 Income by Business Segment

	Q3/09 GAAP Earnings (\$mm)	Adj. (\$mm)	Q3/09 Adjusted Earnings (\$mm)	Q3/08 GAAP	Adj. (\$mm)	Q3/08 Adjusted Earnings (\$mm)	Variance Q3/09 Adj. vs. Q3/08 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	(3.0)	-	(3.0)	1.0	(5.5)	(4.5)	1.5	-33.3%
Regulated Electric Utilities - Canadian								
FortisAlberta	16.0	-	16.0	17.0	-	17.0	(1.0)	-5.9%
FortisBC	8.0	-	8.0	8.0	-	8.0	0.0	0.0%
Newfoundland Power	7.0	-	7.0	8.0	-	8.0	(1.0)	-12.5%
Other Canadian	5.0	-	5.0	5.0	-	5.0	0.0	0.0%
	36.0	-	36.0	38.0	(5.5)	32.5	3.5	10.8%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Non-Regulated - Fortis Generation	4.0	-	4.0	9.0	-	9.0	(5.0)	-55.6%
Non-Regulated - Fortis Properties	9.0	-	9.0	9.0	-	9.0	0.0	0.0%
Corporate and Other	(17.0)	-	(17.0)	(15.0)	(2.0)	(17.0)	0.0	0.0%
Net Earnings Applicable to Common Shares	36.0	0.0	36.0	49.0	(7.5)	41.5	5.5	-13.3%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

The Q3/09 net loss of \$3 million from Terasen Gas was lower than our estimate of a \$4.7 million loss and a comparable net loss of \$5.5 million in Q3/08. The reduced loss in Q3/09 was primarily the result of a lower effective tax rate and higher customer delivery rates.

Regulated Electric Utilities – FortisAlberta

Q3/09 net income of \$16 million exceeded our estimate of \$13 million but was slightly lower than Q3/08 net income of \$17 million. The reduction in net income in Q3/09 compared to Q3/08 was caused by lower corporate income tax recoveries. Q3/08 results included a \$3.5 million income tax recovery related to H1/08.

Regulated Electric Utilities – FortisBC

Q3/09 net income of \$8 million was consistent with our estimate of \$8.7 million and Q3/08 net income of \$8 million.

Regulated Electric Utilities – Newfoundland Power

Q3/09 net income of \$7 million was slightly lower than Q3/08 net income of \$8 million but generally consistent with our estimate of \$7.6 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q3/09 vs. our estimate of approximately \$9 million and Q3/08 earnings of \$7 million. Increased operating expenses and amortization costs offset increased electricity sales (due to higher-than-normal temperatures) at the Caribbean utility companies.

Unregulated – Fortis Generation

Fortis Generation reported Q3/09 net income of \$4 million, lower than our estimate of \$5 million and \$5 million lower than Q3/08 net income of \$9 million. Approximately \$4 million of the \$5 million variance between Q3/09 and Q3/08 results was largely due to the expiration of the power-for-water exchange agreement at Rankine hydroelectric generating facility on April 30, 2009. Lower wholesale electricity prices in New York State and reduced production in Belize also reduced earnings during Q3/09.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$9 million which was slightly lower than our estimate of \$9.9 million but consistent with Q3/08 net income of \$9 million. Occupancy decreased slightly to 96.2% at the end of the quarter vs. 96.6% at the end of Q3/08. Revenue per available room fell to \$89.02 during Q3/09 vs. \$93.64 during Q3/08.

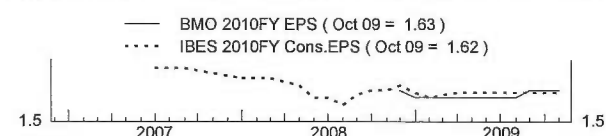
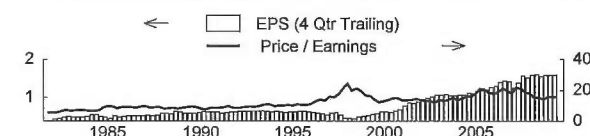
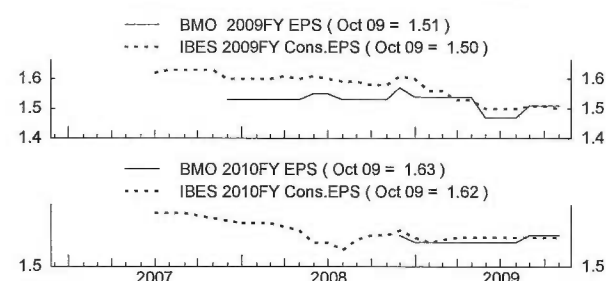
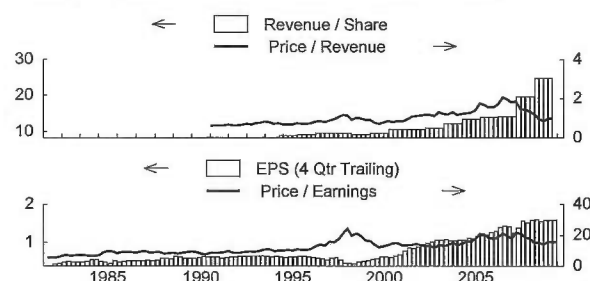
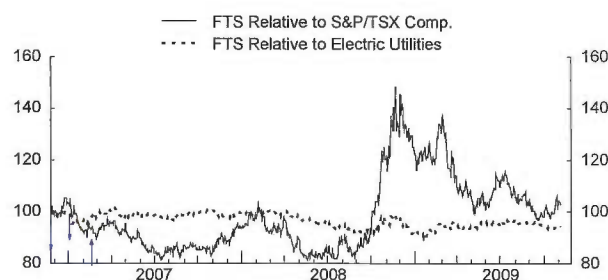
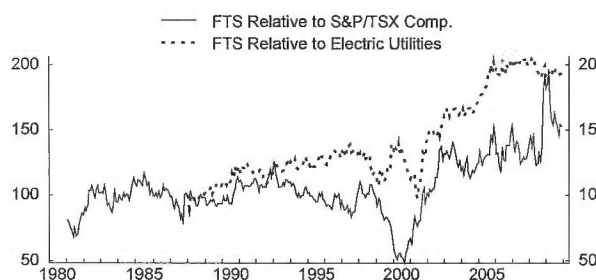
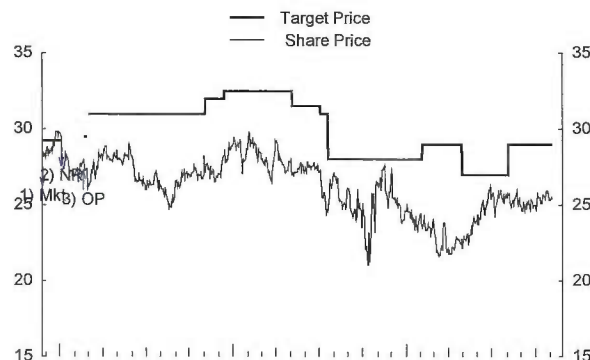
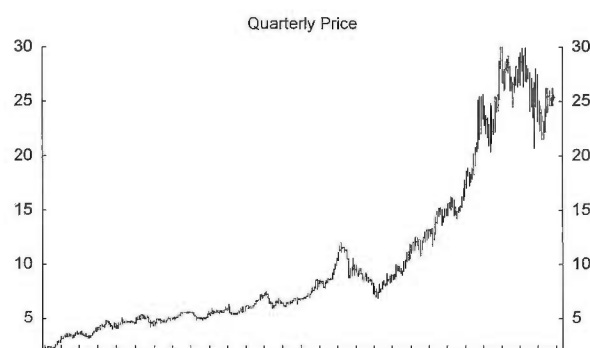
Other Items

- There was no change to Fortis' capital expenditure forecast. The company continues to target capital expenditures of approximately \$1 billion in 2009 and total capital expenditures of approximately \$5 billion over the five year period from 2009–2013.
- In October, FortisBC filed a preliminary 2010 revenue requirement application. The company is requesting a rate increase of 4.6% and the application specifies estimated mid-year rate bases of \$872.4 million in 2009E and \$975.8 million in 2010E. Please see our research comment dated August 6, 2009, for a summary of the other regulatory initiatives currently underway.

Table 2: Consolidated Summary

05-Nov-09										
Current Price:	\$25.81									
12-Month Target Price:	\$30.00									
ROR:	20.4%									
Recommendation:										Outperform
Michael McGowan BMO Capital Markets										
Year Ending December 31										
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Total Earnings Per Share	\$0.97	\$1.05	\$1.08	\$1.17	\$1.38	\$1.35	\$1.60	\$1.53	\$1.66	\$1.79
Total Diluted Earnings Per Share	\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.63	\$1.75
Segmented EPS:										
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.30	\$0.30
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07	\$0.07
CN/Corneil/Elgin/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	\$0.09
Fortis Properties	\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.17
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.28	\$0.17	\$0.19	\$0.12	\$0.13	\$0.13
Belita, BECOL, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.00	\$0.18	\$0.23	\$0.24	\$0.19	\$0.16	\$0.18	\$0.19
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.65	\$0.57	\$0.51	\$0.53	\$0.58	\$0.63
Terassen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.70	\$0.72	\$0.78
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.32)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.42)	(\$0.43)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08	\$1.12
Payout Ratio	49.5%	48.9%	51.4%	52.3%	48.5%	60.2%	64.2%	68.0%	65.2%	62.6%
Average Shares (mm)	53.1	69.2	84.7	101.8	103.5	137.6	157.4	159.9	170.8	171.2
Net Book Value	\$8.72	\$8.98	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$19.40	\$19.90	\$19.68
Market Valuation										
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-	-
Price: Low	\$10.75	\$11.63	\$14.23	\$17.00	\$20.36	\$24.80	\$20.70	-	-	-
Price: Current	-	-	-	-	-	-	-	\$25.81	-	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	-	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	16.9	15.5	14.4
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	-	-	-
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	1.4	1.4	1.3
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-	-
Yield: Low Price	4.5%	4.5%	3.6%	3.6%	3.3%	3.3%	5.0%	-	-	-
Yield: Current	-	-	-	-	-	-	-	4.0%	4.2%	4.3%
Balance Sheet (\$mm)										
Debt (S-T)	445.1	421.9	291.2	218.2	418.0	1,042.2	607.2	1,317.4	2,065.2	2,204.8
Debt (L-T)	583.8	910.7	1,895.8	1,990.2	2,558.0	4,823.0	4,854.0	4,990.1	4,727.6	4,701.9
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	51.5	107.5	54.6	195.8	475.6	668.0	739.0	739.0	739.0	739.0
Minority Interest	40.0	36.8	37.5	35.7	190.5	115.0	145.0	145.0	145.0	145.0
Preferred Shares	0.0	125.0	321.5	319.5	499.0	439.0	657.0	657.0	657.0	657.0
Convertible Debentures	15.9	24.5	22.9	22.3	52.5	45.0	44.0	44.0	44.0	44.0
Shareholders' Equity	584.2	629.2	1,000.1	1,213.4	1,275.0	2,601.0	3,046.0	3,192.3	3,298.0	3,372.4
	1,731.2	2,250.9	3,333.5	3,595.0	5,360.5	9,953.2	10,132.2	11,041.5	11,673.8	11,874.1
Balance Sheet (%)										
Debt (S-T)	25.6%	18.7%	8.9%	5.5%	7.8%	10.9%	6.0%	11.9%	17.7%	18.8%
Debt (L-T)	33.7%	40.5%	52.8%	49.8%	47.7%	48.4%	48.2%	45.2%	40.7%	39.6%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.0%	4.8%	1.6%	4.9%	8.9%	7.2%	7.3%	5.7%	5.4%	5.2%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.3%	1.2%	1.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.5%	6.5%	6.0%	5.7%	5.6%
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	23.8%	27.2%	30.1%	28.4%	27.9%	28.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement										
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	157.4	252.5	280.0	283.2	306.2
Cash Flow from Operations	134.4	150.7	283.7	320.0	279.8	373.0	661.0	646.2	727.2	760.3

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.58	16	1.04	4.1	66	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.5		14.0			15.4		
10 Year:	11.8		8.7			10.5		
20 Year:	5.0		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q2/2009.

FTS - Rating as of 24-Nov-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

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Distribution of Ratings (Sept. 10, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	36%	48%	48%
Hold	Market Perform	55%	48%	44%
Sell	Underperform	9%	4%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at:

http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

November 6, 2009
 Research Comment
 Toronto, Ontario

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Q3/09 Results in Line; Maintaining Outperform Rating

Event

Fortis reported Q3/09 EPS of \$0.21, consistent with our estimate of \$0.22 and the First Call Mean of \$0.21 (range \$0.19–0.23). The company's regulated utilities in Canada appear to be performing well and better-than-expected results at Fortis Alberta and the Terasen Gas Companies were offset by slightly lower-than-expected results at the Caribbean utility companies (primarily Belize Electricity Limited and Fortis Turks and Caicos), Fortis Generation and Fortis Properties.

Impact

Neutral.

Forecasts

There are no changes to our estimates. We are introducing 2011E diluted EPS of \$1.75.

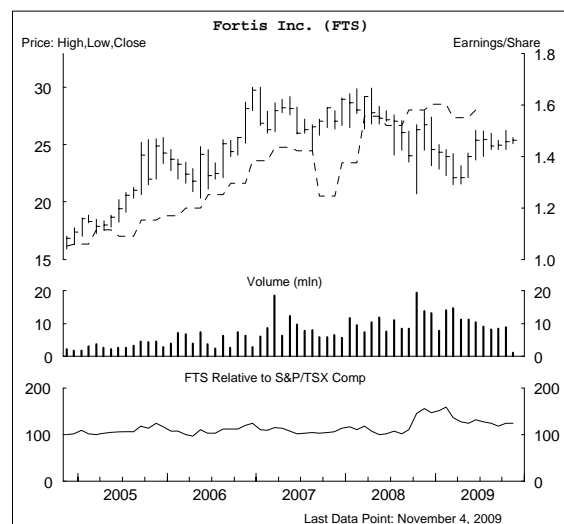
Valuation

Our revised target price of \$30 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.75 (12.5%); 1.75x 2011E BVPS of \$19.68 (12.5%) and a target yield of 3.75%, assuming 2011E dividends per share of \$1.08 (75%). The increase in our target price to \$30 from \$29 results from applying current valuation multiples to our 2011E estimates.

Recommendation

We believe Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (5-Nov) \$25.40 **52-Week High** \$28.00
Target Price \$30.00↑ **52-Week Low** \$21.52



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.51	\$1.63
P/E			16.8x	15.6x
CFPS	\$2.71	\$4.21	\$3.81	\$4.28
P/CFPS			6.7x	5.9x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,477	\$11,968
EBITDA (\$mm)	\$809.8	\$1,034.0	\$1,196.3	\$1,276.0
EV/EBITDA	12.4x	10.2x	9.6x	9.4x
Quarterly EPS				
	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.21a	\$0.48
Dividend	\$1.04	Yield		4.1%
Book Value	\$18.16	Price/Book		1.4x
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)		\$4,335
Float O/S (mm)	169.0	Float Cap (\$mm)		\$4,291
Wkly Vol (000s)	2,517	Wkly \$ Vol (mm)		\$61.3
Net Debt (\$mm)	\$6,030.0	Next Rep. Date		04-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.51; 2010E: \$1.62

Changes

Target
 \$29.00 to \$30.00

Q3/09 Results in Line; Receipt of Regulatory Decisions Expected to Commence During Q4

Fortis reported Q3/09 EPS of \$0.21, consistent with our estimate of \$0.22 and the First Call Mean of \$0.21 (range \$0.19-0.23). The company's regulated utilities in Canada appear to be performing well and better-than-expected results at Fortis Alberta and the Terasen Gas Companies were offset by slightly lower-than-expected results at the Caribbean utility companies (primarily Belize Electricity Limited and Fortis Turks and Caicos), Fortis Generation and Fortis Properties.

We anticipate that Q4/09 will be active from a regulatory perspective. A decision on the Alberta Utilities Commission's Generic Cost of Capital proceeding is expected in mid-November, and a decision on Newfoundland Power's 2010 rate application is expected by the end of the year. It is also possible that the British Columbia Utilities Commission issues a decision on the Terasen Gas ROE and capital structure application by December 31.

Our estimates do not assume that provincial regulators grant the requested changes to capital structure and deemed return on equity. We believe, however, that the capital structure/deemed ROE proceedings are positive for regulated utilities in Canada, as they signify that regulators are willing to address the possibility that the current method of setting regulated rates of return may not adequately compensate investors for the risks they are incurring.

We are maintaining our Outperform rating as we continue to believe that Fortis' shares are attractively valued, considering the company's low-risk, diversified business model.

Our revised target price of \$30 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.75 (12.5%); 1.75x 2011E BVPS of \$19.68 (12.5%) and a target yield of 3.75%, assuming 2011E dividends per share of \$1.08 (75%). The increase in our target price to \$30 from \$29 results from applying current valuation multiples to our 2011E estimates.

Q3/09 Results

As set out in Table 1, Q3/09 GAAP net income of \$36 million was \$5.5 million less than comparable income of \$41.5 million reported in Q3/08. In order to present Q3/08 results on a comparable basis, Q3/08 GAAP income was adjusted for a \$7.5 million tax recovery regarding a settlement related to interprovincial tax legislation. Approximately \$5.5 million of this amount related to the Terasen Gas companies while \$2 million was allocated to the corporate segment.

A discussion of the operating performance of each business segment follows below.

Table 1: Historical Q3 Income by Business Segment

	Q3/09 GAAP Earnings (\$mm)		Q3/09 Adjusted Earnings (\$mm)	Q3/08 GAAP	Adj. (\$mm)	Q3/08 Adjusted Earnings (\$mm)	Variance Q3/09 Adj. vs. Q3/08 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	(3.0)	-	(3.0)	1.0	(5.5)	(4.5)	1.5	-33.3%
Regulated Electric Utilities - Canadian								
FortisAlberta	16.0	-	16.0	17.0	-	17.0	(1.0)	-5.9%
FortisBC	8.0	-	8.0	8.0	-	8.0	0.0	0.0%
Newfoundland Power	7.0	-	7.0	8.0	-	8.0	(1.0)	-12.5%
Other Canadian	5.0	-	5.0	5.0	-	5.0	0.0	0.0%
	36.0	-	36.0	38.0	(5.5)	32.5	3.5	10.8%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Non-Regulated - Fortis Generation	4.0	-	4.0	9.0	-	9.0	(5.0)	-55.6%
Non-Regulated - Fortis Properties	9.0	-	9.0	9.0	-	9.0	0.0	0.0%
Corporate and Other	(17.0)	-	(17.0)	(15.0)	(2.0)	(17.0)	0.0	0.0%
Net Earnings Applicable to Common Shares	36.0	0.0	36.0	49.0	(7.5)	41.5	5.5	-13.3%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

The Q3/09 net loss of \$3 million from Terasen Gas was lower than our estimate of a \$4.7 million loss and a comparable net loss of \$5.5 million in Q3/08. The reduced loss in Q3/09 was primarily the result of a lower effective tax rate and higher customer delivery rates.

Regulated Electric Utilities – FortisAlberta

Q3/09 net income of \$16 million exceeded our estimate of \$13 million but was slightly lower than Q3/08 net income of \$17 million. The reduction in net income in Q3/09 compared to Q3/08 was caused by lower corporate income tax recoveries. Q3/08 results included a \$3.5 million income tax recovery related to H1/08.

Regulated Electric Utilities – FortisBC

Q3/09 net income of \$8 million was consistent with our estimate of \$8.7 million and Q3/08 net income of \$8 million.

Regulated Electric Utilities – Newfoundland Power

Q3/09 net income of \$7 million was slightly lower than Q3/08 net income of \$8 million but generally consistent with our estimate of \$7.6 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q3/09 vs. our estimate of approximately \$9 million and Q3/08 earnings of \$7 million. Increased operating expenses and amortization costs offset increased electricity sales (due to higher-than-normal temperatures) at the Caribbean utility companies.

Unregulated – Fortis Generation

Fortis Generation reported Q3/09 net income of \$4 million, lower than our estimate of \$5 million and \$5 million lower than Q3/08 net income of \$9 million. Approximately \$4 million of the \$5 million variance between Q3/09 and Q3/08 results was largely due to the expiration of the power-for-water exchange agreement at Rankine hydroelectric generating facility on April 30, 2009. Lower wholesale electricity prices in New York State and reduced production in Belize also reduced earnings during Q3/09.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$9 million which was slightly lower than our estimate of \$9.9 million but consistent with Q3/08 net income of \$9 million. Occupancy decreased slightly to 96.2% at the end of the quarter vs. 96.6% at the end of Q3/08. Revenue per available room fell to \$89.02 during Q3/09 vs. \$93.64 during Q3/08.

Other Items

- There was no change to Fortis' capital expenditure forecast. The company continues to target capital expenditures of approximately \$1 billion in 2009 and total capital expenditures of approximately \$5 billion over the five year period from 2009–2013.
- In October, FortisBC filed a preliminary 2010 revenue requirement application. The company is requesting a rate increase of 4.6% and the application specifies estimated mid-year rate bases of \$872.4 million in 2009E and \$975.8 million in 2010E. Please see our research comment dated August 6, 2009, for a summary of the other regulatory initiatives currently underway.

Table 2: Consolidated Summary

05-Nov-09

Current Price:

\$25.81

12-Month Target Price:

\$30.00

ROR:

20.4%

Michael McGowan

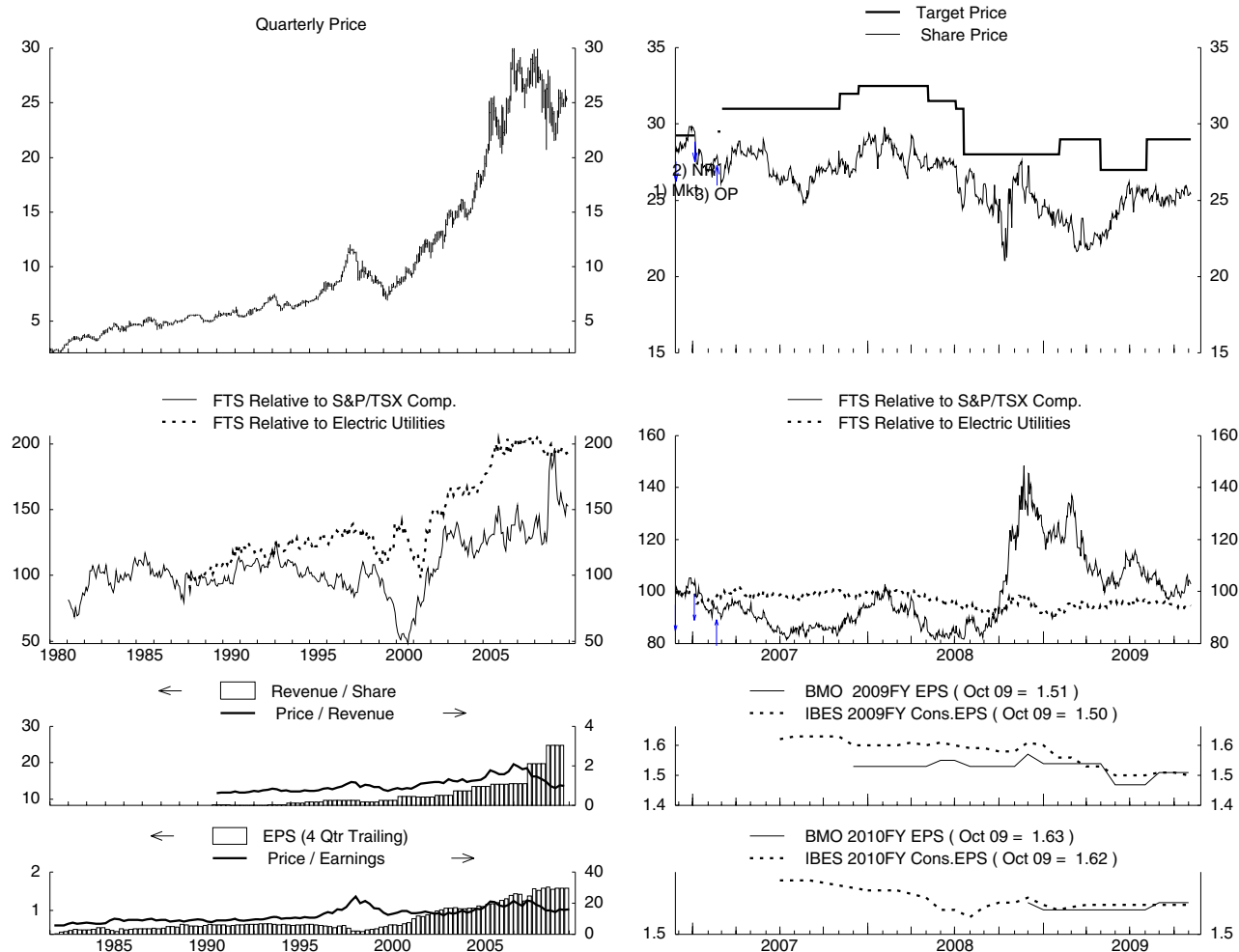
BMO Capital Markets

Recommendation:

Outperform

		Year Ending December 31									
		2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.53	\$1.66	\$1.79
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.63	\$1.75
Segmented EPS											
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20
	Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07	\$0.07
	CNP/Cornwall Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	\$0.03
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.17
	Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.12	\$0.13	\$0.13
	Belize,BECOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.16	\$0.18	\$0.19
	FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.51	\$0.53	\$0.58	\$0.63
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.70	\$0.72	\$0.78
	Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.42)	(\$0.43)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08	\$1.12
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.5%	60.2%	64.2%	68.0%	65.2%	62.6%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	169.9	170.8	171.2
Net Book Value		\$8.72	\$8.98	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.40	\$18.99	\$19.68
Market Valuation											
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-	-
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	-	-	-
	Price: Current	-	-	-	-	-	-	-	\$25.81	-	-
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	-	-	-
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-	-
	P/E Ratio: Current	-	-	-	-	-	-	-	16.9	15.6	14.4
	Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	-	-	-
	Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-	-
	Price/Book Value: Current	-	-	-	-	-	-	-	1.4	1.4	1.3
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-	-
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	-	-	-
	Yield: Current	-	-	-	-	-	-	-	4.0%	4.2%	4.3%
Balance Sheet (\$mm)											
	Debt (S-T)	446.1	421.9	231.3	218.2	418.0	1,042.2	607.2	1,317.4	2,053.2	2,204.8
	Debt (L-T)	583.8	910.7	1,855.8	1,990.2	2,558.0	4,623.0	4,884.0	4,990.1	4,727.6	4,701.9
	Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	739.0	739.0	739.0	739.0
	Minority Interest	40.0	36.8	37.5	35.7	130.5	115.0	145.0	145.0	145.0	145.0
	Preferred Shares	0.0	125.0	321.5	319.5	439.0	439.0	667.0	667.0	667.0	667.0
	Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0
	Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,276.0	2,601.0	3,046.0	3,139.3	3,248.0	3,372.4
		1,731.2	2,250.9	3,533.6	3,995.0	5,360.6	9,553.2	10,132.2	11,041.8	11,623.8	11,874.1
Balance Sheet (%)											
	Debt (S-T)	25.8%	18.7%	6.5%	5.5%	7.8%	10.9%	6.0%	11.9%	17.7%	18.6%
	Debt (L-T)	33.7%	40.5%	52.5%	49.8%	47.7%	48.4%	48.2%	45.2%	40.7%	39.6%
	Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	7.3%	6.7%	6.4%	6.2%
	Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.3%	1.2%	1.2%
	Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	6.6%	6.0%	5.7%	5.6%
	Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.4%	0.4%	0.4%	0.4%
	Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	23.8%	27.2%	30.1%	28.4%	27.9%	28.4%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement											
	Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.4	252.5	260.0	283.2	306.2
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	646.2	727.9	769.3

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.58	16	1.04	4.1	66	18.02	1.4	9
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	8.5		14.0			15.4		
10 Year:	11.8		8.7			10.5		
20 Year:	5.0		5.7			7.6		

* Current EPS is the 4 Quarter Trailing to Q2/2009.

FTS - Rating as of 24-Nov-06 = OP

Date	Rating Change	Share Price
1 24-Nov-06	OP to Mkt	\$28.20
2 3-Jan-07	Mkt to NR	\$29.51
3 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 4, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings (Sept. 10, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	36%	48%	48%
Hold	Market Perform	55%	48%	44%
Sell	Underperform	9%	4%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at:

http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

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TO U.K. RESIDENTS: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée/Ltd. are Members of CIPF. BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. are Members of SIPC.

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"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Value Stock Selections
 Top 15 Income Stock Selections

November 16, 2009

Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA

(416) 359-5807

Michael.McGowan@bmo.com

Assoc: Mark Laing, CA

Increasing Estimates to Reflect Alberta Cost of Capital Decision

Event

On November 12, the Alberta Utilities Commission (AUC) released its decision on the 2009 Generic Cost of Capital Hearing. Pursuant to the decision, the AUC increased the generic cost of capital to 9.00% from 8.75% for the years 2009-2010 and on an interim basis for 2011. The AUC also increased FortisAlberta's deemed equity thickness to 41% from 37%. For additional details, please see our research comment titled, "Alberta Cost of Capital Decision Results in Increases to ROE and Deemed Equity" published on November 16, 2009.

Impact

Slightly Positive.

Forecasts

We have updated our estimates to reflect the AUC decision. Our 2009E EPS increases to \$1.54 from \$1.51, our 2010E EPS increases to \$1.67 from \$1.63 and our 2011E EPS increases to \$1.79 from \$1.75.

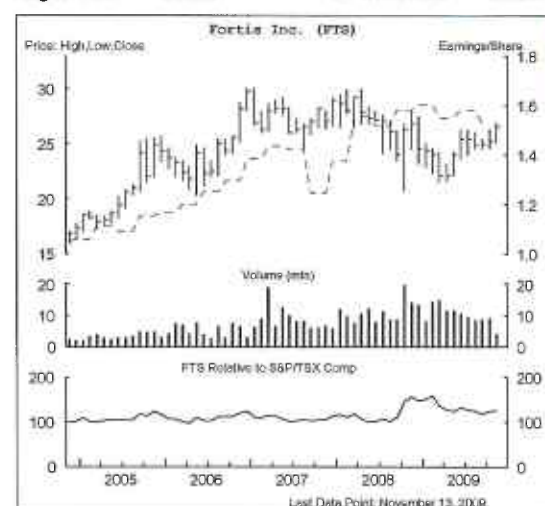
Valuation

Our target price of \$30 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.79 (12.5%); 1.75x 2011E BVPS of \$19.80 (12.5%) and a target yield of 3.75%, assuming 2011E dividends per share of \$1.12 (75%).

Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (13-Nov) \$26.60 52-Week High \$28.00
 Target Price \$30.00 52-Week Low \$21.52



(FY-Dec.)	2007A	2008A	2009E	2010E
EPS	\$1.29	\$1.56	\$1.54↑	\$1.67↑
P/E			17.3x	15.9x
CFPS	\$2.71	\$4.21	\$3.81	\$4.28
P/CFPS			7.0x	6.2x
Div.	\$0.82	\$1.03	\$1.04	\$1.08
EV (\$mm)	\$10,012	\$10,534	\$11,683	\$12,181
EBITDA (\$mm)	\$809.8	\$1,034.0	\$1,196.3	\$1,276.0
EV/EBITDA	12.4x	10.2x	9.8x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2007A	\$0.40	\$0.31	\$0.20	\$0.46
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.21a	\$0.51↑
Dividend	\$1.04	Yield		3.9%
Book Value	\$18.16	Price/Book		1.5x
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)		\$4,539
Float O/S (mm)	169.0	Float Cap (\$mm)		\$4,494
Wkly Vol (000s)	2,470	Wkly \$ Vol (mm)		\$60.0
Net Debt (\$mm)	\$6,030.0	Next Rep. Date		04-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.50; 2010E: \$1.61

Changes

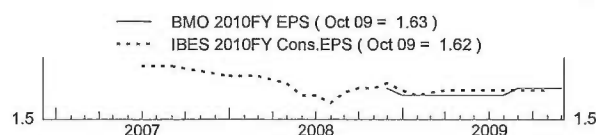
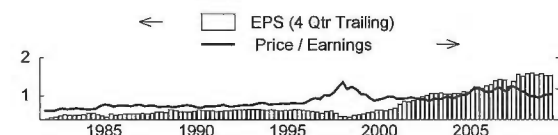
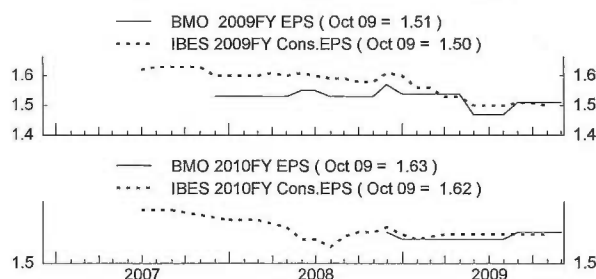
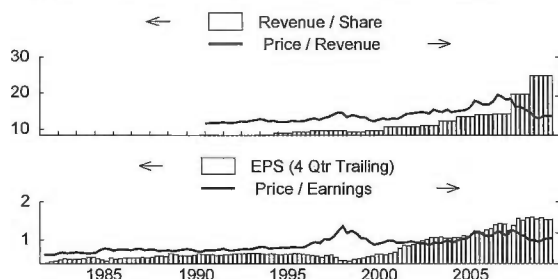
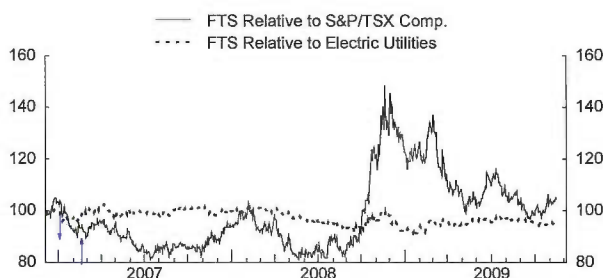
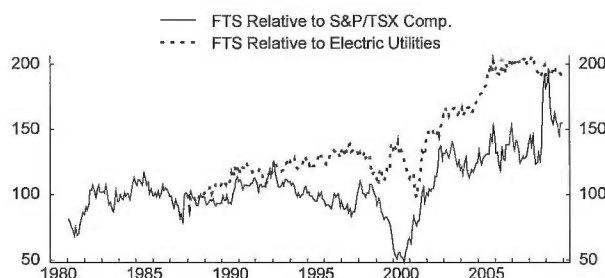
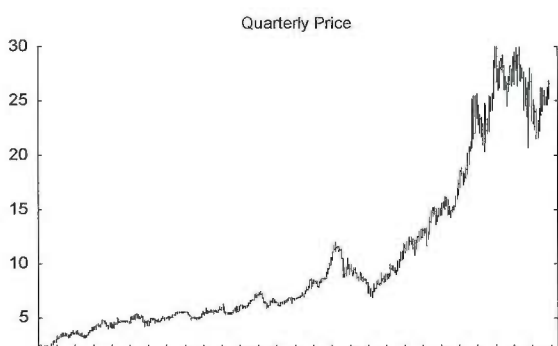
Annual EPS
 2009E \$1.51 to \$1.54
 2010E \$1.63 to \$1.67

Quarterly EPS
 Q4/09E \$0.48 to \$0.51

15-Nov-09					Michael McGowan
Current Price:	\$26.60				BMO Capital Markets
12-Month Target Price:	\$30.00				
ROR:	16.8%			Recommendation:	Outperform

Source: BMO Capital Markets, Company Reports

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.84	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	17	1.04	4.1	68	18.16	1.4	8
Average:		14		4.9	64		1.4	10.8

Growth(%)			
5 Year:	7.8	14.0	15.5
10 Year:	11.4	8.7	10.6
20 Year:	4.9	5.7	7.7

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 5-Dec-06 = Mkt

Date	Rating Change	Share Price
1 3-Jan-07	Mkt to NR	\$29.51
2 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: November 13, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure

Disclosure 2: BMO NB has undertaken an underwriting liability with respect to this issuer within the past 12 months.

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Distribution of Ratings (Sept. 10, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	36%	48%	48%
Hold	Market Perform	55%	48%	44%
Sell	Underperform	9%	4%	8%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.82
Target Price: \$30.00

Member of: Top 15 Large Cap Stock Selections
Top 15 Value Stock Selections
Top 15 Income Stock Selections

December 13, 2009
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Ruling Received on Newfoundland Power 2010 Rate Application

Impact

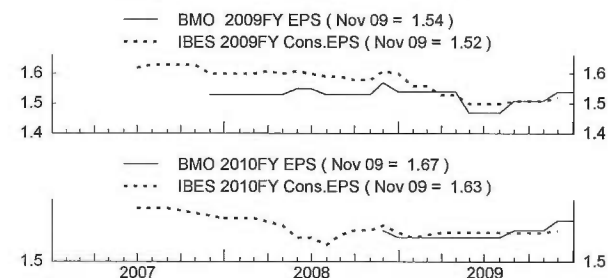
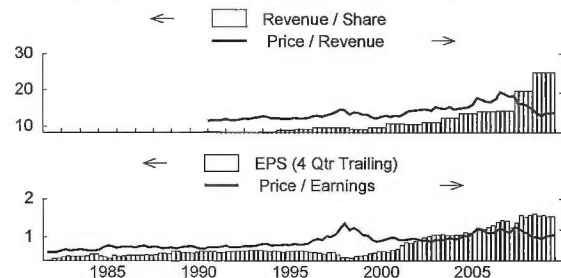
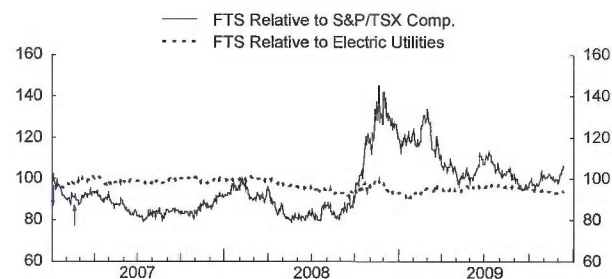
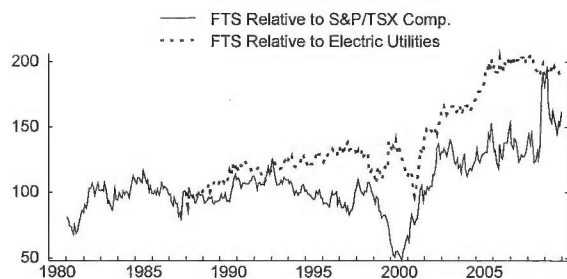
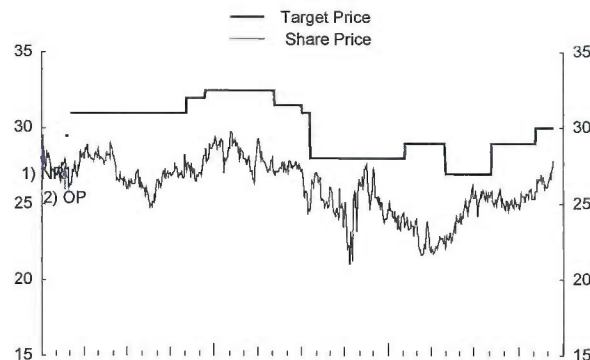
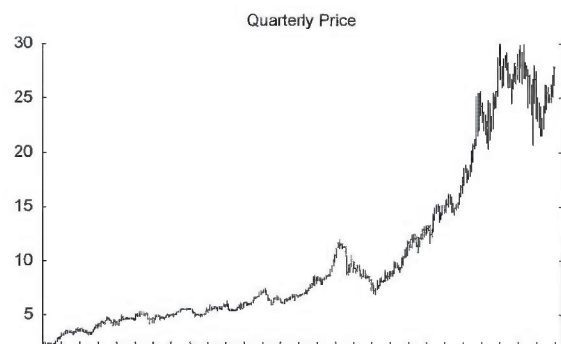
Neutral

Details & Analysis

On December 11, 2009, the Newfoundland Board of Commissioners of Public Utilities ("PUB") issued a ruling on Newfoundland Power's (100% Fortis Inc.) 2010 rate application. Pursuant to the decision, Newfoundland Power's existing regulated equity thickness has been maintained at 45% and the company will be allowed to earn a regulated return on common equity of 9.0%. The automatic adjustment formula used to annually reset regulated ROE will be maintained during 2011 and 2012. Although the 9% ROE allowed by the PUB is below the 11% ROE originally requested when Newfoundland Power filed its 2010 rate application, it is consistent with both the regulated ROE of 9% that FortisAlberta was recently granted during the Alberta Utility Commission's 2009 Generic Cost of Capital Hearing and the 8.95% ROE that Newfoundland Power was allowed to earn in 2008 and 2009.

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 4.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	17	1.04	4.0	68	18.16	1.4	8

Average: 14 4.9 64 1.4 10.8

Growth(%):
5 Year: 7.8 14.0 15.5
10 Year: 11.4 8.7 10.6
20 Year: 4.9 5.5 7.7

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 2-Jan-07 = Mkt

Date	Rating Change	Share Price
1 3-Jan-07	Mkt to NR	\$29.51
2 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 11, 2009

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Distribution of Ratings (Dec. 3, 2009)

Rating	BMO	BMO	BMO	Starmine
Category	Rating	Universe	I.B. Clients*	Universe**

Buy	Outperform	40%	50%	50%
Hold	Market Perform	51%	46%	43%
Sell	Underperform	9%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at: http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

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TO U.K. RESIDENTS: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

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Fortis

(FTS-TSX)

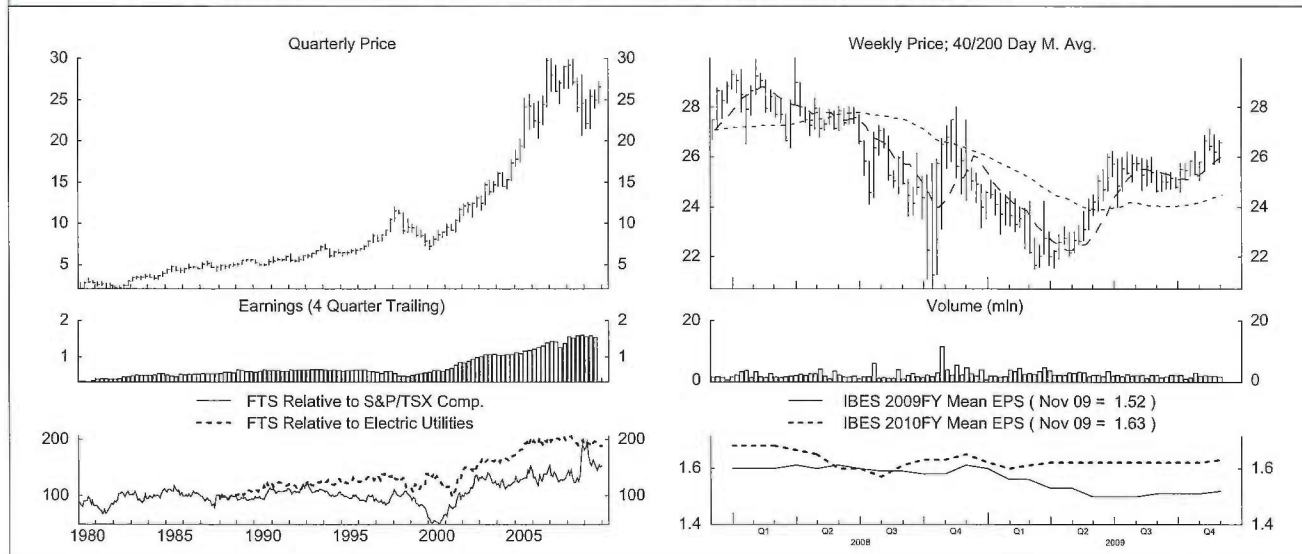
Stock Rating: Outperform
Industry Rating: Market Perform

December 3, 2009
Research Fact Sheet
Gas & Electric Utilities

Michael McGowan, CA, CFA
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Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

				(FY-Dec.)	2008A	2009E	2010E	2011E	
Price (3-Dec)	\$26.57	52-Week High	\$27.13	EPS	\$1.56	\$1.54	\$1.67	\$1.79	
Target Price	\$30.00	52-Week Low	\$21.52	P/E		17.3x	15.9x	14.8x	
Dividend	\$1.04	Book Value	\$18.16	CFPS	\$4.21	\$3.84	\$4.30	\$4.54	
Yield	3.9%	Price/Book	1.5x	P/CFPS		6.9x	6.2x	5.9x	
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)	\$4,534	Div.	\$1.03	\$1.04	\$1.08	\$1.12	
Float O/S (mm)	169.0	Float Cap (\$mm)	\$4,489	EV (\$mm)	\$10,534	\$11,672	\$12,163	\$12,291	
Wkly Vol (000s)	2,344	Wkly \$ Vol (mm)	\$56.8	EBITDA (\$mm)	\$1,034.0	\$1,196.3	\$1,276.0	\$1,344.9	
Net Debt (\$mm)	\$6,030	Next Rep. Date	4-Feb (E)	EV/EBITDA	10.2x	9.8x	9.5x	9.1x	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	8.3%	8.5%	8.9%	9.2%
2008A	\$0.58	\$0.28	\$0.26	\$0.48	Book Value (\$)	\$18.00	\$18.43	\$19.07	\$19.80
2009E	\$0.53 a	\$0.31 a	\$0.21 a	\$0.51	D/Tot. Cap. (%)	62.6%	64.8%	65.6%	65.2%
2010E	\$0.57	\$0.34	\$0.24	\$0.54	Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic Disclosures: 2, 3, 7, 9, 10AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (59.5%, Grand Cayman

Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta), FortisBC (100%, British Columbia) and the Terasen Gas Companies (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis Inc. reported Q3/09 EPS of \$0.21, consistent with our estimate of \$0.22 and the First Call Mean of \$0.21 (range \$0.19–0.23). The company's regulated utilities in Canada appear to be performing well

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 5.

and better-than-expected results at Fortis Alberta and the Terasen Gas Companies were offset by slightly lower-than-expected results at the Caribbean utility companies (primarily Belize Electricity Limited and Fortis Turks and Caicos), Fortis Generation and Fortis Properties.

Corporate Developments – In October, FortisBC filed a preliminary 2010 revenue requirement application. The company is requesting a rate increase of 4.6% and the application specifies estimated mid-year rate bases of \$872.4 million in 2009E and \$975.8 million in 2010E.

On November 12, the Alberta Utilities Commission (AUC) released its decision on the 2009 Generic Cost of Capital Hearing. Pursuant to the decision, the AUC increased the generic cost of capital to 9.00% from 8.75% for the years 2009–2010 and on an interim basis for 2011. The AUC also

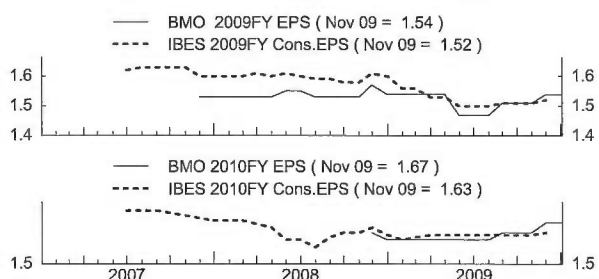
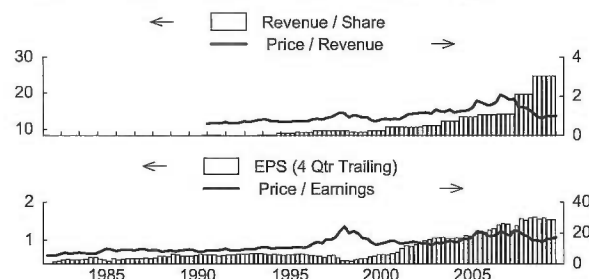
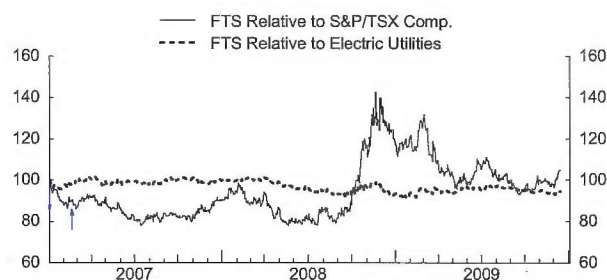
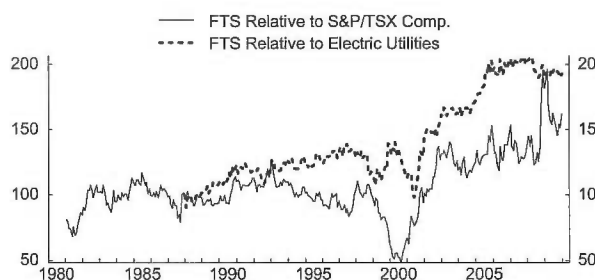
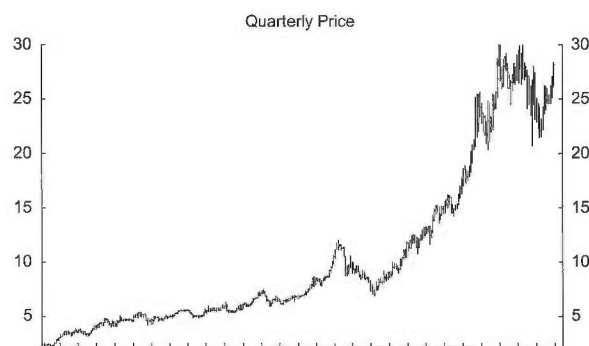
increased FortisAlberta's deemed equity thickness to 41% from 37%.

Forecasts – Our diluted EPS estimates are \$1.54 in 2009, \$1.67 in 2010 and \$1.79 in 2011.

Valuation – Our target price of \$30 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.79 (12.5%); 1.75x 2011E BVPS of \$19.80 (12.5%); and a target yield of 3.75%, assuming 2011E dividends per share of \$1.12.

Recommendation – We believe that Fortis shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income, Large Cap and Value stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	17	1.04	4.0	68	18.16	1.4	8
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	7.8		14.0			15.5		
10 Year:	11.4		8.7			10.6		
20 Year:	4.9		5.5			7.7		

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 3-Jan-07 = Mkt

Date	Rating Change	Share Price
1 3-Jan-07	Mkt to NR	\$29.51
2 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 14, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (Dec. 3, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients *	Starline Universe **
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Buy	Outperform	40%	50%	50%
Hold	Market Perform	51%	46%	43%
Sell	Underperform	9%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted - Dissemination of research is currently restricted.

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Fortis Inc

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.29
Target Price: \$30.00

Member of: Top 15 Large Cap Stock Selections
Top 15 Value Stock Selections
Top 15 Income Stock Selections

December 16, 2009
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Terasen Return on Equity and Capital Structure Decision Released

Impact

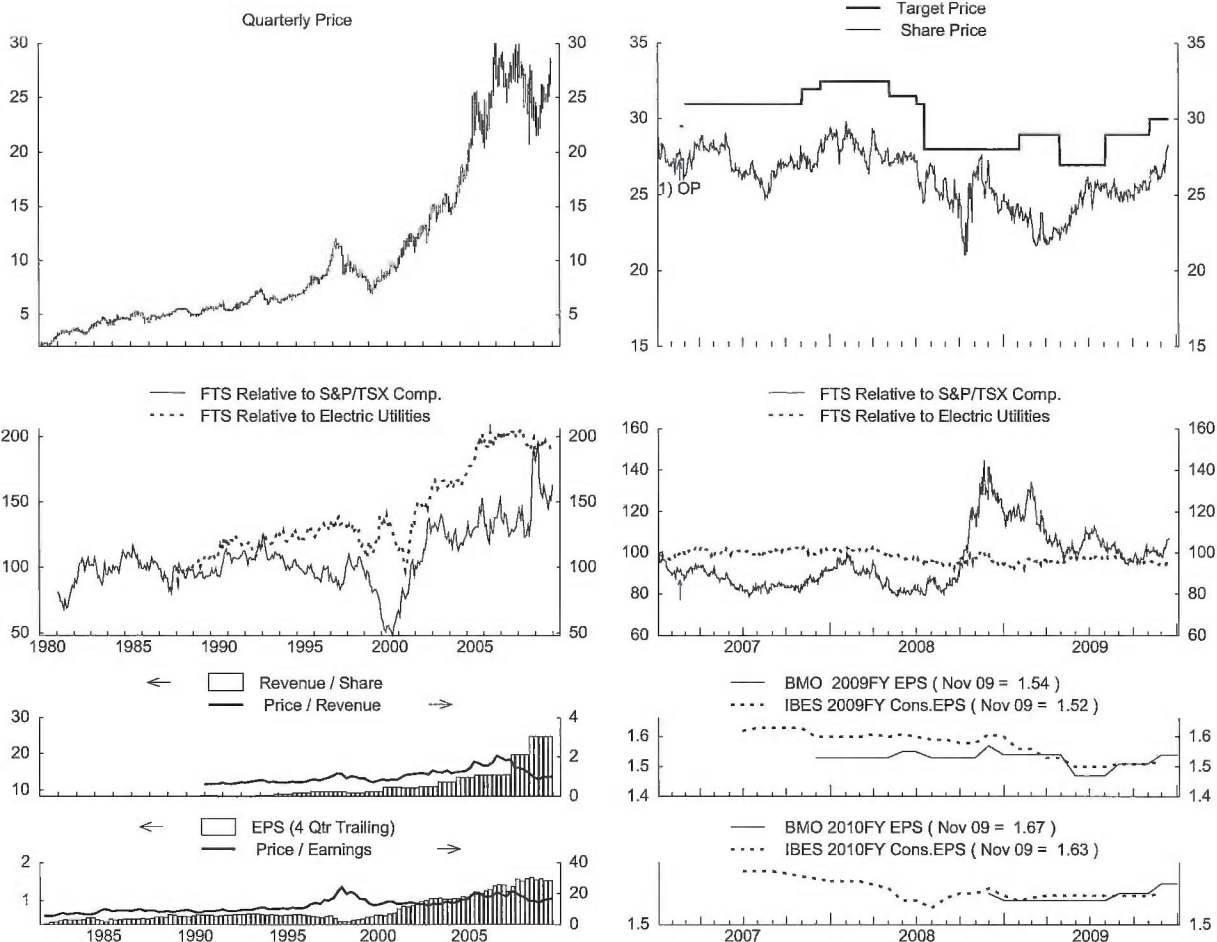
Positive

Details & Analysis

The British Columbia Utilities Commission (BCUC) has released its decision on the Return on Equity and Capital Structure application filed by the Terasen Companies (100% Fortis Inc.). Pursuant to the decision, the BCUC has: 1) increased Terasen Gas's allowed ROE to 9.5% from the existing 8.47%; 2) increased Terasen Gas's equity thickness to 40% from 35%; and 3) discontinued the use of the formula that has historically been used to adjust regulated ROE in B.C. Although the allowed ROE of 9.5% is lower than the ROE of 11% requested by Terasen, we believe the BCUC's decision is positive as it has specified a return on equity that exceeds the deemed ROE recently granted by the Alberta Utilities Commission (9%) and the Newfoundland Board of Commissioners of Public Utilities (also 9%). Moreover we believe the combination of increased equity thickness and higher allowed ROE should more than offset the reduction of earnings associated with the discontinuation of Performance-Based Rate Setting Agreements that are set to expire on December 31, 2009.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	17	1.04	4.0	68	18.16	1.4	8
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	7.8		14.0			15.5		
10 Year:	11.4		8.7			10.6		
20 Year:	4.9		5.5			7.7		

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 4-Jan-07 = NR

Date	Rating Change	Share Price
1 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 15, 2009

Company Risk Disclosure

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Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 10: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings (Dec. 3, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
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Buy	Outperform	40%	50%	50%
Hold	Market Perform	51%	46%	43%
Sell	Underperform	9%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

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Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Value Stock Selections
 Top 15 Income Stock Selections

December 18, 2009
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA

Estimates Raised to Reflect Cost of Capital Decisions

Event

A number of Fortis subsidiaries have recently received regulatory decisions related to cost of capital and capital structure. The most important of these (from a financial standpoint) was the December 16, 2009, decision released by the British Columbia Utilities Commission (BCUC) regarding return on equity and capital structure for the Terasen Companies (100% Fortis Inc.). Pursuant to the BCUC's decision, Terasen Gas Inc.'s allowed ROE has been increased to 9.5% from 8.47% and the deemed equity component of its capital structure has been increased to 40% from 35%.

Impact

Positive.

Forecasts

We have updated our estimates to reflect recent cost of capital decisions released by the BCUC, OEB and Newfoundland PUB.

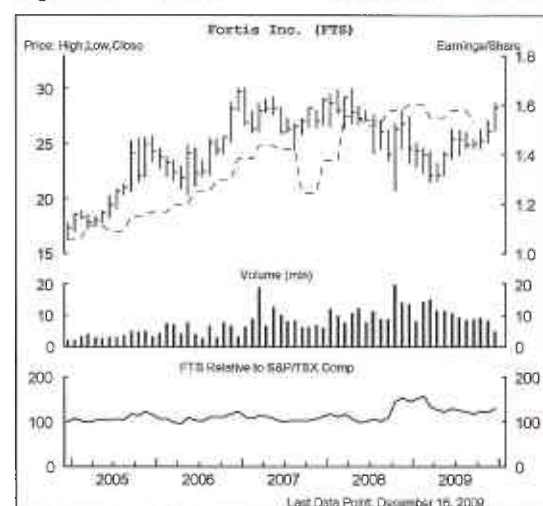
Valuation

We are decreasing our target yield assumption to 3.50% from 3.75% to reflect the positive cost of capital decision from the BCUC and the elimination of uncertainty with respect to regulated ROE now that provincial regulators have completed their cost of capital reviews. Our revised target price of \$32 (previously \$30) is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.83 (12.5%); 1.75x 2011E BVPS of \$19.89 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.12 (75%).

Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (17-Dec) \$28.84 52-Week High \$28.84
 Target Price \$32.00↑ 52-Week Low \$21.52



(FY-Dec.)	2008A	2009E	2010E	2011E
EPS	\$1.56	\$1.55↑	\$1.71↑	\$1.83↑
P/E		18.6x	16.9x	15.8x
CFPS	\$4.21	\$3.84	\$4.30	\$4.54
P/CFPS		7.5x	6.7x	6.4x
Div.	\$1.03	\$1.04	\$1.08	\$1.12
EV (\$mm)	\$10,534	\$12,056	\$12,541	\$12,662
EBITDA (\$mm)	\$1,034.0	\$1,196.3	\$1,276.0	\$1,344.9
EV/EBITDA	10.2x	10.1x	9.8x	9.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.21a	\$0.53↑
2010E	\$0.59↑	\$0.35↑	\$0.24	\$0.56↑
Dividend	\$1.04	Yield		3.6%
Book Value	\$18.16	Price/Book		1.6x
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)		\$4,922
Float O/S (mm)	169.0	Float Cap (\$mm)		\$4,873
Wkly Vol (000s)	2,337	Wkly \$ Vol (mm)		\$56.7
Net Debt (\$mm)	\$6,030.0	Next Rep. Date		04-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.52; 2010E: \$1.63; 2011E: \$1.76

Changes

Annual EPS
 2009E \$1.54 to \$1.55
 2010E \$1.67 to \$1.71
 2011E \$1.79 to \$1.83

Quarterly EPS
 Q4/09E \$0.51 to \$0.53

Q1/10E \$0.57 to \$0.59
 Q2/10E \$0.34 to \$0.35
 Q3/10E \$0.24 to \$0.24
 Q4/10E \$0.54 to \$0.56

Target
 \$30.00 to \$32.00

Cost of Capital Reviews Completed

A number of Fortis subsidiaries have recently received regulatory decisions related to cost of capital and capital structure. Since our last full comment regarding the Alberta Utilities Commission's decision on its 2009 cost of capital hearing, a number of other provincial regulators have released decisions for their respective cost of capital proceedings. Positive decisions were received from the British Columbia Utilities Commission ("BCUC") and the Ontario Energy Board ("OEB"), whereas we believe that the impact of the recent decision from the Newfoundland Board of Commissioners of Public Utilities ("PUB") was neutral.

We are decreasing our target yield assumption to 3.50% from 3.75% to reflect the positive cost of capital decision from the BCUC and the elimination of uncertainty with respect to regulated ROE now that provincial regulators have completed their cost of capital reviews. Our revised target price of \$32 (previously \$30) is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.83 (12.5%); 1.75x 2011E BVPS of \$19.89 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.12 (75%).

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

BCUC Releases a Positive Decision Regarding Terasen's Return on Equity and Capital Structure Application

On December 16, 2009, the BCUC released its decision on the Return on Equity and Capital Structure application filed by the Terasen Companies (100% Fortis Inc.). Key aspects of the decision are set out below:

- Terasen Gas Inc. (TGI) was granted an allowed ROE of 9.5%, up from the existing ROE of 8.47% and a deemed equity thickness of 40%, up from the 35% that is currently in place.
- Deemed equity thickness for Terasen Gas Vancouver Island (TGVI) and Terasen Gas Whistler (TGW) is unchanged at 40%.
- Both TGVI and TGW will be allowed to collect a risk premium of 50 basis points over the allowed ROE for Terasen Gas Inc. Previously, TGVI was allowed a risk premium of 70 basis points, over TGI's allowed ROE.
- Changes to ROE will be effective July 1, 2009. Changes to TGI's deemed equity thickness will become effective on January 1, 2010.
- The BCUC has discontinued the use of the formula that has been used to automatically adjust ROE each year since its inception in 1994. TGI has been directed to complete a study of alternative formulae and submit its findings to the BCUC by December 31, 2010.

Although the ROE of 9.5% granted by the BCUC is lower than the ROE of 11% requested by Terasen, we believe the BCUC's decision is positive as it has specified a return on equity that exceeds the deemed ROE recently granted by the Alberta Utilities Commission (9%) and the Newfoundland Board of Commissioners of Public Utilities (also 9%). Moreover, we believe the combination of increased equity thickness and higher allowed ROE should more than offset

the reduction of earnings associated with the discontinuation of Performance-Based Rate Setting Agreements that are set to expire on December 31, 2009.

OEB's Cost of Capital Review Should Be Positive for FortisOntario

On December 11, 2009, the OEB released report #EB-2009-0084, titled "Report of the Board on the Cost of Capital for Ontario's Regulated Utilities." The report set the 2010 ROE for regulated utilities in Ontario at 9.75%, up significantly from the 8.01% that was in place during 2009 and maintained the deemed equity thickness for electricity distributors (such as FortisOntario) at 40%.

The OEB will annually modify regulated ROE pursuant to an automatic adjustment mechanism that takes into account forecast long-term Government of Canada bond yields and the spread between "A"-rated utility bond yields and long-term Government of Canada bond yields.

We believe the increase to regulated rates of return will be positive for FortisOntario; however, due to the relatively small size of Fortis's Ontario-based utilities, we estimate that the earnings contribution from the increase in regulated ROE will likely be no greater than \$0.01/share.

We View Decision Released by the Newfoundland PUB as Neutral

On December 11, 2009, the Newfoundland Board of Commissioners of Public Utilities ("PUB") issued a ruling on Newfoundland Power's (100% Fortis Inc.) 2010 rate application. Pursuant to the decision, Newfoundland Power's existing regulated equity thickness has been maintained at 45% and the company will be allowed to earn a regulated return on common equity of 9.0%, virtually unchanged from the allowed ROE of 8.95% that was in place during 2009. The automatic adjustment formula used to annually reset regulated ROE will be maintained during 2011 and 2012.

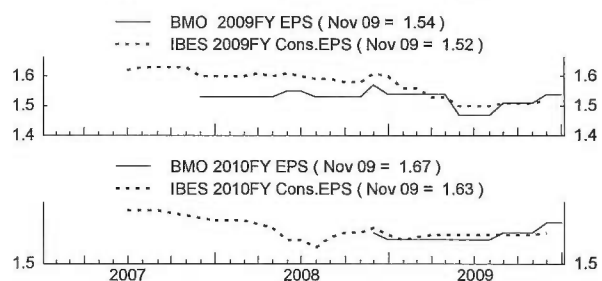
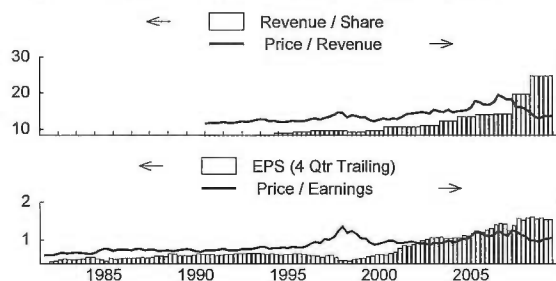
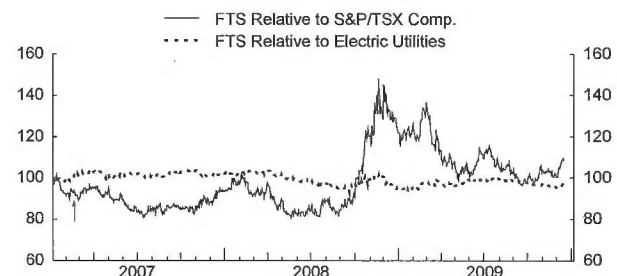
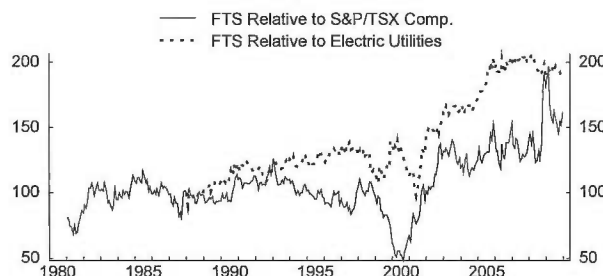
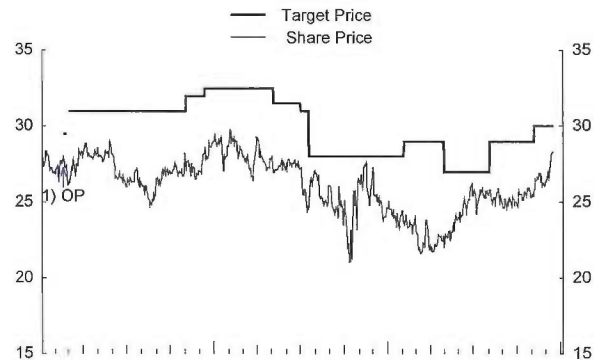
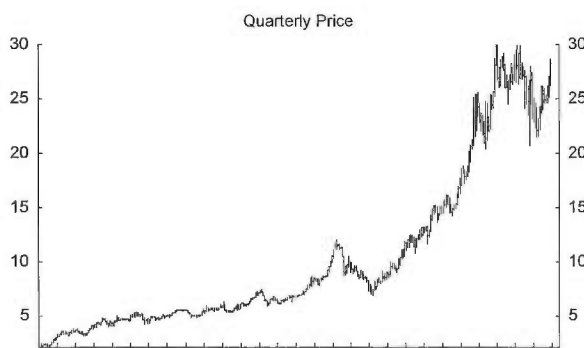
Estimates

We have updated our estimates to reflect recent cost of capital decisions released by the BCUC, OEB and Newfoundland PUB. Our diluted EPS estimates, increase to \$1.55 from \$1.54 in 2009E, to \$1.71 from \$1.67 in 2010E and to \$1.83 from \$1.79 in 2011E.

Table 1: Consolidated Summary

17-Dec-09											Michael McGowan et al.
Current Price:	\$28.84										BMO Capital Markets
12-Month Target Price:	\$32.00										
ROR:	14.7%										
										Recommendation:	Outperform
Year Ending December 31											
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	
Total Earnings Per Share	\$0.97	\$1.06	\$1.08	\$1.17	\$1.38	\$1.36	\$1.50	\$1.58	\$1.74	\$1.87	
Total Diluted Earnings Per Share	\$0.98	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.55	\$1.71	\$1.83	
Segmented EPS											
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20	
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07	\$0.07	
CNR/Corwall Bco/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.09	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	\$0.04	
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.17	
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.12	\$0.13	\$0.13	
Belize/BECOL/CUPE/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.16	\$0.18	\$0.19	
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.51	\$0.56	\$0.62	\$0.67	
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76	\$0.81	
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.42)	(\$0.43)	
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.08	\$1.12	
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	60.2%	64.2%	65.6%	62.0%	59.7%	
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	157.4	169.9	170.8	171.2	
Net Book Value	\$8.72	\$8.98	\$10.47	\$11.76	\$12.26	\$16.72	\$16.00	\$18.45	\$19.13	\$19.90	
Market Valuation											
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-	-	
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$28.84	-	-	
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	-	-	-	
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	18.3	16.6	15.4	
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	-	-	-	
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-	-	
Price/Book Value: Current	-	-	-	-	-	-	-	1.6	1.5	1.4	
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-	-	
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.7%	3.9%	
Balance Sheet (\$mm)											
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	1,042.2	607.2	1,308.9	2,030.5	2,167.4	
Debt (L-T)	583.8	910.7	1,859.8	1,990.2	2,559.0	4,623.0	4,884.0	4,990.1	4,727.8	4,701.9	
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Credits	61.5	107.5	64.5	195.8	475.6	688.0	739.0	739.0	739.0	739.0	
Minority Interest	40.0	36.8	37.5	36.7	130.5	115.0	145.0	145.0	145.0	145.0	
Preferred Shares	0.0	125.0	321.5	319.5	439.0	439.0	667.0	667.0	667.0	667.0	
Convertible Debentures	15.8	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,278.0	2,601.0	3,046.0	3,147.7	3,270.6	3,409.8	
	1,731.2	2,250.9	3,533.6	3,996.0	6,360.6	9,553.2	10,132.2	11,041.8	11,628.8	11,874.1	
Balance Sheet (%)											
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	7.8%	10.9%	6.0%	11.9%	17.5%	18.3%	
Debt (L-T)	33.7%	40.9%	52.5%	49.8%	47.7%	48.4%	48.2%	45.2%	40.7%	39.6%	
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	7.3%	6.7%	6.4%	6.2%	
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.3%	1.2%	1.2%	
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	6.6%	6.0%	5.7%	5.6%	
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	23.8%	27.2%	30.1%	26.5%	28.1%	28.7%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement											
Net Profit to Common	63.3	73.6	89.0	119.2	143.2	187.4	252.5	268.5	297.4	320.9	
Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	373.0	653.0	654.6	742.2	784.1	

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	80	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.63	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.8	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	17	1.04	4.0	68	18.16	1.4	8
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	7.8		14.0			15.5		
10 Year:	11.4		8.7			10.6		
20 Year:	4.9		5.5			7.7		

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 5-Jan-07 = NR

Date	Rating Change	Share Price
1 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: December 16, 2009

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Financial performance depends on the availability of installed generation and the production of electric power by third parties. Fortis Properties' cash flow is dependent on hotel room vacancy rates and commercial building occupancy levels. The company's operations in Belize may be disrupted and assets may be damaged by hurricanes and/or tropical storms.

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Disclosure 3: BMO NB has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 7: BMO Capital Markets Corp. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 9: BMO Capital Markets Corp. or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

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Distribution of Ratings (Dec. 3, 2009)

Rating Category	BMO Rating	BMO Universe	BMO I.B. Clients*	Starmine Universe**
Buy	Outperform	40%	50%	50%
Hold	Market Perform	51%	46%	43%
Sell	Underperform	9%	4%	7%

* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

Our research publications are available via our web site <http://bmocapitalmarkets.com>. Institutional clients may also receive our research via FIRST CALL Research Direct and Reuters. All of our research is made widely available at the same time to all BMO NB, BMO Capital Markets Ltd., BMO Capital Markets Corp. and BMO Nesbitt Burns Securities Ltd. client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

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http://research-ca.bmocapitalmarkets.com/conflict_statement_public.asp

Additional Matters

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Fortis Inc.

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Value Stock Selections
 Top 15 Income Stock Selections

January 11, 2010
 Research Comment
 Toronto, Ontario

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 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA

Updating Estimates to Reflect 7.7% Dividend Increase and \$250 Million Preferred Share Issuance

Event

On January 11, 2010 Fortis announced a 7.7% increase to its annual dividend to \$1.12/share from \$1.04/share previously. The revised quarterly dividend of \$0.28/share will be payable on March 1 to shareholders of record as of February 5. Fortis also announced the issuance of \$250 million of Series H preferred shares that pay a dividend of 4.25% per annum until June 1, 2015. Thereafter, the dividend will reset every five years at a level of 1.45% over the 5-year Government of Canada bond. Proceeds will be used to repay borrowings under Fortis' credit facility and to inject additional equity into a regulated subsidiary.

Impact

Slightly positive. The 7.7% dividend increase was greater than expected (we were anticipating a dividend increase of ~3.8%). Although issuance of preferred shares will allow Fortis to finance the injection of additional equity into the regulated subsidiaries that have been granted increased equity thickness with long-term capital, we expect some dilution from the financing.

Forecasts

We are updating our estimates to reflect the dividend increase and the preferred share issuance. Our diluted EPS estimates decline to \$1.68 from \$1.71 in 2010E and to \$1.80 from \$1.83 in 2011E. Our DPS estimates increase to \$1.12 from \$1.08 in 2010E and to \$1.16 from \$1.12 in 2011E.

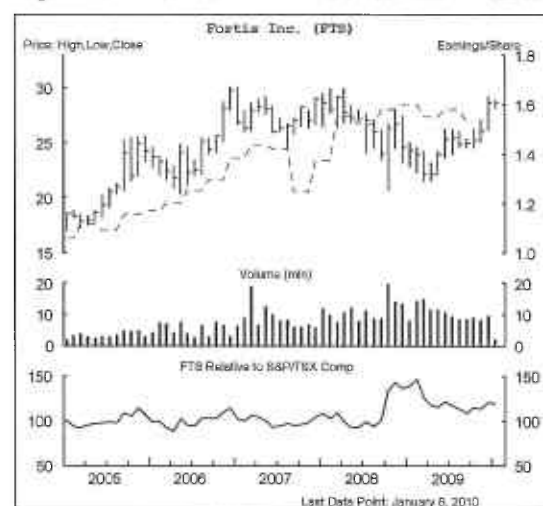
Valuation

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.80 (12.5%); 1.75x 2011E BVPS of \$19.76 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (8-Jan) \$28.70 52-Week High \$29.24
 Target Price \$32.00 52-Week Low \$21.52



(FY-Dec.)	2008A	2009E	2010E	2011E
EPS	\$1.56	\$1.55	\$1.68↓	\$1.80↓
P/E		18.5x	17.1x	15.9x
CFPS	\$4.21	\$3.84	\$4.30	\$4.54
P/CFPS		7.5x	6.7x	6.3x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,534	\$12,032	\$12,517	\$12,638
EBITDA (\$mm)	\$1,034.0	\$1,196.3	\$1,276.0	\$1,344.9
EV/EBITDA	10.2x	10.1x	9.8x	9.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009E	\$0.53a	\$0.31a	\$0.21a	\$0.53
2010E	\$0.59	\$0.35	\$0.24	\$0.56
Dividend	\$1.12	Yield	3.9%	
Book Value	\$18.16	Price/Book	1.6x	
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)	\$4,898	
Float O/S (mm)	169.0	Float Cap (\$mm)	\$4,849	
Wkly Vol (000s)	2,322	Wkly \$ Vol (mm)	\$56.9	
Net Debt (\$mm)	\$6,030.0	Next Rep. Date	04-Feb (E)	

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.56; 2010E: \$1.73; 2011E: \$1.85

Changes	Annual EPS
	2010E \$1.71 to \$1.68
	2011E \$1.83 to \$1.80

Table 1: Consolidated Summary

11-Jan-10

Current Price:

\$28.44

12-Month Target Price:

\$32.00

ROR:

16.5%

Michael McGowan

BMO Capital Markets

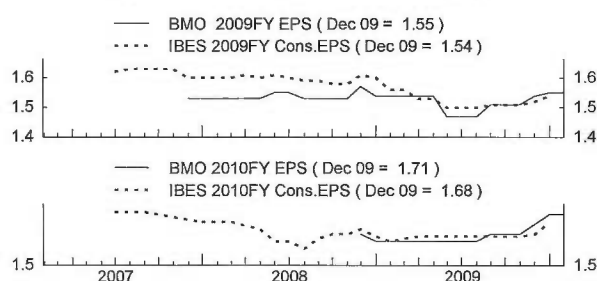
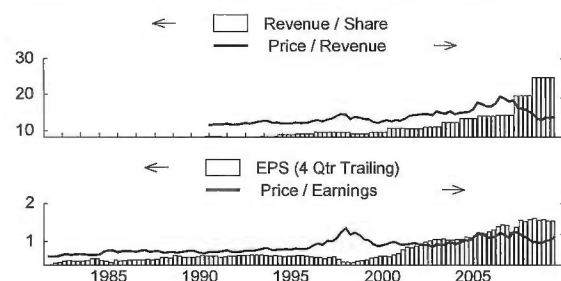
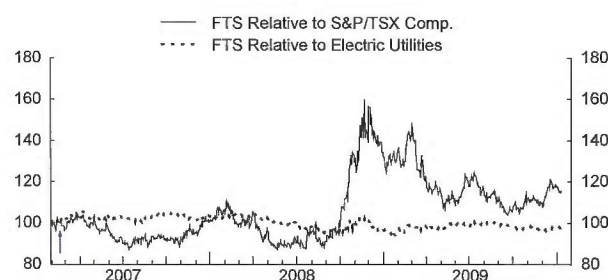
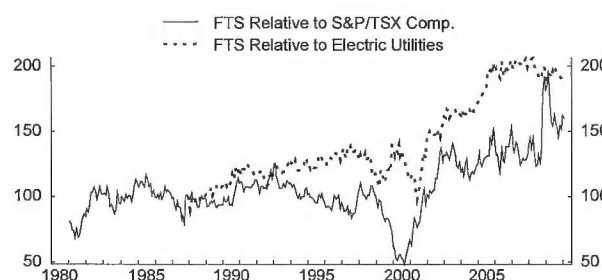
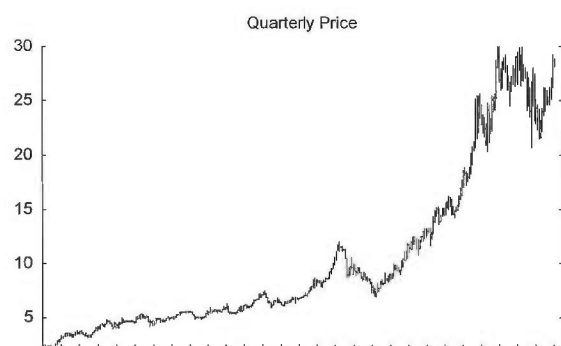
Recommendation:

Outperform

	Year Ending December 31									
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Total Earnings Per Share	\$0.97	\$1.05	\$1.05	\$1.17	\$1.38	\$1.35	\$1.70	\$1.58	\$1.71	\$1.84
Total Diluted Earnings Per Share	\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.39	\$1.56	\$1.55	\$1.68	\$1.80
Segmented EPS:										
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.32	\$0.20	\$0.19	\$0.20	\$0.20
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07	\$0.07
CNP/Conwest Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.09	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	\$0.04
Fortis Properties	\$0.14	\$0.18	\$0.14	\$0.14	\$0.15	\$0.15	\$0.18	\$0.14	\$0.18	\$0.17
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.12	\$0.13	\$0.13
Belco/SI/COI, CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.18	\$0.12
Fortis Alberta/Fortis BC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.65	\$0.57	\$0.51	\$0.55	\$0.62	\$0.67
Terres Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76	\$0.81
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.28)	(\$0.20)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.41)	(\$0.40)	(\$0.45)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.63	\$1.03	\$1.04	\$1.12	\$1.15
Payout Ratio	49.2%	48.2%	51.4%	52.3%	48.5%	60.2%	64.2%	65.5%	65.5%	63.0%
Average Shares (mm)	66.1	69.2	84.7	101.8	103.5	107.6	157.4	159.9	170.8	171.2
Net Book Value	\$8.73	\$8.98	\$10.47	\$11.75	\$12.25	\$10.72	\$18.00	\$18.45	\$19.06	\$19.75
Market Valuation										
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	-	-	-
Price: Low	\$10.75	\$11.53	\$14.23	\$17.00	\$20.35	\$24.90	\$20.70	-	-	-
Price: Current	-	-	-	-	-	-	-	\$28.44	-	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	19.7	-	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	-	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	18.0	16.5	15.4
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	-	-	-
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	-	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	1.5	1.5	1.4
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	-	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	-	-	-
Yield: Current	-	-	-	-	-	-	-	3.7%	3.9%	4.1%
Balance Sheet (\$mm)										
Debt (S-T)	446.1	421.9	231.3	218.2	418.0	1,062.2	607.2	1,308.9	1,792.5	1,941.5
Debt (L-T)	583.8	910.7	1,685.5	1,990.2	2,855.0	4,623.0	4,884.0	4,900.1	4,727.5	4,701.9
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.3	64.0	193.8	475.5	699.0	739.0	739.0	739.0	739.0
Minority Interest	40.0	36.8	37.5	53.7	130.5	115.0	145.0	145.0	145.0	145.0
Preferred Shares	0.0	125.0	321.5	315.5	490.0	499.0	667.0	667.0	917.0	917.0
Convertible Debentures	18.8	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0
Shareholders' Equity	689.7	624.5	1,000.1	1,253.4	1,775.0	2,601.0	3,046.0	3,167.7	3,355.7	3,366.6
	1,731.2	2,250.9	3,533.0	3,995.0	5,369.5	9,563.2	10,132.2	11,041.8	11,623.8	11,874.1
Balance Sheet (%)										
Debt (S-T)	25.8%	18.7%	6.5%	5.5%	7.8%	10.9%	6.0%	11.9%	15.4%	16.4%
Debt (L-T)	33.7%	40.5%	52.3%	49.8%	47.7%	48.4%	48.2%	45.2%	40.7%	39.8%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	7.3%	6.7%	6.4%	6.2%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.3%	1.2%	1.2%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	6.6%	5.0%	7.9%	7.7%
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity	33.7%	27.7%	28.3%	30.8%	33.5%	27.2%	30.1%	28.5%	28.0%	28.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement										
Net Profit to Common	62.3	73.6	89.0	119.2	143.2	167.4	252.5	258.5	292.3	315.4
Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	313.0	663.0	654.6	737.1	778.5

Source: Company reports and BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	19	1.04	3.6	68	18.16	1.6	8
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	7.6		14.0			11.7		
10 Year:	10.5		8.7			10.7		
20 Year:	4.9		5.5			7.3		

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 30-Jan-07 = NR

Date	Rating Change	Share Price
1 19-Feb-07	NR to OP	\$27.94

Last Daily Data Point: January 8, 2010

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Methodology and Risks to Price Target

Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2011E EPS (12.5%); 1.75x 2011E BVPS (12.5%) and a target yield of 3.50% based on 2011E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (Sept. 30, 2009)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	First Call Universe
Buy	Outperform	29.1%	12.8%	37.2%	33.5%	47.9%	50%
Hold	Market Perform	64.1%	9.8%	62.8%	58.5%	49.7%	43%
Sell	Underperform	6.8%	0%	0%	8.0%	2.4%	7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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OP = Outperform - Forecast to outperform the market;

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$28.26
Target Price: \$32.00

Member of: Top 15 Large Cap Stock Selections
Top 15 Value Stock Selections
Top 15 Income Stock Selections

February 4, 2010
Brief Research Note
Gas & Electric Utilities

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Q4/09 Results Slightly Below Expectations

Impact

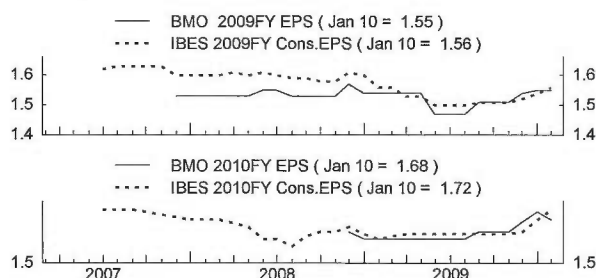
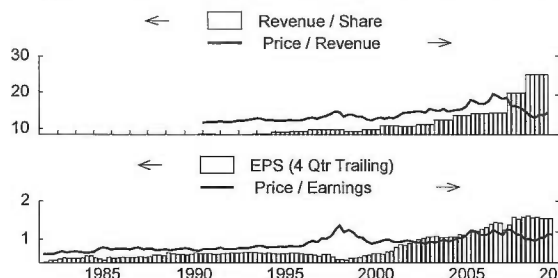
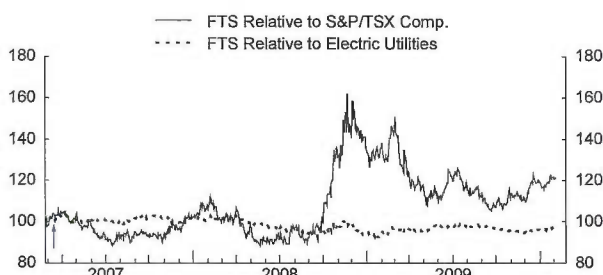
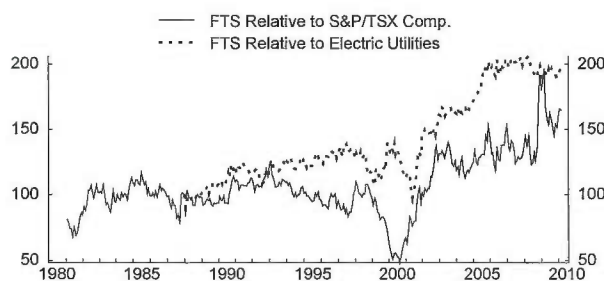
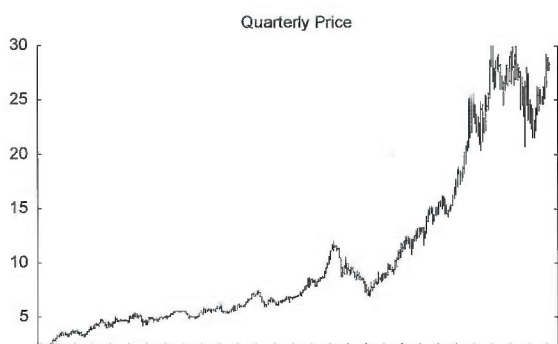
Neutral

Details & Analysis

Fortis reported Q4/09 GAAP EPS of \$0.48 (basic). After adjusting for a \$3 million tax recovery at FortisOntario and \$5 million in non-recurring expenses associated with converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable Q4/09 EPS were \$0.49 (basic). This is slightly lower than our Q4/09 EPS estimate of \$0.53 (basic) and the FirstCall Mean estimate of \$0.52 (range \$0.46-0.55). The difference between actual and expected results appears to be due to: (1) slightly lower-than-expected earnings at the Caribbean Utility Companies (\$0.01/share); (2) lower-than-expected earnings at FortisGeneration (\$0.02/share); and (3) corporate costs that were \$0.01/share higher than expected. The company continues to target capital spending of \$5 billion over the next five years. Capital expenditures for 2010 have been estimated at approximately \$1.1 billion, with \$974 million of this total allocated to the company's Canadian regulated utility businesses.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	9	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	18	1.04	3.8	68	18.16	1.5	8
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	7.6		14.0			11.7		
10 Year:	10.5		8.7			10.7		
20 Year:	4.9		5.5			7.3		

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 23-Feb-07 = OP

Date	Rating Change	Share Price
1 14-Mar-07	NR to OP	\$27.10

Last Daily Data Point: February 3, 2010

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2011E EPS (12.5%); 1.75x 2011E BVPS (12.5%) and a target yield of 3.50% based on 2011E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (Dec. 31, 2009)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	First Call Universe
Buy	Outperform	32.2%	12.3%	38.3%	36.1%	47.9%	50%
Hold	Market Perform	62.6%	10.2%	61.7%	56.9%	48.9%	43%
Sell	Underperform	5.3%	0%	0%	6.9%	3.2%	7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Value Stock Selections
 Top 15 Income Stock Selections

Q4/09 Results Slightly Below Expectations; Expect Rate Base Growth to Drive Earnings in 2010

Event

Fortis reported Q4/09 GAAP EPS of \$0.48 (basic). After adjusting for a \$3 million tax recovery at FortisOntario and \$5 million in non-recurring expenses associated with converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable Q4/09 EPS were \$0.49 (basic). This is slightly lower than our Q4/09 EPS estimate of \$0.53 (basic) and the First Call Mean estimate of \$0.52 (range \$0.46–0.55). The difference between actual and expected results appears to be due to: (1) slightly lower-than-expected earnings at the Caribbean Utility Companies (\$0.01/share); (2) lower-than-expected earnings at Fortis Generation (\$0.02/share); and (3) corporate costs that were \$0.01/share higher than expected.

Impact

Neutral.

Forecasts

We have updated our outlook for Fortis Properties to be more conservative. Our model now assumes 2010E earnings from Fortis Properties are consistent with earnings in 2009, while earnings in 2011E grow by approximately 3%. We have also reduced our merchant power price assumptions at Fortis Generation. Our 2010E diluted EPS estimates decline to \$1.65 from \$1.68 and our 2011E diluted EPS declines to \$1.77 from \$1.80.

Valuation

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.66 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

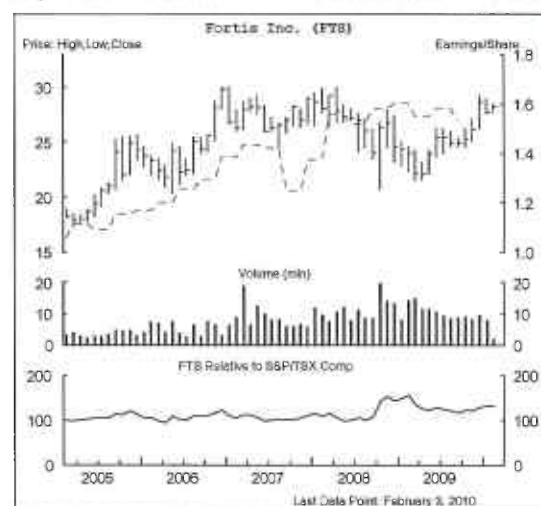
Recommendation

We believe that Fortis' shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

February 4, 2010
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
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 Michael.McGowan@bmo.com
 Assoc. Mark Laing, CA

Price (4-Feb) \$27.76 52-Week High \$29.24
 Target Price \$32.00 52-Week Low \$21.52



(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65↓	\$1.77↓
P/E			16.8x	15.7x
CFPS	\$4.21	\$3.75	\$4.28	\$4.52
P/CFPS			6.5x	6.1x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,534	\$11,426	\$11,793	\$11,610
EBITDA (\$mm)	\$1,034.0	\$1,065.0	\$1,163.8	\$1,226.7
EV/EBITDA	10.2x	10.7x	10.1x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58	\$0.33↓	\$0.23↓	\$0.54↓
Dividend	\$1.12	Yield		4.0%
Book Value	\$18.41	Price/Book		1.5x
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)		\$4,737
Float O/S (mm)	169.0	Float Cap (\$mm)		\$4,690
Wkly Vol (000s)	2,326	Wkly \$ Vol (mm)		\$57.5
Net Debt (\$mm)	\$6,235.0	Next Rep. Date		29-Apr (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2009E: \$1.55; 2010E: \$1.72; 2011E: \$1.84

Changes

Annual EPS
 2010E \$1.68 to \$1.65
 2011E \$1.80 to \$1.77

Quarterly EPS
 Q2/10E \$0.34 to \$0.33
 Q3/10E \$0.24 to \$0.23
 Q4/10E \$0.55 to \$0.54

Q4/09 Results Slightly Below Expectations; Expect Rate Base Growth to Drive Earnings in 2010

Fortis reported Q4/09 GAAP EPS of \$0.48 (basic). After adjusting for a \$3 million tax recovery at FortisOntario and \$5 million in non-recurring expenses associated with converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable Q4/09 EPS were \$0.49 (basic). This is slightly lower than our Q4/09 EPS estimate of \$0.53 (basic) and the First Call Mean estimate of \$0.52 (range \$0.46–0.55). The difference between actual and expected results appears to be due to: (1) slightly lower-than-expected earnings at the Caribbean Utility Companies (\$0.01/share); (2) lower-than-expected earnings at FortisGeneration (\$0.02/share); and (3) corporate costs that were \$0.01/share higher than expected.

With the completion of cost of capital reviews during Q4/09, we believe that EPS growth in 2010 will be largely driven by rate base investment. The company continues to target capital spending of \$5 billion over the next five years and capital expenditures for 2010 have been estimated at approximately \$1.1 billion, with \$974 million of this total allocated to the company's Canadian regulated utility businesses.

Fortis has historically grown through acquisition and its last major transaction was the acquisition of the Terasen Gas utilities, which was completed in May 2007. Now that financial markets have stabilized (both credit and equity), we would expect Fortis to continue to review potential acquisition candidates, with the most likely targets being regulated utility companies operating in the U.S.

On January 11, 2010, Fortis increased its common dividend by 7.7% to \$1.12 from \$1.04. The size of the dividend increase suggested that Fortis decided to pay out some of the incremental earnings associated with the completed cost of capital reviews to its shareholders, and as such, the dividend increase was greater than expected (we were anticipating a dividend increase of ~3.8%). Unless Fortis completes an acquisition during 2010, we expect relatively stable performance from the company this year. Investors should expect moderate EPS and dividend growth commensurate with rate base additions.

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.66 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

We believe that Fortis' shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Q4/09 Results

As set out in Table 1, on a comparable basis, net income increased by 9.2% in Q4/09 versus Q4/08. In order to present results on a comparable basis, Q4/09 GAAP income was adjusted for a \$3 million tax recovery at FortisOntario and \$5 million in non-recurring expenses associated with converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane. Fortis has applied to the British Columbia Utilities Commission (BCUC) to include the incremental conversion costs in rate base. Should the BCUC allow the rate base inclusion, Fortis would likely book a recovery to earnings in a future period. In this instance, we would normalize future results to exclude the non-recurring item.

A discussion of the operating performance of each segment follows.

Table 1: Historical Results by Segment

	Q4/09 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/09 Adjusted Earnings (\$mm)	Q4/08 GAAP	Adj. (\$mm)	Q4/08 Adjusted Earnings (\$mm)	Variance Q4/09 Adj vs. Q4/08 Adj	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	48.0	5.0	53.0	47.0	-	47.0	6.0	12.8%
Regulated Electric Utilities - Canadian								
FortisAlberta	15.0	-	15.0	11.0	-	11.0	4.0	36.4%
FortisBC	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Newfoundland Power	8.0	-	8.0	8.0	-	8.0	0.0	0.0%
Other Canadian	6.0	(3.0)	3.0	3.0	-	3.0	0.0	0.0%
	37.0	(3.0)	34.0	29.0	-	29.0	5.0	17.2%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	8.0	-	8.0	(1.0)	-12.5%
Non-Regulated - Fortis Generation	3.0	-	3.0	8.0	-	8.0	(5.0)	-62.5%
Non-Regulated - Fortis Properties	5.0	-	5.0	4.0	-	4.0	1.0	25.0%
Corporate and Other	(19.0)	-	(19.0)	(20.0)	-	(20.0)	1.0	-5.0%
Net Earnings Applicable to Common Shares	81.0	2.0	83.0	76.0	0.0	76.0	7.0	9.2%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

Adjusted Q4/09 net earnings of \$53 million from Terasen Gas Inc. were consistent with our estimate of \$53 million and \$6 million greater than comparable Q4/08 earnings of \$47 million. The increase in earnings in Q4/09 vs. Q4/08 was primarily due to the impact of a regulatory decision by the British Columbia Utilities Commission, which increased the allowed ROE for Terasen Gas to 9.5% from 8.47% and the allowed ROE at Terasen Gas Vancouver Island to 10% from 9.12%. Increases to deemed ROE were retroactively effective to July 1, 2009 and as a result of the decision, Fortis recorded incremental earnings of \$6 million.

Regulated Electric Utilities – FortisAlberta

Q4/09 net income of \$15 million was consistent with our estimate of \$15 million and greater than Q4/08 earnings of \$11 million. The increase in earnings in Q4/09 vs. Q4/08 was primarily due to an increase in customer distribution rates and the results of the Alberta Utilities Commission (AUC) Generic Cost of Capital Hearing, which increased FortisAlberta's allowed ROE to 9% from 8.51% and increased the company's deemed equity thickness to 41% from 37%. Incremental earnings from the AUC decision were \$4 million.

Regulated Electric Utilities – FortisBC

Net earnings at FortisBC were \$8 million in Q4/09, which was slightly greater than our estimate of \$7 million and the \$7 million earned during Q4/08. Higher revenues due to the increase in customer electricity rates and customer growth were partially offset by increased operating costs and higher financing charges due to increased debt levels.

Regulated Electric Utilities – Newfoundland Power

Q4/09 net income of \$8 million was consistent with our estimate of \$8 million and Q4/08 net income of \$8 million.

Regulated Electric Utilities - Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q4/09 vs. our estimate of \$8 million and Q4/08 earnings of \$8 million.

Unregulated – Fortis Generation

Fortis Generation reported Q4/09 net income of \$3 million, which was lower than our estimate of \$6 million and Q4/08 net income of \$8 million. The variance between Q4/09 and Q4/08 results was largely due to the expiration of the power-for-water exchange agreement at the Rankine hydroelectric generating facility on April 30, 2009. Lower wholesale electricity prices in New York State reduced earnings, as did lower production in Upper New York State and Belize.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$5 million, which was consistent with our estimate and \$1 million greater than Q4/08 net income of \$4 million. The year-over-year increase is due to the contributions from the recently acquired Sheraton Hotel Newfoundland (November 2008) and the Holiday Inn Select Windsor (April 2009). Occupancy decreased slightly to 96.2% at the end of the quarter vs. 96.8% at the end of Q4/08. Revenue per available room fell to \$68.87 during Q4/09 vs. \$72.86 during Q4/08.

Estimates

We have updated our outlook for Fortis Properties to be more conservative. Our model now assumes 2010E earnings from Fortis Properties are consistent with earnings in 2009, while earnings in 2011E grow by approximately 3%. We have also reduced our merchant power price assumptions at Fortis Generation. Our 2010E diluted EPS estimates decline to \$1.65 from \$1.68 and our 2011E diluted EPS declines to \$1.77 from \$1.80.

Table 1: Actual and Forecast Capital Expenditures (millions)

Subsidiary	2009A	2010E
Terasen Gas Companies	246.0	327.0
FortisAlberta	407.0	363.0
FortisBC	115.0	168.0
Newfoundland Power	74.0	69.0
Other Regulated Utilities - Canadian	46.0	47.0
Total Regulated Utilities - Canadian	888.0	974.0
Regulated Utilities - Caribbean	92.0	82.0
Non-Regulated - Utility	18.0	16.0
Fortis Properties	26.0	26.0
Total	1,024.0	1,098.0

Source: Company Reports

Table 2: Consolidated Summary

04-Feb-10

Current Price:

\$27.76

12-Month Target Price:

\$32.00

ROR:

19.3%

Michael McGowan
BMO Capital Markets

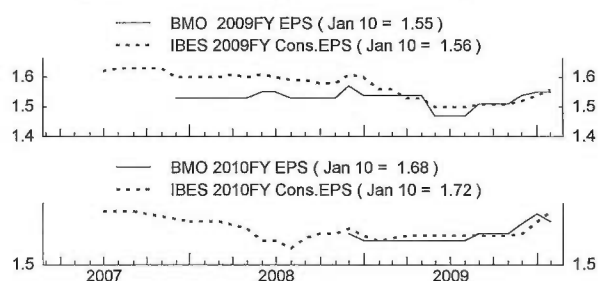
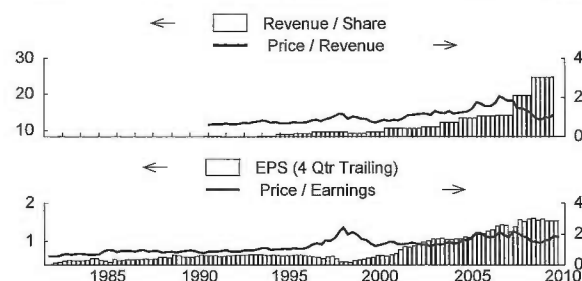
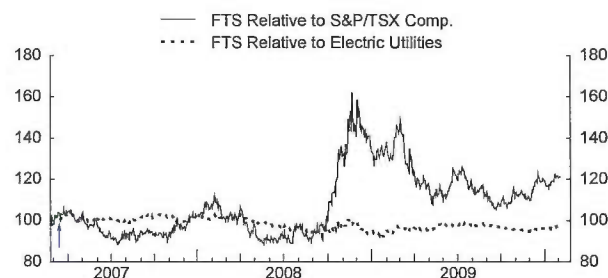
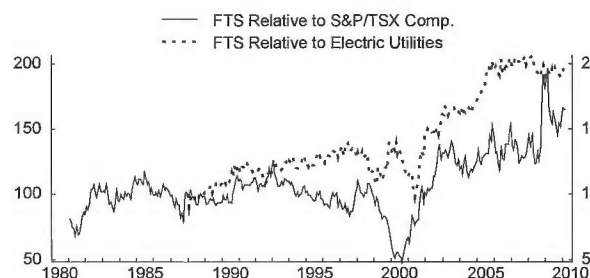
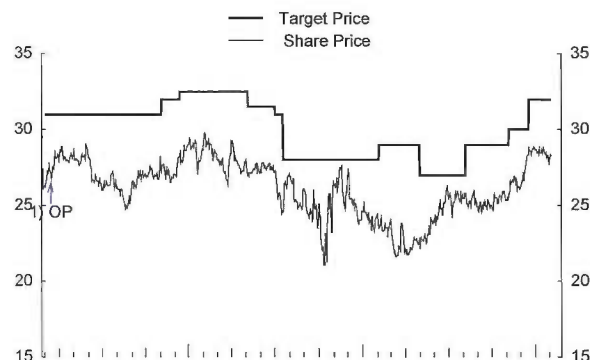
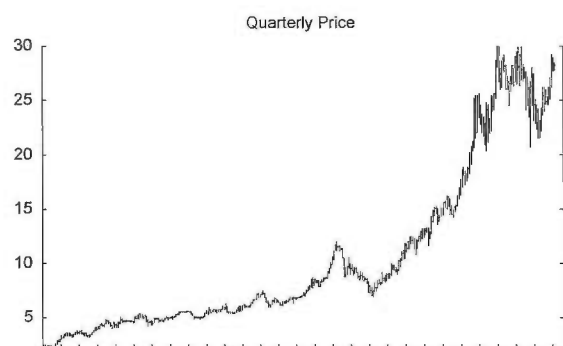
Recommendation:

Outperform

	Year Ending December 31									
	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.68	\$1.61
Total Diluted Earnings Per Share	\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.65	\$1.77
Segmented EPS										
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20
Maritime Electric	\$0.10	\$0.12	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07	\$0.07	\$0.07
CN/Comwell Elec/Fortis Ontario	\$0.14	\$0.24	\$0.20	\$0.03	\$0.04	\$0.03	\$0.03	\$0.03	\$0.04	\$0.04
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.14	\$0.15
Fortis Trust/Fortis Generation	\$0.00	\$0.00	\$0.00	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.11	\$0.11
Belze,BBOL,CUP/Fortis Caribbean	\$0.25	\$0.24	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.18	\$0.19
FortisAlberta/FortisBC	\$0.00	\$0.00	\$0.43	\$0.54	\$0.66	\$0.57	\$0.51	\$0.57	\$0.62	\$0.67
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76	\$0.81
Other/Corporate	(\$0.11)	(\$0.12)	(\$0.25)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.44)	(\$0.44)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.62	\$1.03	\$1.04	\$1.12	\$1.16
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.5%	45.2%	64.2%	67.4%	66.6%	64.1%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.5	137.6	157.4	169.9	170.8	171.2
Net Book Value	\$8.72	\$8.98	\$10.47	\$11.75	\$12.25	\$15.72	\$18.00	\$18.41	\$18.99	\$19.66
Market Valuation										
Price: High	\$13.25	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	-	-
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	-	-
Price: Current	-	-	-	-	-	-	-	-	\$27.76	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	-	16.5	15.3
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.6	1.7	1.6	-	-
Price/Book Value: Low	1.2	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	-	1.5	1.4
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.9%	3.0%	5.0%	4.8%	-	-
Yield: Current	-	-	-	-	-	-	-	-	4.0%	4.2%
Balance Sheet (\$mm)										
Debt (S-T)	448.1	421.9	231.3	318.2	418.0	1,042.2	607.2	599.1	597.5	326.2
Debt (L-T)	583.8	910.7	1,895.8	1,990.2	2,558.0	4,623.0	4,884.0	5,275.0	5,369.0	5,448.0
Deposits Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Credits	61.5	107.5	64.6	195.8	475.6	688.0	739.0	1,307.0	1,307.0	1,307.0
Minority Interest	40.0	36.8	37.5	35.7	130.8	115.0	145.0	123.0	123.0	123.0
Preferred Shares	0.0	125.0	321.8	319.5	439.0	439.0	667.0	667.0	517.0	517.0
Convertible Debentures	15.8	24.8	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0
Shareholders' Equity	584.2	624.6	1,000.1	1,213.4	1,276.0	2,601.0	3,046.0	3,141.3	3,247.2	3,368.5
Balance Sheet (%)										
Debt (S-T)	25.8%	18.7%	6.5%	6.5%	7.8%	10.9%	6.0%	5.4%	5.1%	2.8%
Debt (L-T)	33.7%	40.5%	52.5%	49.8%	47.7%	48.4%	48.2%	47.3%	46.3%	47.2%
Deposits Due	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Credits	3.6%	4.8%	1.8%	4.9%	8.9%	7.2%	7.3%	11.7%	11.3%	11.3%
Minority Interest	2.3%	1.6%	1.1%	0.9%	2.4%	1.2%	1.4%	1.1%	1.1%	1.1%
Preferred Shares	0.0%	5.6%	9.1%	8.0%	8.2%	4.6%	6.6%	6.0%	7.9%	8.0%
Convertible Debentures	0.9%	1.1%	0.6%	0.6%	1.2%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity	33.7%	27.7%	28.3%	30.4%	23.8%	27.2%	30.1%	28.2%	28.0%	29.2%
Income Statement										
Net Profit to Common	63.3	73.5	89.0	119.2	143.2	187.4	252.5	262.0	287.2	309.8
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	637.0	732.0	773.0

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
Current*	1.53	18	1.04	3.8	68	18.16	1.5	8
Average:		14		4.9	64		1.4	10.8
Growth(%):								
5 Year:	7.6		14.0			11.7		
10 Year:	10.5		8.7			10.7		
20 Year:	4.9		5.5			7.3		

* Current EPS is the 4 Quarter Trailing to Q3/2009.

FTS - Rating as of 23-Feb-07 = OP

Date	Rating Change	Share Price
1 14-Mar-07	NR to OP	\$27.10

Last Daily Data Point: February 3, 2010

IMPORTANT DISCLOSURES

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Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2011E EPS (12.5%); 1.75x 2011E BVPS (12.5%) and a target yield of 3.50% based on 2011E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (Dec. 31, 2009)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	First Call Universe
Buy	Outperform	32.2%	12.3%	38.3%	36.1%	47.9%	50%
Hold	Market Perform	62.6%	10.2%	61.7%	56.9%	48.9%	43%
Sell	Underperform	5.3%	0%	0%	6.9%	3.2%	7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

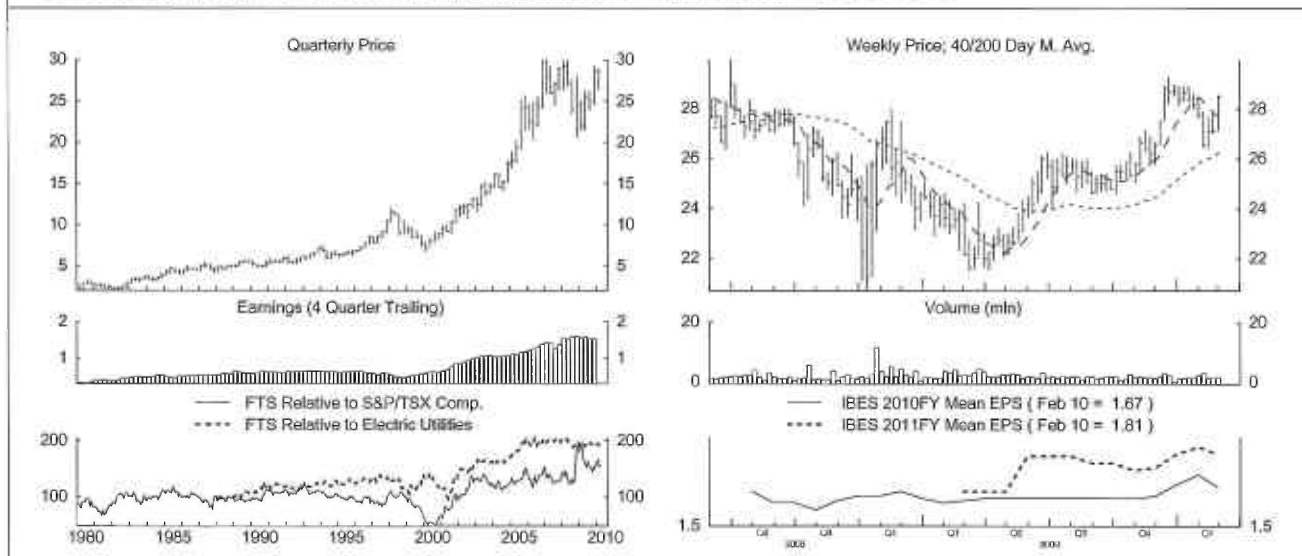
March 4, 2010
Research Fact Sheet
Gas & Electric Utilities

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(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Price (4-Mar)	\$28.50	52-Week High	\$29.24	
Target Price	\$32.00	52-Week Low	\$21.52	
Dividend	\$1.12	Book Value	\$18.41	
Yield	3.9%	Price/Book	1.5x	
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)	\$4,864	
Float O/S (mm)	169.0	Float Cap (\$mm)	\$4,815	
Wkly Vol (000s)	2,242	Wkly \$ Vol (mm)	\$56.2	
Net Debt (\$mm)	\$6,235	Next Rep. Date	29-Apr (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58	\$0.33	\$0.23	\$0.54

(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			17.3x	16.1x
CFPS	\$4.21	\$3.75	\$4.29	\$4.52
P/CFPS			6.6x	6.3x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,534	\$10,900	\$11,975	\$11,793
EBITDA (\$mm)	\$1,034.0	\$1,065.0	\$1,163.8	\$1,226.7
EV/EBITDA	10.2x	10.2x	10.3x	9.6x
ROE (%)	8.3%	8.3%	8.8%	9.2%
Book Value (\$)	\$18.00	\$18.41	\$18.99	\$19.66
D/Tot. Cap. (%)	67.6%	68.1%	68.5%	67.1%
Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC



Company Description – Fortis is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities (59.5%, Grand Cayman

Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta), FortisBC (100%, British Columbia) and the Terasen Gas Companies (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis Inc. reported Q4/09 GAAP EPS of \$0.48 (basic). After adjusting for a \$3 million tax recovery at FortisOntario and \$5 million in non-recurring expenses associated with converting portions of the distribution

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system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable Q4/09 EPS were \$0.49 (basic). This is slightly lower than our Q4/09 EPS estimate of \$0.53 (basic) and the First Call Mean estimate of \$0.52 (range \$0.46–0.55). The difference between actual and expected results appears to be due to: (1) slightly lower-than-expected earnings at the Caribbean Utilities Companies (\$0.01/share); (2) lower-than-expected earnings at Fortis Generation (\$0.02/share); and (3) corporate costs that were \$0.01/share higher than expected.

Corporate Developments – On January 11, 2010, Fortis announced a 7.7% increase to its annual dividends. Fortis also announced the issuance of \$250 million of Series H preferred shares. Proceeds will be used to repay borrowings under Fortis' credit facility and to inject additional equity into a regulated subsidiary.

On December 16, 2009, the British Columbia Utilities Commission (BCUC) released a decision regarding the return on equity and capital structure for the Terasen

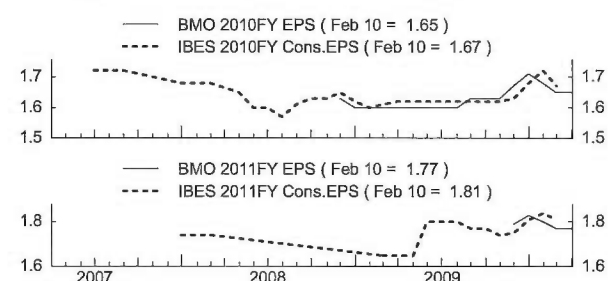
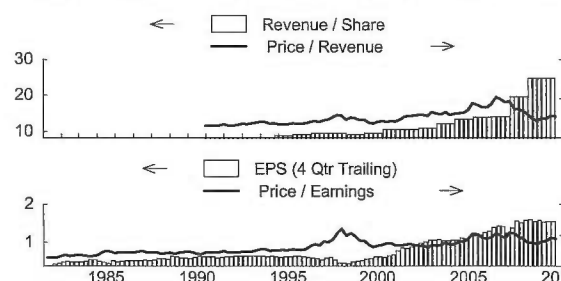
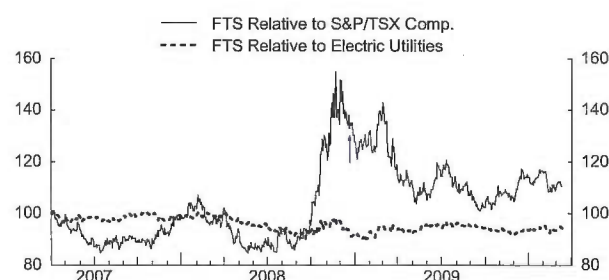
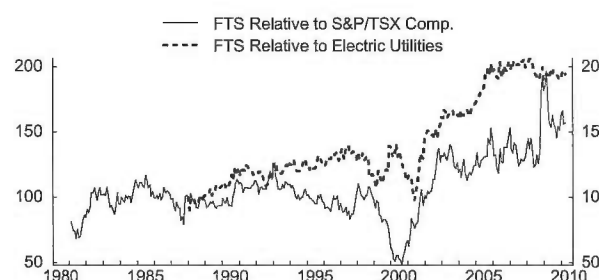
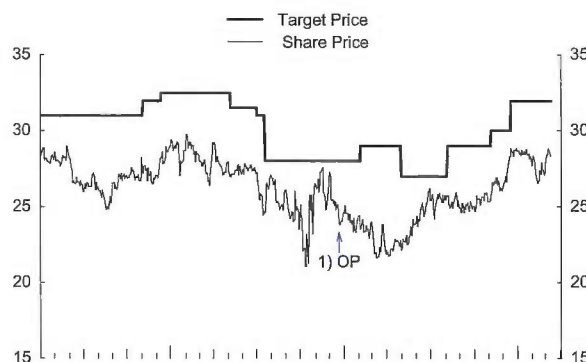
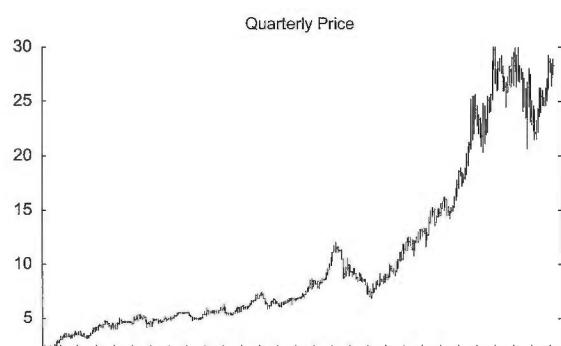
Companies (100% Fortis). Pursuant to the BCUC's decision, Terasen Gas Inc.'s allowed ROE has been increased to 9.5% from 8.47% and the deemed equity component of its capital structure has been increased to 40% from 35%.

Forecasts – Our diluted EPS estimates are \$1.65 in 2010 and \$1.77 in 2011.

Valuation – Our target price of \$32 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.66 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

Recommendation – We believe that Fortis shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Large Cap stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	20.05	1.4	8
Current*	1.54	18	1.12	4.1	73	18.41	1.5	8
Average:		14		4.8	64		1.4	10.6
Growth(%):								
5 Year:	7.8		14.5			12.0		
10 Year:	10.6		9.5			10.8		
20 Year:	4.9		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2009.

FTS - Rating as of 2-Apr-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: March 11, 2010

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Distribution of Ratings (Dec. 31, 2009)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	First Call Universe
Buy	Outperform	32.2%	12.3%	38.3%	36.1%	47.9%	50%
Hold	Market Perform	62.6%	10.2%	61.7%	56.9%	48.9%	43%
Sell	Underperform	5.3%	0%	0%	6.9%	3.2%	7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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A member of BMO  Financial Group

Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$27.47
Target Price: \$32.00

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

April 30, 2010
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Q1/10 Results in Line

Impact

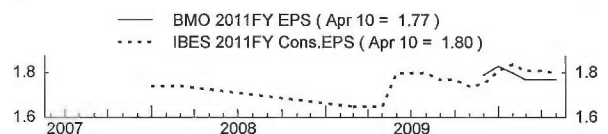
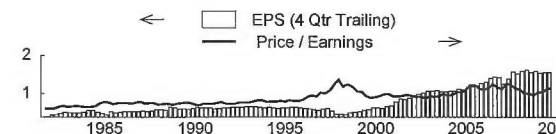
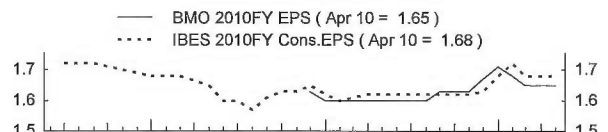
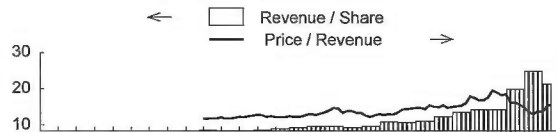
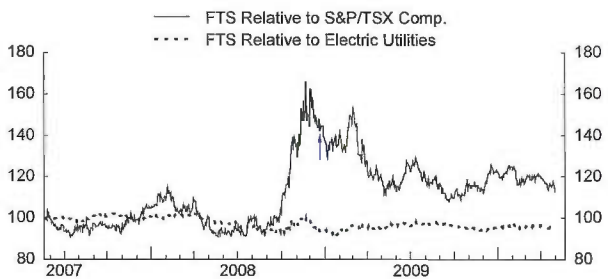
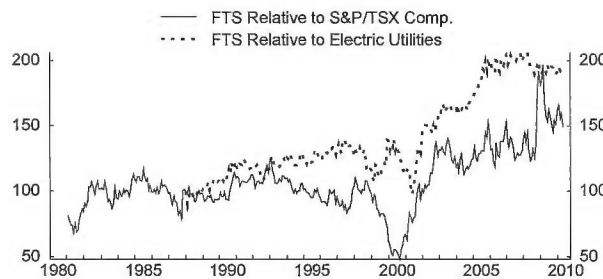
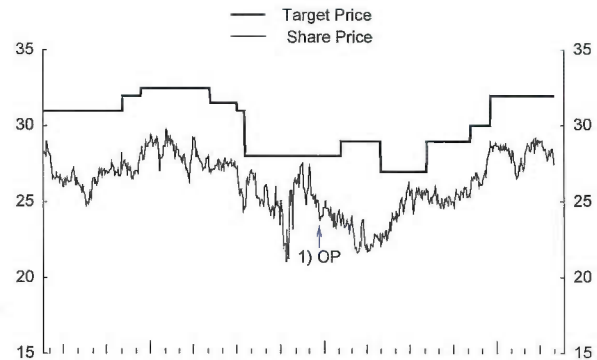
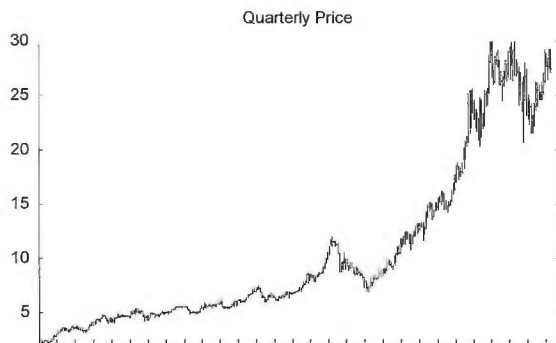
Neutral

Details & Analysis

Fortis reported Q1/10 EPS of \$0.58, in line with our estimate of \$0.58 and the First Call Mean estimate of \$0.58 (range \$0.57-0.60). Many of the positive decisions received during 2009's regulated cost of capital proceeding are now showing up in Fortis's 2010 results. Earnings at Terasen Gas were particularly strong, and were able to offset slightly weaker-than-expected results at the non-regulated generation segment and Fortis Caribbean. There are no changes to the company's capital expenditure program. Fortis expects to invest \$1.1 billion of capital in 2010 and approximately \$5 billion during 2010–2014.

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1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
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2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.54	19	1.12	3.9	73	18.41	1.6	8
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.7		14.5			12.0		
10 Year:	10.4		9.5			10.8		
20 Year:	5.1		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2009.

FTS - Rating as of 21-May-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: April 29, 2010

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Distribution of Ratings (Mar. 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	32.9%	13.1%	36.4%	39.4%	47.9%	53%
Hold	Market Perform	63.2%	11.9%	63.6%	55.3%	48.5%	41%
Sell	Underperform	3.9%	0%	0%	5.2%	3.6%	6%

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

May 3, 2010
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 BMO Nesbitt Burns Inc.
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 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA

Q1/10 Results in Line; Positive Regulatory Decisions Now Reflected in Results

Event

Fortis reported Q1/10 EPS of \$0.58, in line with our estimate of \$0.58 and the First Call Mean estimate of \$0.58 (range \$0.57–0.60). Many of the positive decisions received during 2009's regulated cost of capital proceedings are now showing up in Fortis's 2010 results. Earnings at Terasen Gas were particularly strong and were able to offset slightly weaker-than-expected results at the non-regulated generation segment and Fortis Caribbean.

Impact

Neutral.

Forecasts

There are no changes to our estimates.

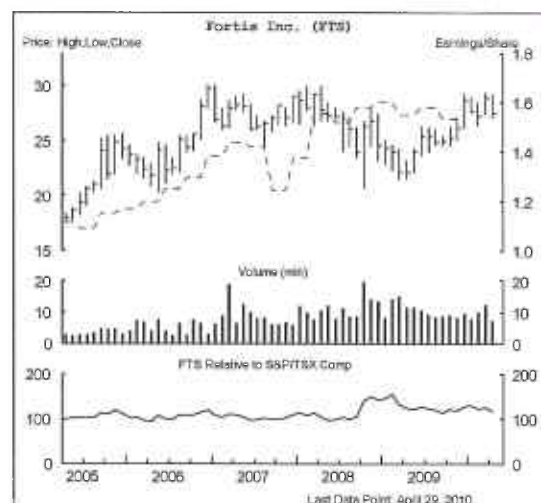
Valuation

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.66 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

Recommendation

We believe that Fortis's shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (30-Apr) \$28.05 52-Week High \$29.32
 Target Price \$32.00 52-Week Low \$22.15



(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			17.0x	15.8x
CFPS	\$4.21	\$3.75	\$4.29	\$4.52
P/CFPS			6.5x	6.2x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,533	\$10,908	\$11,545	\$11,905
EBITDA (\$mm)	\$1,061.0	\$1,063.0	\$1,268.1	\$1,342.8
EV/EBITDA	9.9x	10.3x	9.1x	8.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58a	\$0.33	\$0.23	\$0.54
Dividend	\$1.12	Yield		4.0%
Book Value	\$18.66	Price/Book		1.5x
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)		\$4,787
Float O/S (mm)	169.0	Float Cap (\$mm)		\$4,739
Wkly Vol (000s)	2,133	Wkly \$ Vol (mm)		\$55.9
Net Debt (\$mm)	\$6,235.0	Next Rep. Date		04-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.68; 2011E: \$1.81

Q1/10 Earnings in Line; Positive Regulatory Decisions Now Reflected in Results

Fortis reported Q1/10 EPS of \$0.58, in line with our estimate of \$0.58 and the First Call Mean estimate of \$0.58 (range \$0.57–0.60). Many of the positive decisions received during 2009's regulated cost of capital proceedings are now showing up in Fortis's 2010 results. Earnings at Terasen Gas were particularly strong, and were able to offset slightly weaker-than-expected results at the non-regulated generation segment and Fortis Caribbean.

Fortis has historically grown through acquisition and its last major transaction was the acquisition of the Terasen Gas utilities, which was completed in May 2007. Now that financial markets have stabilized, we would expect Fortis to continue to review potential acquisition candidates, with the most likely targets being regulated utility companies operating in the U.S. Media reports on Tuesday, April 27 speculated that Fortis was one of the bidders for E.ON's U.S.-based utility assets, which include Louisville Gas & Electric Co and Kentucky Utilities Co. U.S.-based PPL Corp. was ultimately successful in the auction and acquired the businesses for U.S. \$6.7 billion.

Although Fortis does not comment on unannounced corporate development activities, we did discuss the company's acquisition parameters with management. Given the company's current profile, Fortis believes that it could complete an acquisition with an enterprise value of approximately \$4 billion on a stand-alone basis. Any potential acquisition larger in scope would likely require the support of a financial partner. Fortis's preference remains to acquire regulated transmission businesses; however, the company will consider acquiring vertically-integrated utilities as long as the utilities are located in jurisdictions with supportive regulatory environments.

There were no changes to the company's expenditure program. Fortis expects to invest \$1.1 billion of capital in 2010 and approximately \$5 billion during 2010–2014. Unless Fortis completes an acquisition during 2010, we expect relatively stable performance from the company this year. Investors should expect moderate EPS and dividend growth commensurate with rate base additions.

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.66 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

We believe that Fortis's shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Q1/10 Results

As set out in Table 1, Q1/10 GAAP net income of \$100 million was \$10 million greater than comparable income of \$90 million reported in Q1/09. In order to present Q1/09 results on a comparable basis, Q1/09 GAAP income was adjusted for non-recurring items of: (1) \$1 million at Fortis Turks and Caicos related to a favourable court of appeal ruling regarding rates charged to certain industrial customers; and (2) \$1 million related to a change in the method of accruing unbilled fuel factor revenue at Fortis Turks and Caicos.

A discussion of the operating performance of each segment follows:

Table 1: Historical Q1 Income by Business Segment

	Q1/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q1/10 Adjusted Earnings (\$mm)	Q1/09 GAAP	Adj. (\$mm)	Q1/09 Adjusted Earnings (\$mm)	Variance Q1/10 Adj. vs. Q1/09 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	73.0	-	73.0	58.0	-	58.0	15.0	25.9%
Regulated Electric Utilities - Canadian								
FortisAlberta	14.0	-	14.0	12.0	-	12.0	2.0	16.7%
FortisBC	14.0	-	14.0	14.0	-	14.0	0.0	0.0%
Newfoundland Power	7.0	-	7.0	6.0	-	6.0	1.0	16.7%
Other Canadian	5.0	-	5.0	5.0	-	5.0	0.0	0.0%
	40.0	-	40.0	37.0	-	37.0	3.0	8.1%
Regulated Electric Utilities - Caribbean	4.0	-	4.0	6.0	(2)	4.0	0.0	0.0%
Non-Regulated - Fortis Generation	2.0	-	2.0	6.0	-	6.0	(4.0)	-66.7%
Non-Regulated - Fortis Properties	2.0	-	2.0	2.0	-	2.0	0.0	0.0%
Corporate and Other	(21.0)	-	(21.0)	(17.0)	-	(17.0)	(4.0)	23.5%
Net Earnings Applicable to Common Shares	100.0	0.0	100.0	92.0	(2.0)	90.0	(10.0)	11.1%

Source: BMO Capital Markets, Company Reports

Regulated Gas Utilities – Terasen Gas Companies

Q1/10 net income of \$73 million from Terasen Gas exceeded our estimate of \$64.8 million and Q1/09 net income of \$58 million. The improvement in earnings during Q1/10 was mainly due to an increase in regulated ROE and an increase in the deemed equity thickness at Terasen Gas Inc (TGI) to 40.0% from 35%. Effective July 1, 2009, the allowed ROE increased to 9.5% from 8.47% for TGI and to 10.0% from 9.17% for Terasen Gas (Vancouver Island) Inc. and Terasen Gas Whistler Inc.

Regulated Electric Utilities – FortisAlberta

Q1/10 net income of \$14 million was slightly lower than our estimate of \$14.9 million and greater than Q1/09 net income of \$12 million. The increase in earnings in Q1/10 vs. Q1/09 was primarily due to an increase in customer distribution rates as a result of the Alberta Utilities Commission Generic Cost of Capital Hearing, which increased FortisAlberta's allowed ROE to 9% from 8.51% and increased the company's deemed equity thickness to 41% from 37%. In addition, final approval of FortisAlberta's 2010–2011 Revenue Requirements Application is expected to occur in the second quarter of 2010.

Regulated Electric Utilities – FortisBC

Q1/10 net income of \$14 million was consistent with our estimate of \$14.3 million and Q1/09 net income of \$14 million.

Regulated Electric Utilities – Newfoundland Power

Q1/10 net income of \$7 million was slightly greater than Q1/09 net income of \$6 million and our estimate of \$6.4 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$4 million in Q1/10 vs. our estimate of \$5.3 million and Q1/09 adjusted earnings of \$4 million. Unfavourable foreign currency translation during the quarter was partially offset by increased electricity sales (due to higher-than-normal temperatures) at Caribbean Utilities.

Unregulated – Fortis Generation

Fortis Generation reported Q1/10 net income of \$2 million, which was lower than our estimate of \$5.1 million and Q1/09 net income of \$6 million. The variance between Q1/10 and Q1/09 results was largely due to the expiration of the power-for-water exchange agreement at the Rankine hydroelectric generating facility on April 30, 2009 and lower power production at the Belize facilities.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$2 million, which was generally consistent with our estimate of \$2.4 million and Q1/09 net income of \$2 million. Occupancy decreased slightly to 95.8% at the end of the quarter vs. 96.0% at the end of Q1/09. Revenue per available room fell to \$62.93 during Q1/10 vs. \$64.40 during Q1/09.

Other Items

- In March, the 19-MW hydroelectric generating facility at Vaca in Belize was commissioned resulting in the delivery of 4 GWh of energy during the quarter.
- The Alberta Utilities Commission is considering a proposal for regulatory reform, which would provide a transition from traditional “return on rate base” regulation to a form of performance based regulation (PBR). Under PBR, prevailing rates are generally adjusted annually by a predetermined formula that usually takes into account inflation and productivity improvements. Incremental earnings arising from productivity improvements are often shared with customers. Under the current proposal, PBR would apply to regulated natural gas and electricity business, while electricity and natural gas transmission would be excluded from PBR. The AUC has advised that the target date for the implementation of PBR is July 1, 2012, based on applications filed by the end of Q1/2011. This proposal could potentially affect FortisAlberta.

Estimates

There are no changes to our estimates.

Table 2: Consolidated Summary

30-Apr-10

Current Price:

\$28.05

12-Month Target Price:

\$32.00

ROR:

18.1%

Michael McGowan

BMO Capital Markets

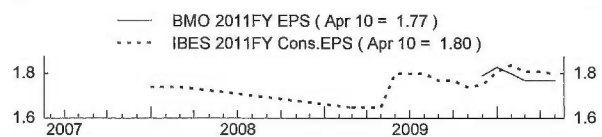
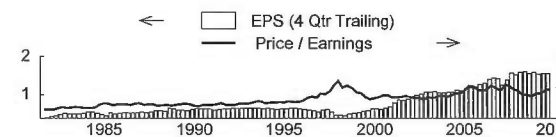
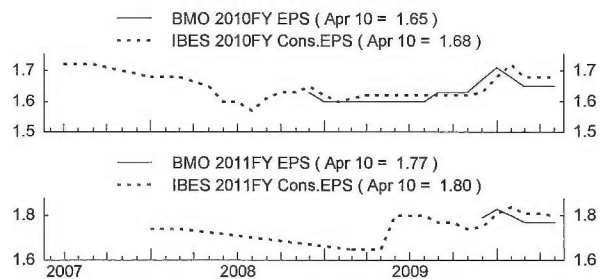
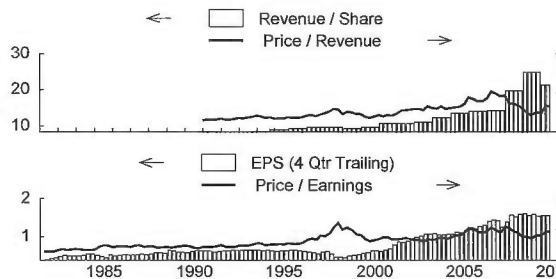
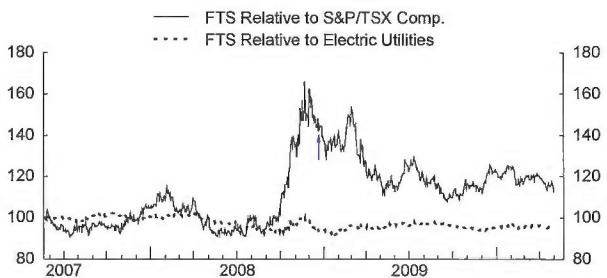
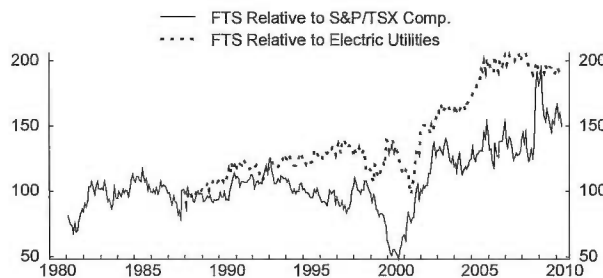
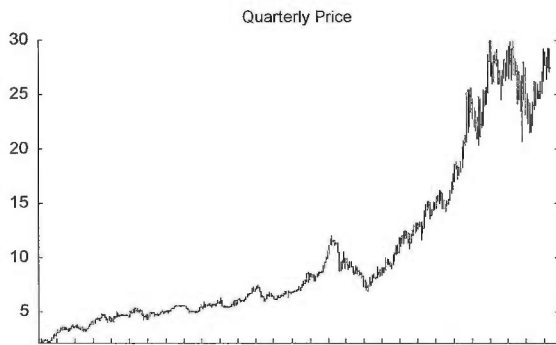
Recommendation:

Outperform

	Year Ending December 31									
	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E
Total Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.50	\$1.54	\$1.57	\$1.81
Total Diluted Earnings Per Share	\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.66	\$1.77
Segmented EPS										
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20
Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.14	\$0.15
Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.09	\$0.11
Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.17	\$0.17
FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.40	\$0.43
FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.27
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76	\$0.81
Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.44)	(\$0.45)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16
Payout Ratio	49.9%	48.9%	51.4%	52.2%	48.4%	60.2%	64.2%	67.8%	67.1%	64.3%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	127.6	157.4	170.2	171.4	171.8
Net Book Value	\$6.00	\$6.64	\$10.47	\$11.76	\$12.25	\$15.72	\$18.00	\$18.64	\$19.21	\$19.68
Market Valuation										
Price: High	\$13.28	\$15.24	\$17.75	\$25.54	\$30.00	\$30.00	\$29.94	\$28.85	-	-
Price: Low	\$10.75	\$11.03	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	-	-
Price: Current	-	-	-	-	-	-	-	-	\$28.05	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	16.0	12.9	14.0	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	-	18.8	15.5
Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	-	-
Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	-	1.5	1.4
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.0%	3.3%	3.3%	3.0%	4.8%	-	-
Yield: Current	-	-	-	-	-	-	-	-	4.0%	4.1%
Balance Sheet (\$mm)										
Debt (S-T)	181.6	142.6	229.1	80.3	162.5	911.0	650.0	639.0	494.5	609.6
Debt (L-T)	926.5	1,008.9	1,881.6	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,200.3	5,435.4
Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	123.0	123.0
Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	657.0	657.0	917.0	917.0
Convertible Debentures	14.4	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0
Shareholders' Equity	584.5	614.7	1,000.1	1,213.4	1,775.7	2,600.7	3,045.7	3,192.7	3,297.0	3,417.9
	1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	6,691.7	9,391.7	9,902.7	10,075.8	10,545.9
Balance Sheet (%)										
Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.9%	5.8%
Debt (L-T)	53.0%	51.6%	53.9%	55.0%	54.4%	62.7%	51.5%	52.0%	51.6%	51.5%
Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.3%	1.2%	1.2%	1.2%
Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	9.1%	8.7%
Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%
Shareholders' Equity	33.2%	31.5%	28.6%	31.9%	27.8%	29.9%	32.4%	32.2%	32.7%	32.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement										
Net Profit to Common	63.3	73.0	89.1	119.2	143.2	187.4	252.5	262.0	266.3	310.1
Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	373.0	663.0	637.0	740.5	786.2

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.9	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.54	19	1.12	3.9	73	18.41	1.6	8
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.7		14.5			12.0		
10 Year:	10.4		9.5			10.8		
20 Year:	5.1		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2009.

FTS - Rating as of 21-May-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: April 29, 2010

IMPORTANT DISCLOSURES

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

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Methodology and Risks to Price Target/Valuation

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Distribution of Ratings (Mar. 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	32.9%	13.1%	36.4%	39.4%	47.9%	53%
Hold	Market Perform	63.2%	11.9%	63.6%	55.3%	48.5%	41%
Sell	Underperform	3.9%	0%	0%	5.2%	3.6%	6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

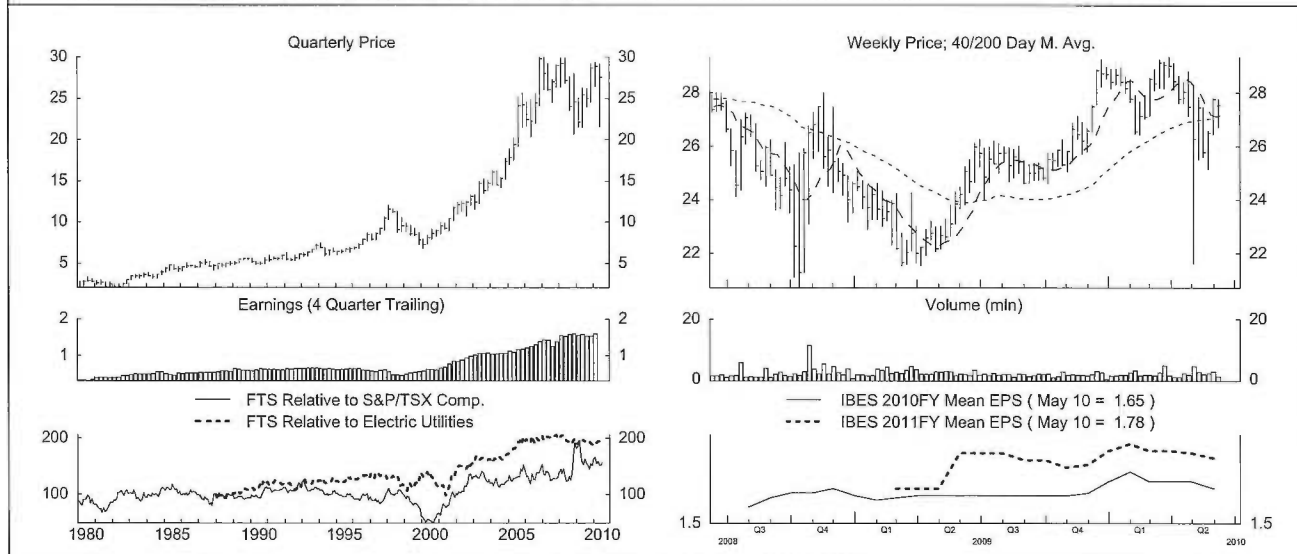
June 10, 2010
Research Fact Sheet
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Price (10-Jun)	\$27.53	52-Week High	\$29.32	
Target Price	\$32.00	52-Week Low	\$21.60	
Dividend	\$1.12	Book Value	\$18.66	
Yield	4.1%	Price/Book	1.5x	
Shares O/S (mm)	170.7	Mkt. Cap (\$mm)	\$4,698	
Float O/S (mm)	169.0	Float Cap (\$mm)	\$4,651	
Wkly Vol (000s)	2,156	Wkly \$ Vol (mm)	\$57.7	
Net Debt (\$mm)	\$6,235	Next Rep. Date	04-Aug (E)	
Quarterly EPS				
	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58 a	\$0.33	\$0.23	\$0.54

(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			16.7x	15.6x
CFPS	\$4.21	\$3.74	\$4.29	\$4.52
P/CFPS			6.4x	6.1x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,533	\$10,908	\$11,498	\$11,857
EBITDA (\$mm)	\$1,061.0	\$1,063.0	\$1,266.9	\$1,348.1
EV/EBITDA	9.9x	10.3x	9.1x	8.8x
ROE (%)	8.3%	8.2%	8.7%	9.1%
Book Value (\$)	\$18.00	\$18.64	\$19.21	\$19.88
D/Tot. Cap. (%)	67.6%	67.8%	67.3%	67.6%
Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 4, 5, 6AC



Company Description – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%, Newfoundland), Maritime Electric (100%, PEI), Fortis Ontario (100%, Ontario), Belize Electricity (70.1%, Belize), Caribbean Utilities

(59.5%, Grand Cayman Island), Turks and Caicos (100%, Turks and Caicos), FortisAlberta (100%, Alberta), FortisBC (100%, British Columbia) and the Terasen Gas Companies (100%, British Columbia). *Website: fortisinc.com*

Recent Results – Fortis reported Q1/10 EPS of \$0.58, in line with our estimate of \$0.58 and the First Call Mean estimate of \$0.58 (range \$0.57–0.60). Many of the positive decisions received during 2009’s regulated cost of capital

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proceedings are now showing up in Fortis' 2010 results. Earnings at Terasen Gas were particularly strong and were able to offset slightly weaker-than-expected results at the non-regulated generation segment and FortisCaribbean.

Corporate Developments – There have been no changes to the company's capital expenditure program. Fortis expects to invest \$1.1 billion of capital in 2010 and approximately \$5 billion during 2010–2014.

On December 16, 2009, the British Columbia Utilities Commission (BCUC) released a decision regarding the return on equity and capital structure for the Terasen Companies (100% Fortis). Pursuant to the BCUC's decision, Terasen Gas Inc.'s allowed ROE has been increased to 9.5% from 8.47% and the deemed equity

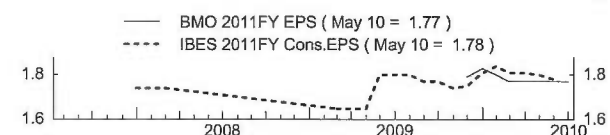
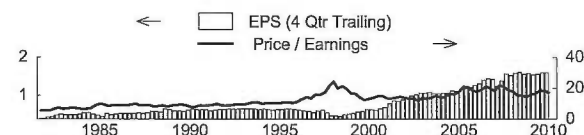
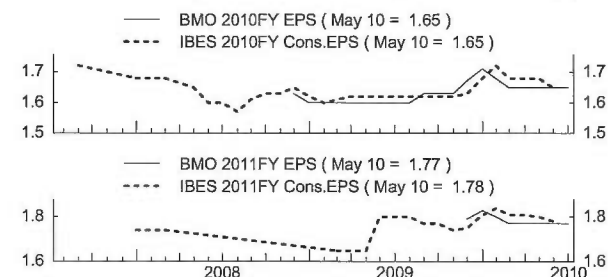
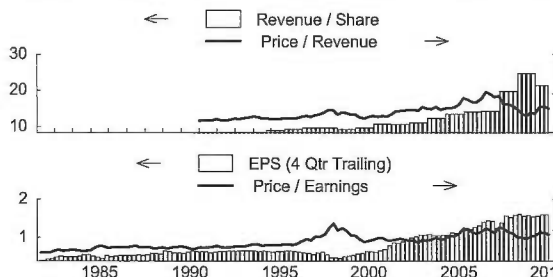
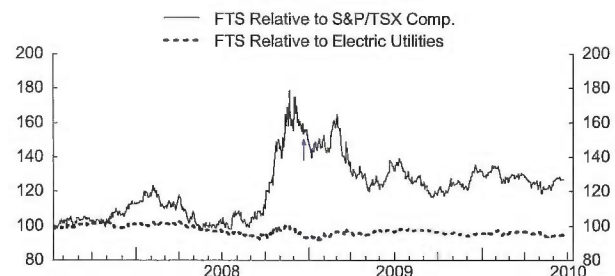
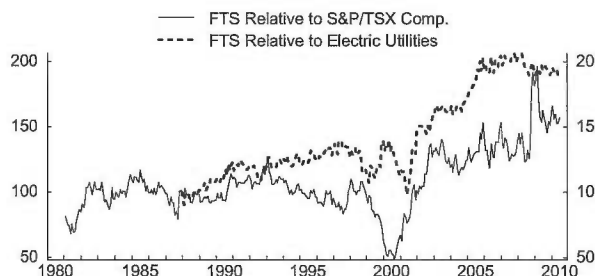
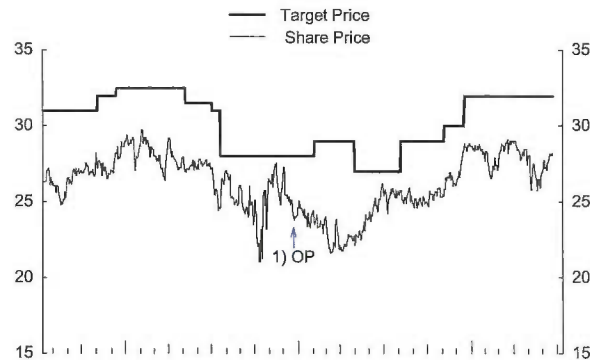
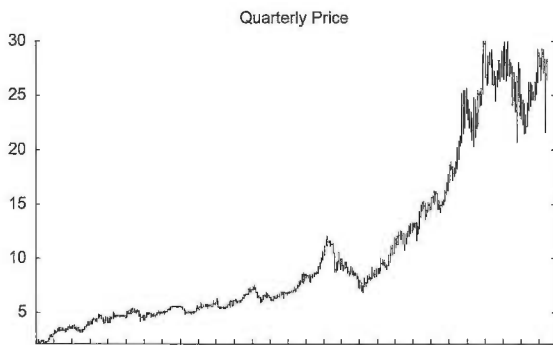
component of its capital structure has been increased to 40% from 35%.

Forecasts – Our diluted EPS estimates are \$1.65 in 2010 and \$1.77 in 2011.

Valuation – Our target price of \$32 is based on a weighted valuation approach: 15x diluted 2011E EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.88 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

Recommendation – We believe that Fortis shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Large Cap stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.59	17	1.12	4.2	70	18.66	1.4	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	7.4		14.5			12.3		
10 Year:	10.7		9.3			11.0		
20 Year:	5.2		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q1/2010.

FTS - Rating as of 11-Jul-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: June 21, 2010

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$29.41
Target Price: \$32.00

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

August 4, 2010
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA

Q2/10 Results in Line

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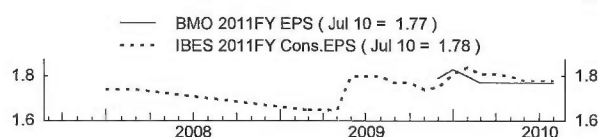
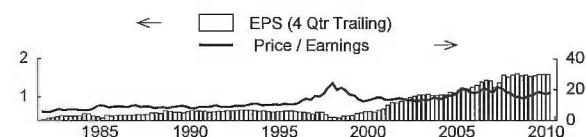
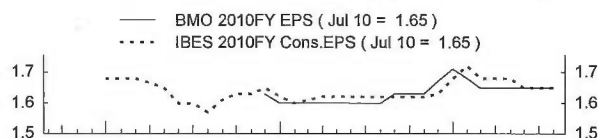
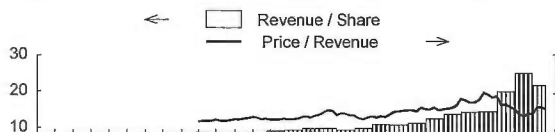
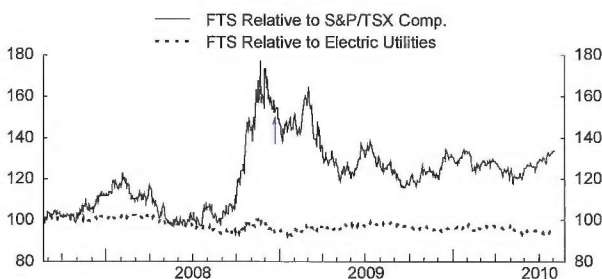
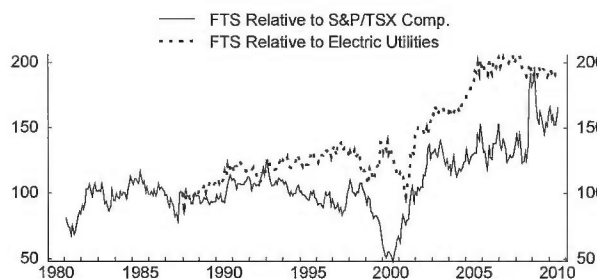
Neutral

Details & Analysis

Fortis Inc. reported Q2/10 EPS of \$0.32, which was in line with our estimate of \$0.33 and the First Call Mean estimate of \$0.32 (range \$0.30-0.33). Results from Fortis's individual business segments were generally consistent with our estimates, but corporate costs were slightly higher than anticipated. There were no material changes to Fortis's capital expenditure program. The company expects to invest \$1.1 billion of capital in 2010 (year-to-date spending was \$432 million) and approximately \$5 billion during 2010-2014. Overall, this appeared to be a strong quarter with no surprises. We continue to believe that Fortis's shares are attractively valued considering the company's relatively low-risk business model.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.58	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.35	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.55	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	55	7.49	1.6	12
2002	0.95	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.59	18	1.12	3.8	70	18.66	1.6	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	7.8		14.5			12.3		
10 Year:	10.0		9.3			11.0		
20 Year:	5.0		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q1/2010.

FTS - Rating as of 23-Aug-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: August 3, 2010

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2011E EPS (12.5%); 1.75x 2011E BVPS (12.5%) and a target yield of 3.50% based on 2011E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (June 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starline Universe
Buy	Outperform	37.1%	13.7%	43.6%	40.9%	51.0%	54.4%
Hold	Market Perform	59.3%	10.4%	52.7%	54.8%	45.4%	40.2%
Sell	Underperform	3.6%	11.8%	3.6%	4.3%	3.6%	5.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

Q2/10 Results in Line; Outperform Rating Maintained

Event

Fortis Inc. reported Q2/10 EPS of \$0.32, which was in line with our estimate of \$0.33 and the First Call Mean estimate of \$0.32 (range \$0.30–0.33). Results from Fortis's individual business segments were generally consistent with our estimates, but corporate costs were slightly higher than anticipated.

Impact

Neutral.

Forecasts

We have updated our forecasts to reflect Q2/10 results. There are no changes to our EPS estimates.

Valuation

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.74 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

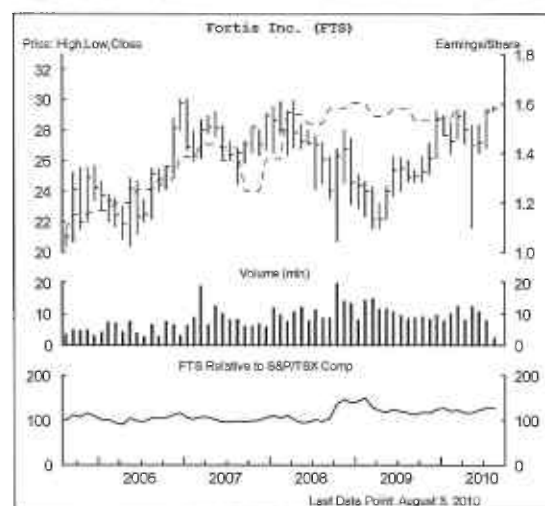
Recommendation

We believe that Fortis's shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

August 4, 2010
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 BMO Nesbitt Burns Inc.
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc. Mark Laing, CA

Price (3-Aug) \$29.41 **52-Week High** \$29.51
Target Price \$32.00 **52-Week Low** \$21.60



(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			17.8x	16.6x
CFPS	\$4.21	\$3.74	\$4.29	\$4.52
P/CFPS			6.9x	6.5x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,533	\$10,908	\$11,725	\$12,102
EBITDA (\$mm)	\$1,061.0	\$1,063.0	\$1,268.4	\$1,349.5
EV/EBITDA	9.9x	10.3x	9.2x	9.0x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58a	\$0.32a	\$0.23	\$0.54
Dividend	\$1.12	Yield		3.8%
Book Value	\$18.79	Price/Book		1.6x
Shares O/S (mm)	172.9	Mkt. Cap (\$mm)		\$5,085
Float O/S (mm)	171.2	Float Cap (\$mm)		\$5,035
Wkly Vol (000s)	2,110	Wkly \$ Vol (mm)		\$57.3
Net Debt (\$mm)	\$6,062.0	Next Rep. Date		05-Nov (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.66; 2011E: \$1.78

Q2/10 Earnings in Line; Expect Rate Base Growth to Drive Earnings and Dividend Growth

Fortis Inc. reported Q2/10 EPS of \$0.32, which was in line with our estimate of \$0.33 and the First Call Mean estimate of \$0.32 (range \$0.30–0.33). Results from Fortis's individual business segments were generally consistent with our estimates, but corporate costs were slightly higher than anticipated.

Fortis has historically grown through acquisition and its last major transaction was the acquisition of the Terasen Gas utilities, which was completed in May 2007. Now that financial markets have stabilized, we would expect Fortis to continue to review potential acquisition candidates, with the most likely targets being regulated utility companies operating in the U.S. We note, however, that Fortis does have some medium-term brownfield development opportunities that have not been included in the company's capital expenditure budget. These opportunities include a possible involvement with a proposed expansion of the Waneta hydro facility owned by Teck Cominco and BC Hydro and a possible expansion of the Southern Crossing pipeline owned by Terasen Gas.

There were no changes to the company's expenditure program. Fortis expects to invest \$1.1 billion of capital in 2010 and approximately \$5 billion during 2010–2014. Absent an acquisition during 2010, we expect relatively stable performance from the company this year. Investors should expect moderate EPS and dividend growth commensurate with rate base additions.

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.74 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

We believe that Fortis's shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Q2 Results

Fortis reported Q2/10 GAAP net income of \$55 million, which was consistent with our estimate of \$55.8 million, and \$2 million greater than comparable income of \$53 million reported in Q2/09. A comparison of Q2/10 and Q2/09 results by business segment is set out in Table 1.

Table 1: Historical Q2 Income by Business Segment

	Q2/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/10 Adjusted Earnings (\$mm)	Q2/09 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/09 Adjusted Earnings (\$mm)	Variance Q2/10 Adj. vs. Q2/09 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	17.0	-	17.0	14.0	-	14.0	3.0	21.4%
Regulated Electric Utilities - Canadian								
FortisAlberta	17.0	-	17.0	17.0	-	17.0	0.0	0.0%
FortisBC	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Newfoundland Power	11.0	-	11.0	11.0	-	11.0	0.0	0.0%
Other Canadian	4.0	-	4.0	4.0	-	4.0	0.0	0.0%
	40.0	-	40.0	39.0	-	39.0	1.0	2.6%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Non-Regulated - Fortis Generation	3.0	-	3.0	3.0	-	3.0	0.0	0.0%
Non-Regulated - Fortis Properties	8.0	-	8.0	8.0	-	8.0	0.0	0.0%
Corporate and Other	(20.0)	-	(20.0)	(18.0)	-	(18.0)	(2.0)	11.1%
Net Earnings Applicable to Common Shares	55.0	0.0	55.0	53.0	0.0	53.0	(2.0)	3.8%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows below.

Regulated Gas Utilities – Terasen Gas Companies

Q2/10 net income of \$17 million from Terasen Gas exceeded our estimate of \$13 million and Q2/09 net income of \$14 million. The improvement in earnings during Q2/10 vs. Q2/09 was primarily due to an increase in regulated ROE and an increase in the deemed equity thickness at Terasen Gas Inc. (TGI) to 40.0% from 35.0%. Effective July 1, 2009, the allowed ROE increased to 9.5% from 8.47% for TGI and to 10.0% from 9.17% for Terasen Gas (Vancouver Island) Inc. and Terasen Gas Whistler Inc. We also believe that Q2/10 earnings exhibited some seasonality, as cooler-than-normal weather increased gas consumption during the quarter.

Regulated Electric Utilities – FortisAlberta

Q2/10 net income of \$17 million was consistent with Q2/09 net income of \$17 million and \$0.9 million lower than our estimate of \$17.9 million.

Earnings in Q2/09 benefitted from a \$3 million income tax recovery. We understand that approximately \$2 million of the recovery relates to a reversal of income tax provisions expensed during prior quarters, while the remaining \$1 million resulted from a future income tax benefit that was triggered by the collection of amounts held in a deferral account related to 2007 transmission tariffs paid to the Alberta Electric System Operator.

Although Q2/10 results at FortisAlberta did not benefit from a tax recovery, earnings were assisted from an increase in customer distribution rates arising from the 2009 Alberta Utilities Commission (AUC) Generic Cost of Capital Hearing, which increased FortisAlberta's allowed ROE to 9% from 8.51% and increased the company's deemed equity thickness to 41% from 37%. Excluding the tax benefit recorded last year, earnings at FortisAlberta would have increased by \$3 million in Q2/10 vs. Q2/09.

Regulated Electric Utilities – FortisBC

Q2/10 net income of \$8 million was slightly greater than Q2/09 net income of \$7 million and consistent with our estimate of \$8.3 million.

Regulated Electric Utilities – Newfoundland Power

Q2/10 net income of \$11 million was consistent with our estimate of \$11.2 million and Q2/09 net income of \$11 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q2/10 vs. our estimate of \$7.7 million and Q2/09 net income of \$7 million. Unfavourable foreign currency translation during the quarter was partially offset by increased electricity sales (due to higher-than-normal temperatures) at Caribbean Utilities.

Unregulated – Fortis Generation

Fortis Generation reported net income of \$3 million, consistent with Q2/09 net income of \$3 million but lower than our estimate of \$4.1 million. The difference between actual and expected results was due unfavourable foreign currency translation during the quarter which resulted in a decrease in revenue of approximately \$1 million.

Unregulated – Fortis Properties

Fortis properties reported net income of \$8 million, which was consistent with our estimate of \$7.7 million and Q2/09 net income of \$8 million. Occupancy decreased slightly to 94.8% at the end of the quarter vs. 95.9% at the end of Q2/09. Revenue per available room increased to \$83.77 during Q2/10 vs. \$83.15 during Q2/09.

Regulated Entities Appear to Receive a Temporary Reprieve from IFRS

On July 28, 2010, the Accounting Standards Board (AcSB) issued an exposure draft proposing that qualifying entities with rate-regulated operations may elect to defer the adoption of International Financial Reporting Standards (IFRS) until reporting periods beginning on or after January 1, 2013. We view this announcement positively considering that the International Accounting Standards Board has not finalized deliberations on the recognition, measurement and disclosure of regulatory assets and liabilities. As the IASB is unlikely to finalize these deliberations before the deadline requiring Canadian companies to adopt IFRS (January 1, 2011), the Canadian AcSB is of the view that it is prudent for rate-regulated entities to be given the opportunity to delay the adoption of IFRS until these deliberations are completed. Failing to grant this option could require entities to make multiple changes to the accounting treatment of regulatory assets and liabilities over a very short period of time (for example, the accounting treatment of regulatory assets and liabilities by Canadian companies could change upon the initial adoption of IFRS, and once again when the IASB completes its deliberations). This would create considerable uncertainty and likely reduce the comparability of financial statements between periods.

If the exposure draft is ratified, Fortis will elect to defer the adoption of IFRS until 2013.

Estimates

We have updated our forecasts to reflect Q2/10 results. There are no changes to our EPS estimates.

Table 2: Consolidated Summary

04-Aug-10

Current Price:

\$28.75

12-Month Target Price:

\$32.00

ROR:

15.2%

Michael McGowan

BMO Capital Markets

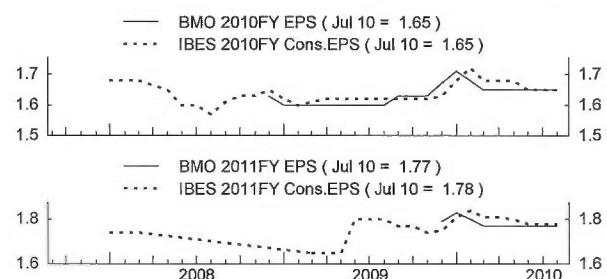
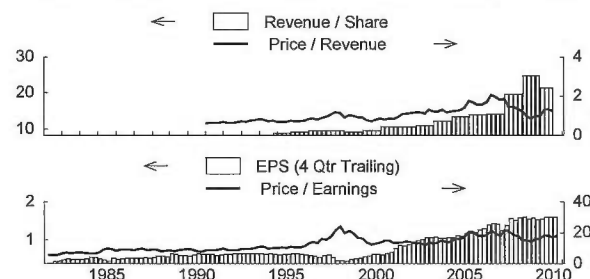
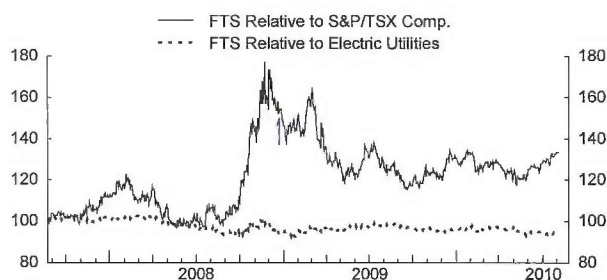
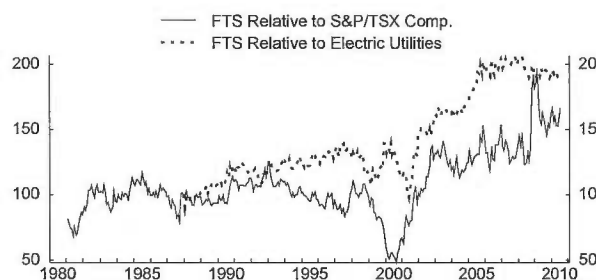
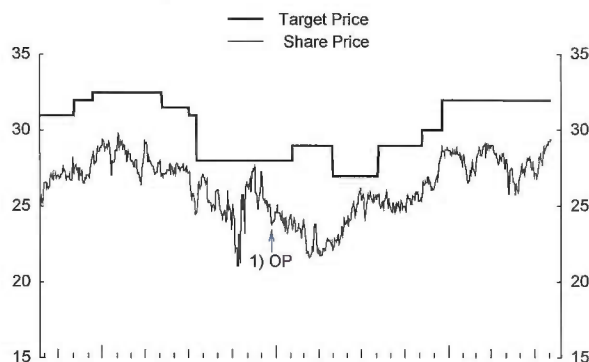
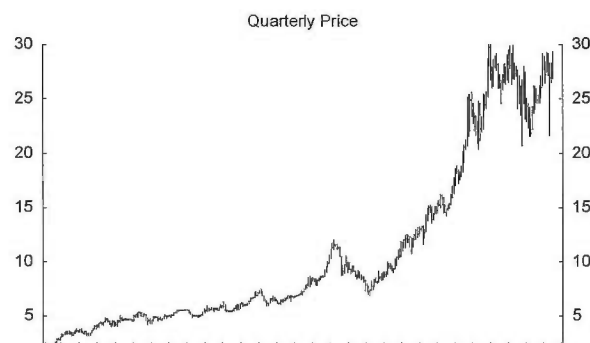
Recommendation:

Outperform

		2002	2003	2004	Year Ending December 31			2008	2009	2010E	2011E
					2005	2006	2007				
Total Earnings Per Share		\$0.97	\$1.08	\$1.05	\$1.17	\$1.38	\$1.38	\$1.60	\$1.54	\$1.67	\$1.81
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.65	\$1.77
Segmented EPS											
	Northland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.14	\$0.15
	Fortis Generation	\$0.07	\$0.18	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.09	\$0.11
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.17	\$0.17
	Fortis Alberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.40	\$0.43
	Fortis BC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.27
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76	\$0.81
	Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.43)	(\$0.44)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	67.0%	64.3%
Average Shares (mm)		65.1	66.2	64.7	101.8	103.6	137.6	157.4	170.2	172.1	173.0
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$19.08	\$19.74
Market Valuation											
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	-	-
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.02	-	-
	Price: Current	-	-	-	-	-	-	-	-	\$28.75	-
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	-	-
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	-	-
	P/E Ratio: Current	-	-	-	-	-	-	-	-	17.2	15.9
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	-	-
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-	-
	Price/Book Value: Current	-	-	-	-	-	-	-	-	1.5	1.5
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	-	-
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	-	-
	Yield: Current	-	-	-	-	-	-	-	-	3.9%	4.0%
Balance Sheet (\$mm)											
	Debt (\$-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	493.6	607.9
	Debt (\$-L-T)	926.5	1,006.9	1,581.6	2,133.8	2,464.5	4,578.0	4,840.0	5,237.0	5,200.3	5,435.4
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	123.0	123.0
	Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0
	Convertible Debentures	14.4	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0
	Shareholders' Equity	584.5	618.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,297.7	3,419.3
		1,746.9	1,950.4	3,492.7	3,608.8	4,588.1	8,691.7	9,391.7	9,602.7	10,075.6	10,546.7
Balance Sheet (%)											
	Debt (\$-T)	10.4%	7.3%	6.8%	2.1%	4.0%	10.5%	6.9%	6.5%	4.9%	5.8%
	Debt (\$-L-T)	53.0%	51.6%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	51.5%	51.5%
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.2%	1.2%
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	9.1%	8.7%
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%
	Shareholders' Equity	33.5%	31.5%	28.6%	31.9%	27.8%	29.9%	32.4%	32.2%	32.7%	32.4%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement											
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	287.7	312.4
	Cash Flow from Operations	134.4	160.7	263.7	320.0	279.5	373.0	663.0	637.0	742.1	788.5

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.59	18	1.12	3.8	70	18.66	1.6	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	7.8		14.5			12.3		
10 Year:	10.0		9.3			11.0		
20 Year:	5.0		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q1/2010.

FTS - Rating as of 23-Aug-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: August 3, 2010

IMPORTANT DISCLOSURES

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2011E EPS (12.5%); 1.75x 2011E BVPS (12.5%) and a target yield of 3.50% based on 2011E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (June 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.1%	13.7%	43.6%	40.9%	51.0%	54.4%
Hold	Market Perform	59.3%	10.4%	52.7%	54.8%	45.4%	40.2%
Sell	Underperform	3.6%	11.8%	3.6%	4.3%	3.6%	5.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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(S) = speculative investment;

NR = No rating at this time;

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

Investment in Waneta Dam Expansion Announced; Maintaining Outperform Rating

Event

Fortis has announced that it is part of a partnership that is proposing to construct a 335 MW expansion of the Waneta Dam, located near Trail, BC. The other two project proponents include the Columbia Power Corporation and the Columbia Basin Trust, both of which are owned by the Government of British Columbia. The capital cost of the project is estimated at \$900 million, and the facility is expected to be placed in service during the spring of 2015. Fortis owns a 51% interest in the partnership and will be responsible for operating and maintaining the facility once it is placed into service. Revenues from the facility are expected to be largely capacity-based, which should reduce hydrological risk associated with the facility. Additional details of the project are set out herein.

Impact

Positive. Fortis expects earnings from this project to slightly exceed returns from its regulated utilities. Given the relatively low-risk nature of this project (limited hydrological risk, government counterparties), we believe this is a positive investment for Fortis.

Forecasts

There are no changes to our estimates.

Valuation

Our target price of \$32 is based on a weighted valuation approach: 15x 2011E diluted EPS of \$1.77 (12.5%); 1.75x 2011E BVPS of \$19.74 (12.5%); and a target yield of 3.50%, assuming 2011E dividends per share of \$1.16 (75%).

Recommendation

We believe that Fortis's shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

August 26, 2010

Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA

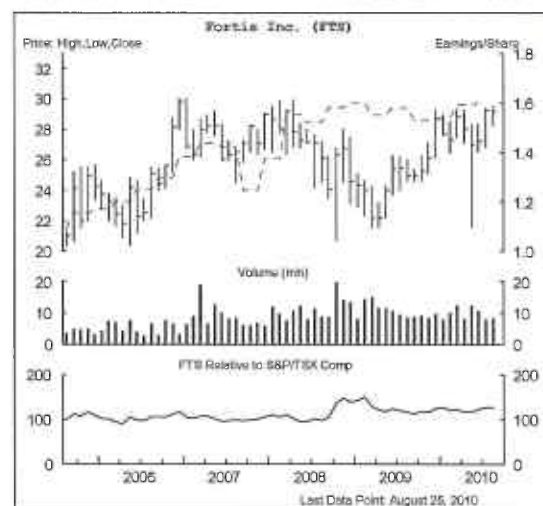
BMO Nesbitt Burns Inc.

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Michael.McGowan@bmo.com

Assoc: Mark Laing, CA

Price (25-Aug) \$29.16 **52-Week High** \$29.51
Target Price \$32.00 **52-Week Low** \$21.60



(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			17.7x	16.5x
CFPS	\$4.21	\$3.74	\$4.29	\$4.52
P/CFPS			6.8x	6.5x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,533	\$10,908	\$11,829	\$12,207
EBITDA (\$mm)	\$1,061.0	\$1,063.0	\$1,270.0	\$1,350.6
EV/EBITDA	9.9x	10.3x	9.3x	9.0x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58a	\$0.32a	\$0.23	\$0.54
Dividend	\$1.12	Yield		3.8%
Book Value	\$18.79	Price/Book		1.6x
Shares O/S (mm)	172.9	Mkt. Cap (\$mm)		\$5,042
Float O/S (mm)	171.2	Float Cap (\$mm)		\$4,992
Wkly Vol (000s)	2,142	Wkly \$ Vol (mm)		\$58.6
Net Debt (\$mm)	\$6,062.0	Next Rep. Date		05-Nov (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.65; 2011E: \$1.78

Project Details

Fortis has announced that it is part of a partnership that is proposing to construct a 335 MW expansion of the Waneta Dam, located near Trail, BC. Details of the project are set out below:

- The other two project proponents include the Columbia Power Corporation and the Columbia Basin Trust, both of which are owned by the Government of British Columbia.
- Fortis is expected to hold a 51% interest in the project and will maintain and operate the facility once it is placed into service in the spring of 2015.
- The capital cost of the project is expected to be \$900 million, and costs are expected to be incurred from 2011 to 2016, with approximately \$70 million incurred in 2010 and \$180 million in 2011. Fortis's share of total project costs is approximately \$459 million. Fortis intends to initially finance its contribution using credit facilities, but will permanently finance its investment with a combination of debt and equity.
- The project has received federal and provincial environmental approvals. Construction is expected to commence this fall.
- Revenue from the facility will be derived from two sources.
 - Approximately 630 GWh of production will be sold to BC Hydro, pursuant to the Canal Plant Agreement, whereby the facility will receive fixed energy and capacity entitlements based on long-term average water flows. Pricing for this energy will be consistent with prices awarded to projects pursuant to the BC Clean Power Call.
 - Surplus capacity of approximately 234 MW will be sold to Fortis BC, subject to approval from the British Columbia Utilities Commission. This capacity will receive a price ranging from \$11,000 to 17,500 per MW per month.
 - Given that both revenue streams consist of capacity payments, hydrological risk associated with this asset should be minimized.
- Fortis expects earnings from this project to slightly exceed returns from its regulated utilities, which are generally subject to deemed ROE of 9.5–10.0%. Assuming that this project is financed with 35% equity and is capable of generating a 10.5% ROE, it could contribute up to \$16.9 million in incremental earnings when it is commissioned.

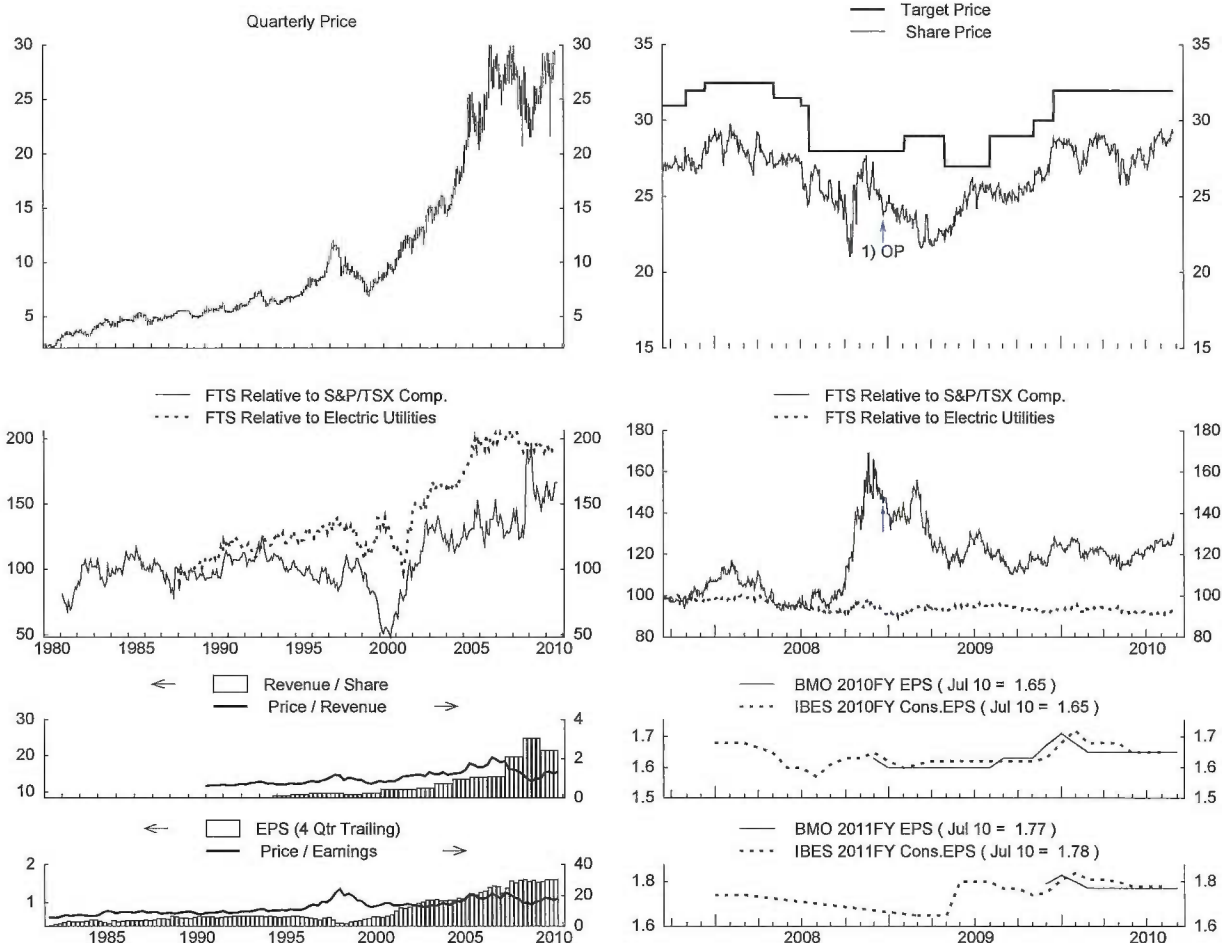
Will This Project Accelerate Fortis's Equity Requirements?

Although this project isn't expected to contribute to earnings until early 2015, all construction costs, including interest, are expected to be capitalized until that time. Construction of the project should not directly impact earnings; however, it is possible that capital spending associated with the Waneta Dam expansion may cause Fortis to re-evaluate the timing of its next equity issuance. Our model currently assumes that Fortis raises \$260 million of common equity in 2012E; however, it is possible that Fortis may now seek to raise additional equity financing in 2011E.

Table 1: Consolidated Summary (Source: BMO Capital Markets estimates)

26-Aug-10		Michael McGowan								
Current Price:		BMO Capital Markets								
12-Month Target Price:										
ROR:										
		Recommendation: Outperform								
		2002	2003	2004	Year Ending December 31					
		2005	2006	2007	2008	2009	2010E	2011E		
Total Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.36	\$1.36	\$1.50	\$1.54	\$1.61
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.77
Segmented EPS										
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15
	Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.11
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.17
	Fortis Alberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.43
	Fortis BC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.24	\$0.27
	Teresen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76
	Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.43)	(\$0.44)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.16
Payout Ratio		49.2%	48.0%	51.4%	52.3%	48.4%	60.2%	64.2%	67.8%	64.2%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.0
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.25	\$16.72	\$18.00	\$18.64	\$19.75
Market Valuation										
	Price: High	\$13.28	\$15.24	\$17.75	\$29.64	\$30.00	\$30.00	\$29.94	\$28.85	-
	Price: Low	\$10.75	\$11.63	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	-
	Price: Current	-	-	-	-	-	-	-	-	\$29.05
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	-
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	-
	P/E Ratio: Current	-	-	-	-	-	-	-	-	17.3
	Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	1.5	-
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-
	Price/Book Value: Current	-	-	-	-	-	-	-	-	1.5
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	-
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	-
	Yield: Current	-	-	-	-	-	-	-	-	3.9%
Balance Sheet (\$mm)										
	Debt (\$-T)	181.0	142.8	229.1	80.3	182.5	911.0	650.0	639.0	607.0
	Debt (\$-T)	926.5	1,006.9	1,881.6	2,193.8	2,494.5	4,579.0	4,840.0	5,237.0	5,585.4
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	123.0
	Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0
	Convertible Debentures	14.4	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0
	Shareholders' Equity	584.5	614.7	1,000.1	1,212.4	1,275.7	2,600.7	3,045.7	3,192.7	3,419.9
		1,745.9	1,950.4	3,492.7	3,808.8	4,586.1	8,601.7	9,391.7	9,902.7	10,145.3
Balance Sheet (%)										
	Debt (\$-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	5.6%
	Debt (\$-T)	53.0%	51.6%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	51.3%
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.1%
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.5%
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%
	Shareholders' Equity	33.5%	31.5%	28.6%	31.9%	27.8%	29.9%	32.4%	32.2%	31.7%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement										
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	252.0	288.1
	Cash Flow from Operations	134.4	160.7	263.7	320.0	279.6	373.0	693.0	637.0	742.9

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.38	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.60	18	1.12	3.8	70	18.79	1.6	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	8.0		14.5			12.4		
10 Year:	10.1		9.3			11.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2010.

FTS - Rating as of 14-Sep-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: August 25, 2010

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2011E EPS (12.5%); 1.75x 2011E BVPS (12.5%) and a target yield of 3.50% based on 2011E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (June 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.1%	13.7%	43.6%	40.9%	51.0%	54.4%
Hold	Market Perform	59.3%	10.4%	52.7%	54.8%	45.4%	40.2%
Sell	Underperform	3.6%	11.8%	3.6%	4.3%	3.6%	5.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Cost Revision Damps an Otherwise Good Earnings Report for BG Group

See Page 2 for the full Analyst Note from 04 May 2012

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The primary analyst covering this company does not own its stock.

Research as of 04 May 2012
Estimates as of 09 Feb 2012
Pricing data through 04 May 2012
Rating updated as of 04 May 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst's Perspective 10 Feb 2012

As we expected, BG's annual strategy update held several positive announcements. BG upwardly revised its 2020 Brazilian production forecast by 50 mboe/d. We previously thought an upward revision was likely given the positive news flow concerning its operations there over the past year, and were encouraged as a result. At the same time, BG lowered its 2015 U.S. production guidance by 110 mboe/d in light of low gas prices. As a result, total 2015 production guidance is slightly above 1 mmboe/d, compared with almost 1.2 mmboe/d previously. While the reduction will lower BG's growth rate over the next few years, we view the decision positively given the likelihood of uneconomical drilling that would have occurred otherwise. As for its LNG segment, BG raised its 2012 profit guidance for the second year in a row as it plans to take advantage of strong market conditions thanks to its flexible supply and global network.

Key Investment Considerations

- We value BG Group at GBX 2,000 (\$31) per share, which implies a EV/EBITDA multiple of 9.3 times our 2012 EBITDA forecast of \$12.7 billion. We believe BG earns a premium multiple because of its production growth potential.
- Though 70% of BG's production is natural gas, 50% of sales are oil indexed, thanks to LNG. The addition of Australian LNG and Brazilian volumes should result in 70% of sales linked to oil prices by 2015.
- BG decided to lock in slightly lower LNG profits for 2011-12 because of expectations for a soft market. However, beginning in 2013, supplies are expected to tighten, which should lead to greater profits.

Vital Statistics

Market Cap (GBP Mil)	46,294
52-Week High (GBX)	1,662.00
52-Week Low (GBX)	1,018.53
52-Week Total Return %	-5.4
YTD Total Return %	-0.3
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	17.1
5-Yr Forward EPS CAGR %	22.5
Price/Fair Value	0.68

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings	17.5	—	—	NM
EV/EBITDA	6.6	7.3	—	4.8
EV/EBIT	8.4	9.9	—	5.9
Free Cash Flow Yield %	-2.8	-4.3	—	-5.0
Dividend Yield %	1.4	1.5	—	1.6

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue	15,828	16,772	20,726	22,728
Revenue YoY %	—	6.0	23.6	9.7
EBIT	6,351	6,173	8,447	10,222
EBIT YoY %	—	-2.8	36.8	21.0
Net Income, Adjusted	3,437	3,590	4,510	5,587
Net Income YoY %	—	4.5	25.6	23.9
Diluted EPS	0.64	0.67	0.84	1.04
Diluted EPS YoY %	—	4.1	25.6	23.9
Free Cash Flow	-1,235	-2,011	-2,586	-2,326
Free Cash Flow YoY %	—	62.8	28.6	-10.0

Source for forecasts in the data tables above: Morningstar Estimates

Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

BG Group is an integrated energy company primarily engaged in the exploration for and production of natural gas in Egypt, the United Kingdom, Trinidad and Tobago, and Kazakhstan. It specializes in using liquefied natural gas to monetize its stranded gas resources for delivery to high-value markets in the United States, Europe, and Asia. In 2011, BG produced an average of 646,000 barrels of oil equivalent a day, 74% of which was natural gas, and reported proven reserves of 3.3 billion barrels of oil equivalent.

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1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Morningstar Analysis

Of BG's growth opportunities, we believe the most transformative could be its stake in Brazil's presalt offshore fields.

Cost Revision Damps an Otherwise Good Earnings Report for BG Group 04 May 2012

On Thursday, BG Group BG. reported strong first-quarter results. However, those results were largely overshadowed by upward revisions to the cost estimate for its QCLNG project.

First on the bad news: BG now estimates the cost for its QCLNG project in Australia will be \$20.4 billion, compared to \$15 billion previously. Half of the increase is related to inflation in the local market for goods and services, increased costs of compliance processes, and some changes to the scope of the project. Appreciation of the Australian dollar is responsible for the remainder of the cost increase.

Of the total increase, two thirds is related to the upstream development, and one third to the downstream/midstream development, where BG was somewhat able to mitigate costs through early entry, and by the locking in of labor rates on the LNG plant. The upstream segment also was responsible for the bulk of the increase in compliance costs, which were primarily related to greater-than-expected complexity in dealing with waste water issues (permitting, treatment, disposal, etc.) However, measured against the increase in discovered resources since the first cost estimate, upstream development cost remain at levels that should preserve project returns, only increasing to \$9/boe from \$8/boe previously. Also, given the cost increases relate to market impacts and not execution (start-up remains on track for 2014), we believe our long-term thesis on BG remains intact, and that the current heavy investment cycle will lead to higher returns and a return of free cash flow in 2014.

The increase in costs led BG to revise its capital expenditure forecast for 2012 to \$11.5 billion from \$10.6 billion, and for 2013 to \$12.0 billion from \$11.4 billion. Previous guidance already included the negative currency effects. We have

incorporated the new guidance into our model and our fair value remains unchanged. We also expect BG will be able to fund the existing capital program with its current funding plan and proceeds from asset sales.

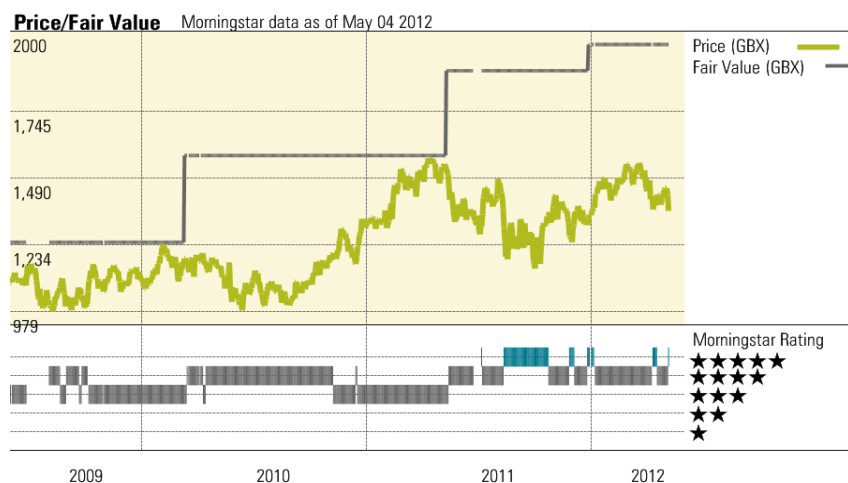
Now, the better news: Earnings held few surprises. Operating income of \$2.4 billion is up 21% from the year before. E&P operating profit rose 15%, thanks to higher realized prices and increased production volumes. First-quarter production only grew 4.6% from the year before. However, we previously expected growth to be in the back part of the year. Additionally, the start-up four major projects (West Delta Deep in Egypt, Gaupe in Norway, Greater Bongkot South in Thailand and Margarita in Bolivia) with plateau production volumes of 50 mboe/d should lead to greater volume growth in coming quarters. BG also reiterated its previous guidance of an exit rate of 750 mboe/d despite the delayed start-up of Jasmine (non-operated), and the loss of Elgin volumes (non-operated). Depreciation costs per barrel are tracking ahead of our forecasts.

LNG operating profit jumped 42% to \$812 million, thanks to favorable market conditions, particularly in Asia, where spot LNG averaged \$16/mmbtu. Despite the strong quarter, management left its full-year operating profit guidance unchanged at \$2.6 billion to \$2.8 billion. However, guidance could be revised later in the year if the Asian market remains strong due to offline nuclear capacity. BG delivered the bulk of its cargos (91%) to locations outside the U.S., but still landed five, though down from eight last year. BG is continuing to work on connecting stranded markets in the U.S. to pipeline gas that would allow it to reduce U.S. bound cargos further, and redirect them to higher value markets.

BG continues to proceed with its asset divestment program. On Thursday, it announced it will sell its 60.1% interest in Comgas for \$1.8 billion. We value the deal at about 6 times 2012 Comgas EBITDA, which is in line with typical valuations for gas transmission assets. With the deal, BG

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated



will also remove consolidated debt from its balance sheet of \$1.1 billion, resulting in an overall reduction in net debt of \$2.9 billion.

With the Comgas sale, BG has reached agreements to divest \$3.3 billion worth of a targeted \$5 billion in assets, including its 40% stake in a Chilean regasification terminal for \$352 million. Additional sales will likely include its stake in Gujarat Gas in India and interests in gas-fired power plants in the Philippines. The sale of these assets will likely end BG's fully integrated model.

While we think Comgas will likely benefit from increased Brazilian natural gas production and greater adoption of natural gas domestically, BG is best focusing on its core E&P and LNG businesses, and redeploying capital to those higher-returning segments. BG is also looking for a buyer for TGGT, its pipeline joint-venture with Exco Resources XCO.

BG also announced continued exploration success. In Tanzania, it drilled its fourth consecutive successful exploration well, bringing its gross estimated recoverable

resources to 7 trillion cubic feet. BG plans to drill two to three more wells in the same exploration block. In April, an appraisal well drilled in Brazil confirmed the westerly extension of the Iara field. Also in Brazil, FPSO 2 and 3 continue to progress with construction, with both slated for startup in 2013.

Thesis 10 Feb 2012

BG Group's early entry into liquefied natural gas made the firm a leading global integrated natural gas player, positioning it to capitalize on growing global demand for natural gas. The next decade will see BG expand its LNG activities by developing its extensive gas resource in Australia. Meanwhile, a pre-eminent position in offshore Brazil should lead to high-quality oil production growth.

We think BG will continue to deliver attractive returns by executing its strategy of connecting its low-cost resource base to high-value markets. By using its own LNG infrastructure, BG gains flexibility and directs otherwise worthless gas to markets that generate maximum profitability. Full integration of the process, from reserve to burner tip, affords the company the ability to drive efficiencies, control costs, and capture value along the entire chain.

BG should also drive value by developing its attractive set of growth opportunities secured through many years of exploration success. We believe the most transformative could be its stake in Brazil's presalt offshore fields, where it is partnered with Petrobras PBR. In the last year, the company increased its reserve and production estimates for its Brazilian assets multiple times. Originally, BG expected its position in some of the most promising of the presalt discoveries could deliver about 3 billion barrels of reserves for the company. However, BG recently increased its estimated recoverable resources to 6 billion barrels of oil equivalent. More important, the company believes it can

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

recover these additional barrels with little incremental capital, thanks to the quality of the resource, therefore dramatically increasing their value.

BG's latest plans called for net production from Brazil of 600,000 barrels of oil equivalent per day by 2020. This marks the second guidance increase. Previously, plans called for 550,000 boe/d, an increase from initial guidance of 400,000 boe/d. Also, BG believes those plateau production levels should be achieved sooner and maintained longer, further enhancing its returns. Also, recent exploratory success and data from well tests have significantly reduced the risk of the play. Initial information from well tests revealed outstanding reservoir characteristics and higher-than-anticipated recovery rates, implying that a lower well count will be needed than initially planned. It is because of the reduced well count and anticipated debottlenecking of FPSOs that BG will not need to expend extra capital to recover the additional barrels. Also, new Brazilian oil and gas laws do not affect current concessions, leaving BG Group's current stakes unaffected by the new production sharing contract regime.

While production from Brazil ramps up, BG should see growth from operations in Australia, where it is tapping low-cost coal seam gas to add production and increase LNG volume. The result of the acquisition of Queensland Gas Company and Pure Energy, BG's entry into Australia marks the company's first significant investment in unconventional gas. The project initially calls for two LNG trains to start production in 2014 with likely expansion to a third in later years. Net plateau production of 210,000 boe/d should come toward the middle of the decade. Despite the competition from several LNG projects in Australia, BG has already secured customers for almost 10 million tons per year, more than the two LNG trains' 8.5 million ton annual output. Given the size of the resources in place, the demand underpins the likelihood of a third train. Though official sanctioning

may wait until cost inflation subsides.

As an international natural gas-focused company, BG is also investing in U.S. natural gas unconventional resources through a joint venture with EXCO Resources XCO. Through its agreement with EXCO, BG gains access to acreage in the prolific Haynesville and Marcellus shales and adds midstream assets that complement its current U.S. marketing operations. However, in light of recent low natural gas prices, BG decided to cut back drilling. As a result, it lowered its 2015 U.S. production guidance to 80,000 boe/d from 190,000 boe/d by 2015 previously. While the reduction will lower BG's growth rate over the next few years, we view the decision positively given the likelihood of uneconomical drilling that would have occurred otherwise. Additionally, BG maintains the flexibility to ramp-up drilling in the event of a price recovery.

Despite the reduced production volumes, BG is set to benefit from lower natural gas prices. Through recent supply agreements and its own plans to convert its Lake Charles regas facility into a liquefaction export terminal, BG has secured another source of low-cost gas for export to high-value markets via LNG. As a result, BG could be a net beneficiary of extended low gas prices in the U.S.

Valuation, Growth and Profitability 10 Feb 2012

We are maintaining our fair value estimate of to GBX 2,000 (assuming an exchange rate of \$1.58/GBP 1 as of Feb. 9) after updating our model with fourth-quarter results and guidance from the recent strategic update. Our fair value estimate implies an EV/EBITDA multiple of 9.3 times using our 2012 EBITDA forecast of \$12.7 billion.

We have lowered our five-year (2010-15) compound annual production growth rate to 11% from almost 14% because of the reduction in U.S. natural gas production. However, the key drivers of production remain the addition of volumes

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Morningstar Analysis

from Australia and Brazil in the later years of our forecast. In 2011, production declined by almost 1% as a result of events in Egypt, Tunisia, and Australia, as well as numerous issues in the North Sea. However, long-term growth trends remain in place, in our opinion, and growth should accelerate in 2012 with the addition of six major projects. We assume higher profits from the LNG segment over our forecast period, thanks to the additional Australian volumes and anticipation of higher spot prices in a tighter market.

In our discounted cash flow model, our benchmark oil and gas prices are based on Henry Hub and Brent futures contracts for 2011-13. For natural gas, we use \$4.04 per thousand cubic feet in 2011, \$2.89 in 2012, and \$3.70 in 2013. For oil, we use \$110 per barrel in 2011, \$114 in 2012, and \$106 in 2013. We assume long-run oil prices for 2014 and 2015 of \$99 and \$102 per barrel and natural gas prices of \$6.50 and \$6.70 per mcf.

Scenario Analysis

In contrast to other large oil and gas firms, BG has slightly different exposure to oil and natural gas price movements. Its oil volumes are exposed directly to international oil price movements. However, some of the volumes, particularly in Kazakhstan, are not priced in line with international benchmarks because of lack of takeaway capacity and discounted sales into local markets. Its natural gas prices are not linked to Henry Hub pricing because they are sourced internationally and experience much less volatility. Also, much of BG's natural gas is sold as LNG, which typically is indexed to higher oil prices. The profits from these higher prices accrue to both the E&P segment and shipping and marketing segment. Despite this more complicated structure, we still use our price scenarios for oil and natural gas as we do with our other oil and gas firms.

In our high-case scenario, we assume 20% higher short-term oil and gas prices. Our 2012 EBITDA forecast in

this scenario is \$14.8 billion. Using the same EV/EBITDA multiple of about 9 times implied by our DCF valuation, we estimate BG should trade at around GBX 2,250 per share in this price scenario. Operating cash flow will still be insufficient in this scenario to cover spending, but should reduce necessary debt financing. While our EBITDA estimate does not reflect changes in any other segments in this analysis, the LNG segment should realize greater profits as well.

In our low-case scenario, we assume 20% lower short-term oil and gas prices. Our 2012 EBITDA forecast in this scenario is \$10.5 billion. Assuming BG garners the same multiple of about 9 times in this scenario, its shares could be worth GBX 1,550. In this scenario, we expect LNG profits would also fall, though given the bulk of profits are already locked in, the decline would be minimal.

Economic Moat

BG's strategy of connecting low-cost natural gas resources to high-value markets via LNG has resulted in the company delivering returns in excess of its cost of capital. As a result, we assign the company a narrow moat. BG's full integration along the gas chain from production to distribution affords the company the ability to drive efficiencies, control costs, and capture value at each phase. A central component of BG's strategy is flexibility. By participating in the global LNG trade, BG can identify the highest-value market at any time and divert its own production or contracted cargo to that location. The incremental value BG achieves accrues to both its E&P and LNG operations, supporting returns for both segments. At the same time, BG owns capacity at key LNG import terminals in the U.S., the U.K., and Chile, where it can land cargo at its own discretion, depending on current pricing. Also, LNG pricing is linked to crude oil prices, resulting in higher returns. BG participates further down the gas chain with ownership of natural gas distribution networks in Brazil and India through its transmission and

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Morningstar Analysis

distribution segment. Given their difficulty to replicate, distribution assets and pipelines qualify for an economic moat. Most of BG's investment in the segment is tied to its majority interest in Comgas, Brazil's largest gas distribution company.

Moat Trend

Considering BG's current assets and its resource potential, we assign the company a stable moat trend and anticipate returns will continue to exceed the cost of capital. The nature of LNG operations ensures plateau production levels can be maintained for decades, delivering returns well into the future. Additionally, demand is expected to exceed planned LNG supply, which should lead to higher spot prices and allow BG to benefit from its global production and marketing operations. Also, concerns regarding carbon emissions favor natural gas for future energy generation, underpinning future demand.

BG plans to expand its production and LNG operations significantly with the addition of two LNG trains in Australia that use low-cost coal seam gas, which has little domestic demand. Compared with other operators in the region, BG is well ahead with development of its project, having already secured long-term supply contracts with energy companies in Japan and China. Given demand and resource potential, BG has additional opportunities to enhance returns by building a third LNG train, which should cost less, given the infrastructure already in place.

Perhaps the most compelling factor is BG's position in Brazil. We expect BG ultimately could realize more than 6 billion boe of reserves from its current concessions, the bulk of which should be oil volumes linked to Brent pricing. Thanks to early entry into the region, BG secured leases and terms that are no longer available to competitors because of recent changes in Brazilian oil laws. Production from offshore Brazil should also result in increased volumes of natural gas

available to Comgas. The availability of an uninterrupted supply of gas should allow Comgas to increase the industrial customer base as well as volumes.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Bulls Say/Bears Say

Bulls Say

- ▶ BG's partnership with Petrobras in Brazil's Santos Basin presalt fields could result in the recovery of more than 6 billion barrels of oil equivalent.
- ▶ BG's resources in Australia should allow for the eventual addition of a third LNG train.
- ▶ BG's stakes in Brazil's presalt fields are exempt from new legislation the government recently implemented.
- ▶ Natural gas is likely to be a preferred energy source as governments enact legislation to curb carbon levels.
- ▶ Past tumult with Russian gas supplies to Europe has caused concern and increased the value of providers of LNG, such as BG, to the continent.

Bears Say

- ▶ A glut of gas from new LNG projects and unconventional sources should depress prices and crimp margins in the near term.
- ▶ BG's low-cost resources could be compromised if host countries attempt to renegotiate contracts or change tax terms on producing companies.
- ▶ BG does not operate its prolific concessions in Brazil and is dependent on Petrobras for development. Petrobras could prioritize development of other fields, resulting in BG not realizing its production forecast.
- ▶ Discovery of unconventional gas resources in Europe or China could pose a threat to LNG viability and potentially result in a break with oil index pricing.

BG Group PLC BG. (XLON) | ★★★★★

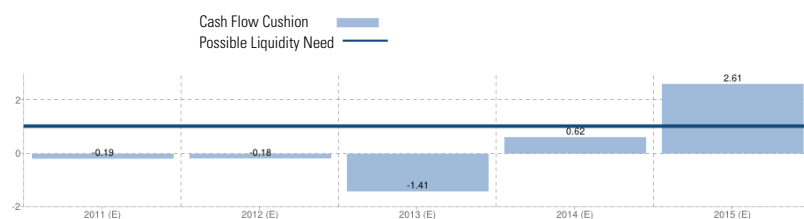
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	2,533	2,517	324	25	25
Adjusted Free Cash Flow	-2,173	-1,976	-2,010	1,248	3,407
Total Cash Available before Debt Service	-354	-208	-2,473	446	2,564
Principal Payments	-1,112	-495	-1,070	-41	-302
Interest Payments	-300	-300	-300	-300	-300
Other Cash Obligations and Commitments	474	381	381	381	381
Total Cash Obligations and Commitments	-1,886	-1,176	-1,751	-722	-983

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	2,533	38.9
Sum of 5-Year Adjusted Free Cash Flow	-5,449	-83.6
Sum of Cash and 5-Year Cash Generation	-2,916	-44.7
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	-2,916	-44.7
Sum of 5-Year Cash Commitments	-6,517	—

Credit Rating Pillars—Peer Group Comparison

	BG.	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	10	—	—
Solvency Score	3	—	—
Distance to Default	3	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

BG finished 2011 with a net debt/capital ratio of 26%, comparable with other large international oil and gas companies. However, debt issuance has increased in the last few years as capital spending outpaced operating cash flow. We expect this trend to continue until 2014-15, when project startups should increase cash flow.

Capital Structure

At the end of 2011, BG's debt balance stood at \$15.1 billion, up from \$9.7 billion a year earlier. However, BG still maintains more than comfortable interest coverage ratios, in our opinion. During the last two years, capital spending has exceeded operating cash flow, resulting in greater debt. We anticipate this trend to continue over the the next several years as spending in Brazil ramps up and the two-train LNG project in Australia is completed. BG expects capital spending of \$10.6 billion in 2012 and a little more than \$11 billion in 2013. Spending in Australia alone will total \$15 billion through 2014. We anticipate capital spending to remain around \$10 billion beyond 2014 as increased spending in Brazil is likely to offset reduced spending in Australia. As a result, net debt/capital has exceeded 25%, the level that management has stated as ideal. However, the higher debt probably will be temporary as BG realizes additional cash flow from its Australia LNG projects beginning in 2014. The cash contribution from the project should result in operating cash flow exceeding spending in 2015. Given the pending cash flow from Australia, it is unlikely BG will seek a partner to develop its Brazilian assets.

In 2010, the company sold assets, including the bulk of its power generation business, netting proceeds of about \$1.8 billion. Asset sales slowed in 2011, but BG expects to resume divestitures targeting \$5 billion worth over the next two years. Asset sales will primarily come from the transmission and distribution segment. Proceeds of any

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Credit Analysis

future sales probably will go toward supporting capital spending. Addition of other concessions in Brazil is unlikely, given that the financial terms have changed and the play is largely derisked. Previously, BG planned to spend about \$2 billion for follow-on acquisitions in the U.S. through 2012. Despite the low prices, the company will still likely add acreage if attractive opportunities are available. A decision to proceed with a third train in Australia would probably result in higher capital spending, but that is unlikely to occur for several years.

Enterprise Risk

As an oil and gas producer, BG's main risks include falling prices. Although oil prices are somewhat protected by OPEC, there is no similar influence in the regional gas markets on which BG relies more. Weakening global economies and a glut of gas from domestic resources or other LNG providers could destroy margins. Integrated oil supermajors are undertaking projects that will add to global LNG supply, while cheap Russian gas could displace LNG volumes in Europe and China. Also, if the link between LNG and oil prices is broken, BG could see realizations and profits fall. BG also faces the geopolitical risk normally associated with operating in politically unstable countries, where damage to assets or renegotiation of contract terms may harm profitability.

BG Group PLC BG. (XLON) | ★★★★★

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

Concentrated Holders

NA		NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Top 5 Sellers

NA		NA	NA	NA	NA
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Stewardship: — 15 Dec 2011

BG is led by chairman Robert Wilson and chief executive Frank Chapman. As is common corporate-governance practice in the U.K., the chairman and chief executive roles are separate. Wilson joined BG in 2002 as a non-executive director and ascended to chairman in 2004. Previously he was with Rio Tinto RIO, where he served as chairman and chief executive. However, Wilson plans on retiring in May 2012 and will be succeeded by former Schlumberger SLB CEO Andrew Gould. We like the appointment as it adds an experienced and successful oil and gas executive to BG's board. Chapman rose to CEO in 2000, having been with the company since 1996. He previously held roles at BP BP and Shell RDS.A. We like that the CEO and other senior managers have extensive oil and gas or resources-related experience with other firms. BG recently bolstered the management team with the addition of Fabio Barbosa as CFO. Barbosa previously was CFO at Vale VALE and served in the Brazilian Ministry of Finance. His experience in Brazil should serve BG well as the firm's activity in the country increases.

The company gets credit for an emphasis on variable compensation and performance-related incentives based on both short- and long-term performance. Performance measures for last year consisted of return on average capital employed, earnings per share, and a health, safety, and environment scorecard. Long-term performance rewards come in the form of performance share awards that vest over time based on total shareholder return versus a group of peers. We like this last part of compensation, as it clearly aligns management and shareholders and keeps the focus on return beyond the current year. Several years ago, BG delisted from the NYSE because of the onerous cost of U.S. disclosure policy. While the company no longer files a 20-F, its financial disclosures are extensive. It also still publishes oil and gas operating and reserve metrics based on Securities and Exchange Commission requirements.

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Analyst Notes

BG Confirms Long-Term Potential With Strategic Update

09 Feb 2012

BG Group BG. reported fourth-quarter results and held its annual strategic update on Thursday. While the quarterly results were largely uneventful, the strategic update contained several developments that reinforce our long-term thesis on BG as the integrated with the most attractive growth prospects. Foremost, BG upwardly revised its long-term Brazilian production forecast by 50 mboe/d to 600 mboe/d by 2020. We previously thought an upward revision was likely given the positive news flow from BG concerning its operations there over the past year, most notably the doubling of its recoverable reserve estimate, and were encouraged as a result. Despite increasing its estimated Brazilian production, BG maintained its previous total 2020 midpoint production forecast of 1.4 mmboe/d as a result of lowering its forecast for U.S. production in light of low gas prices. Specifically, BG lowered its estimated 2015 U.S. production by 110 mboe/d to 80 mboe/d as it plans to reduce its U.S. rig count to eight rigs from 35 running in 2011. As a result, anticipated total 2015 production will be slightly above 1.0 mmboe/d, compared with almost 1.2 mmboe/d previously. While the reduction will lower BG's growth rate over the next few years, we view the decision positively given the likelihood of uneconomical drilling that would have occurred otherwise. Additionally, BG maintains the flexibility to ramp up drilling in the event of a price recovery. In the event gas prices remain low, BG should benefit nonetheless as it then would have a low-cost source of supply for its LNG segment thanks to recent agreements locking in future export volumes.

As for its LNG segment, BG raised its 2012 profit guidance to between \$2.6 billion and \$2.8 billion from \$1.9 billion to \$2.2 billion previously. This is the second year BG raised guidance after previously locking in profits in anticipation of a soft market. While BG's original forecast of a soft market through 2012 has proved inaccurate, its ability to flex

supplies to capture additional profits beyond its hedged volumes demonstrates the flexibility of its portfolio, which should serve it well in the future. With the tight market expected to continue for the next few years, BG should benefit from its substantially unhedged volumes in 2013 and beyond. At the same time, BG will see its LNG contracted volumes rise. During the strategy update, BG reiterated its confidence in achieving contract volumes of 20 mtpa by 2015 and 30 mtpa by 2020 from about 13 mtpa in 2011.

Other positive news included BG's plans to high grade its portfolio by divesting \$5 billion worth of assets, primarily from its transmission and distribution segment. Also, for 2012, BG reported a reserve replacement ratio of 251% (245% organic) and finding and development costs of \$13/boe.

Fourth-quarter and full-year results were in line with expectations, with the exception of a few key times. LNG operating profit of \$2.6 billion exceeded management's full-year revised forecast of \$2.4 billion. Meanwhile transmission and distribution operating profit of \$507 million fell short of our forecasts because of the timing of cost recovery. Also total production declined almost 1% for the full year versus our expectation of slight increase as difficulties on the North Sea persisted into the fourth quarter. However, those issues are largely resolved or were temporary (weather related). Also, outside the North Sea, volumes increased 5% in 2011. BG exited 2011 producing 650 mboe/d and expects to exit 2012 producing 750 mboe/d with six major project startups scheduled during the year. The exit rate implies a slightly lower growth rate in 2012 than we previously forecast due to the timing of the project additions and reduction in U.S. natural gas production. Capital spending is expected to remain flat at \$10.6 billion as a result of asset divestitures. We plan to incorporate the new 2012 and long-term guidance into our model, but do not expect any revisions to our fair value estimate given that

BG Group PLC BG. (XLON) | ★★★★★

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Analyst Notes

our long-term expectations remain intact.

Agreement on Karachaganak Among the Positive Recent Developments for BG 21 Dec 2011

BG Group BRGY, BG. announced this week that it and the partners in the Karachaganak gas condensate field had reached a \$3 billion agreement with the Republic of Kazakhstan that resolves long-standing ownership and tax issues. While the agreement dilutes BG's stake in the project somewhat (32.5% to 29.25%), we think the agreement is a net positive as it eliminates a major roadblock that has prevented future development plans from proceeding and alleviates investor uncertainty about one of the company's major production assets. Karachaganak is a key asset for BG, contributing about 16% of total 2010 production (37% of total liquids, 8% of total natural gas). The agreement follows other recent developments that we think are positive for BG.

Management raised LNG profit guidance: As we expected, third-quarter LNG earnings exceeded management forecast thanks to strong market conditions and a record number of cargo diversions to Asia. As a result, management raised its full-year LNG operating profit guidance to \$2.4 billion from \$1.9 billion-\$2.2 billion. While the same guidance remains intact for 2012, we think BG could once again outperform thanks to its flexible portfolio and if market conditions hold.

Reduction in Haynesville drilling is a net positive: BG's joint venture partner Exco Resources XCO recently announced its 2012 capital budget, which included plans to reduce drilling in the Haynesville. While this likely will reduce some of BG's volume growth in 2012, we think it is a net positive given the depressed gas prices has likely led to uneconomical drilling.

We expect fourth-quarter production to rebound: BG's third-quarter production numbers were a bit weak because of the slow startup of North Sea production after extensive maintenance, but volumes have since returned to normal levels. We expect fourth quarter production to be more representative of BG's long-term growth. We continue to forecast double-digit production growth in 2013.

The February strategy meeting could act as the next catalyst: BG likely will hold a strategic update in February. This meeting is typically newsworthy (positively), and we expect the same in 2012. The update could include additional details on Brazil, plans for the next phases of Karachaganak, or an announcement of a third train in Australia.

BG Group and Partners Reach Agreement on Karachaganak, Clearing Way for Expansion 14 Dec 2011

BG Group BRGY announced on Wednesday that it and the partners in the Karachaganak gas condensate field had reached an agreement with the Republic of Kazakhstan that resolves long-standing ownership and tax issues and should clear the way for future development of the field. As part of the agreement, Kazakhstan's KazMunaiGas will acquire a 10% interest in the project. Each partner will transfer 10% of its interest in the project to KMG for a total pretax consideration of \$3 billion, of which \$2 billion will be paid in cash. The remaining \$1 billion is a noncash consideration and consists of final and irrevocable settlement of cost recovery and other claims and an allocation of an additional 2 million tonnes per annum in capacity for the Karachaganak project in the Caspian Pipeline Consortium export pipeline. The partners will be responsible for paying tax of \$1 billion on the total consideration. Also, the partners will make a \$1 billion loan to KMG that will be repaid over a three-year period.

As a result of the agreement, BG Group will see its interest

BG Group PLC BG. (XLON) | ★★★★★

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Analyst Notes

in the project fall to 29.25% from 32.5%, but it will remain joint operator with Eni E . Other partners' interest will be reduced as well: Eni 29.25% (previously 32.5%), Chevron CVX 18% (20%), and Lukoil 13.5% (15%). An agreement was also reached on all tax affairs through the end of 2009. Karachaganak is a key asset for BG, contributing about 16% of total 2010 production (37% of total liquids, 8% of total natural gas). We view the agreement favorably, given that it not only eliminates a major roadblock that has prevented development plans from proceeding, but also should alleviate the uncertainty investors may have had about the risks of one of BG's major production assets. We expect additional updates and details on future expansion will come next year as BG presents its annual strategic update.

BG Group PLC BG. (XLON) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	
Growth (% YoY)	—	—	—	—	—	—	—
Revenue	—	-100.0	—	6.0	23.6	9.7	—
EBIT	25.0	-100.0	—	-2.8	36.8	21.0	22.9
EBITDA	29.4	-100.0	—	2.8	28.9	17.9	20.3
Net Income	23.2	—	—	4.5	25.6	23.9	22.5
Diluted EPS	23.4	—	—	4.1	25.6	23.9	22.5
Earnings Before Interest, after Tax	—	—	—	-0.5	45.5	7.1	22.2
Free Cash Flow to the Firm	—	—	—	-30.7	35.6	-9.8	-211.0

	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Profitability	—	—	—	—	—	—	—
Operating margin %	—	—	40.1	36.8	40.8	45.0	44.3
EBITDA margin %	—	—	51.2	49.7	51.8	55.7	54.9
Net margin %	—	—	21.7	21.4	21.8	24.6	24.6
Free Cash Flow to the Firm margin %	—	—	-16.9	-11.1	-12.1	-10.0	-4.0
ROIC with Goodwill %	—	—	13.7	11.0	13.4	11.8	12.5
ROIC w/out Goodwill %	—	—	14.1	11.2	13.7	12.0	12.7
Return on Assets, pretax %	9.4	—	15.7	12.7	14.6	16.6	17.1
Return on Equity %	10.4	—	16.8	14.4	15.4	17.6	17.4

	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Leverage	—	—	—	—	—	—	—
Debt/Capital	0.21	0.15	0.21	0.27	0.30	0.28	0.26
Total Debt/EBITDA	—	—	0.76	1.17	1.17	1.07	1.01
EBITDA/Interest Expense	—	—	28.83	29.32	35.79	42.19	50.25

Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	—	0.01	—	—
Price/Earnings	17.5	—	—	NM
EV/EBITDA	6.6	7.3	—	4.8
EV/EBIT	8.4	9.9	—	5.9
Free Cash Flow Yield %	-2.8	-4.3	—	-5.0
Dividend Yield %	1.4	1.5	—	1.6

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	8.9
Long-Run Tax Rate %	43.4
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	27.8
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-3,289	-3.1	-0.97
Present Value Stage II	109,584	103.1	32.21
Present Value of the Perpetuity	—	—	—
Total Firm Value	106,295	100.0	—
Cash and Equivalents	2,203	—	0.65
Debt	13,495	—	-3.54
Net balance sheet impact	-9,849	—	-2.90
Other Adjustments	-345	—	-0.10
Equity Value	96,101	—	19.69
Projected Diluted Shares	3,402	—	—
Fair Value per Share (GBX)	2,000.00	—	—

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

BG Group PLC BG. (XLON) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Total Revenue	—	15,828	16,772	20,726	22,728
Cost of Goods Sold	—	6,682	7,204	9,605	9,538
Gross Profit	—	9,146	9,568	11,121	13,191
Selling, General & Administrative Expenses	—	—	—	—	—
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	905	826	867	535
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	—	2,106	2,905	2,290	2,434
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	—	9,693	10,935	12,762	12,507
Operating Income (EBIT)	—	6,135	5,837	7,965	10,222
Interest Expense	—	281	284	300	300
Interest & Other Income (Expense)	—	101	177	200	200
Pre-Tax Income	—	5,955	5,730	7,865	10,122
Income Tax Expense (Benefit)	—	2,493	2,198	3,539	4,454
Income After Taxes	—	3,462	3,532	4,326	5,668
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest (Preferred Dividends)	—	-151	-149	-81	-81
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	8	-32	—	—
Net Income (Loss)	—	3,319	3,351	4,245	5,587
Net Income (Loss) Excluding Charges	—	3,437	3,590	4,510	5,587
Diluted Shares Outstanding (Mil)	—	3,389	3,402	3,402	3,402
Diluted EPS Including Charges	—	0.98	0.99	1.25	1.64
Diluted EPS Excluding Charges	—	0.64	0.67	0.84	1.04
Dividends Per Common Share	—	0.12	0.13	0.13	0.14
EBITDA	—	8,101	8,328	10,736	12,656
EBITDA without restructuring	—	8,101	8,328	10,736	12,656

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Assets					
Excess Cash & Investments	1,455	1,097	2,482	2,467	299
Operating Cash & Equivalents	30	22	51	51	25
Accounts Receivable	5,199	4,721	5,994	7,382	6,227
Inventory	808	769	655	868	862
Other Short Term Operating Assets	2,342	1,808	783	783	783
Total Current Assets	9,834	8,417	9,965	11,551	8,196
Property Plant & Equipment, Net	15,146	20,131	28,263	36,091	44,257
Property Plant & Equipment, Gross	23,865	30,775	39,943	50,543	61,143
(Accumulated Depreciation)	-8,719	-10,644	-11,680	-14,452	-16,886
Goodwill, Net	600	781	820	820	820
Other Intangibles	6,422	9,290	7,193	7,193	7,193
Other Long-Term Operating Assets	3,826	3,686	3,313	3,313	3,313
Deferred Tax Assets	110	137	—	—	—
Long-Term Non-Operating Assets, including Pension items	—	—	227	227	227
Total Assets	35,938	42,442	49,781	59,195	64,006
Liabilities					
Accounts Payable	5,222	4,186	4,388	6,322	5,223
Short-Term Debt	404	1,158	1,258	1,112	495
Other Current Liabilities	3,702	2,969	3,240	3,240	3,240
Total Current Liabilities	9,328	8,313	8,886	10,674	8,957
Long-Term Debt	2,727	5,024	8,446	11,500	13,000
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	2,727	5,024	8,446	11,500	13,000
Long-Term Operating Liabilities	2,148	2,449	2,785	2,800	2,800
Deferred Tax Liabilities	2,955	3,147	3,134	3,800	3,990
Long-Term Non-Operating Liabilities	256	279	364	364	364
Total Liabilities	17,414	19,212	23,615	29,138	29,111
Preferred Stock	—	—	—	—	—
Minority Interest	181	321	356	199	199
Shareholders' Equity					
Common Stock	571	574	576	576	576
Additional Paid in Capital	348	444	537	537	537
Retained Earnings (Deficit)	14,550	17,334	20,085	23,616	28,453
(Treasury Stock)	—	—	—	—	—
Other Equity	2,874	4,557	5,130	5,130	5,130
Total Shareholders' Equity	18,343	22,909	26,328	29,859	34,696
Total Liabilities + Shareholders' Equity	35,938	42,442	50,299	59,195	64,006
Difference, from analyst adjustments and restatements	—	—	-518	—	—

BG Group PLC BG. (XLON) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	—	3,858	3,625	4,245	5,587
Depreciation Expense	—	1,646	2,026	2,290	2,434
Amortization of Other Intangibles	—	104	129	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	482	—
Deferred Income Taxes & Other Adjustments to Net Income	—	590	1,378	666	190
Cash from Operations	—	5,532	6,386	8,014	8,274
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	82	-837	-1,388	1,155
(Increase) Decrease in Inventory	—	87	25	-213	6
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	—	-835	40	1,934	-1,099
Increase (Decrease) in Other Current Liabilities	—	—	—	—	—
Cash from Investing	—	-7,730	-7,271	-10,585	-10,600
(Capital Expenditures)	—	-6,767	-8,397	-10,600	-10,600
(Acquisitions)	—	-1,094	-529	—	—
Asset Sales & Dispositions of Discontinued Operations	—	5	1,365	—	—
Other Investing Cash Flows (Outlays)	—	126	290	15	—
Cash From Financing	—	1,811	2,287	2,037	133
Common Stock (Purchase) or Sale	—	95	93	—	—
Common Stock (Dividends)	—	-633	-680	-714	-750
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	—	—	—	-146	-618
Long Term Debt Issuance and (Retirement)	—	2,572	3,211	3,054	1,500
Minority Interest Addback of Income (Loss) Distribution	—	-57	-108	-157	—
Other Financing Cash Flows (Outlays)	—	-166	-229	—	—
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	30	—	—
Net Change in Cash	—	-387	1,432	-534	-2,193
Change in Cash on Balance Sheet	-396	-366	1,414	-16	-2,193
Difference, from analyst adjustments and restatements	396	-21	18	-518	—

BG Group PLC BG. (XLON) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Royal Dutch Shell PLC RDSA USA	0.88	11.0	7.9	7.4	NM	NM	NM	125.298.1	NM	NM	1,388.3	NM	NM	543.4	476.1	433.9
Chevron Corp CVX USA	0.83	9.6	7.9	6.9	3.9	3.3	2.9	15.6	14.5	19.1	1.7	1.7	1.5	0.9	0.8	0.8
Petroleo Brasileiro SA Petrobras PBR	0.67	9.8	—	6.8	6.6	—	4.7	NM	—	NM	0.9	—	0.7	1.4	—	0.9
Repsol YPF SA REPPY USA	—	5.1	6.5	5.5	3.7	3.2	3.0	51.8	4.2	12.6	1.2	0.6	0.5	0.5	0.2	0.2
Average		8.9	7.4	6.7	4.7	3.3	3.5	41,743.6	9.4	15.9	348.0	1.2	0.9	136.6	159.0	109.0
BG Group PLC BG. GB	0.68	—	—	NM	7.3	—	4.8	NM	—	NM	1.8	—	1.3	2.8	—	2.0

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Royal Dutch Shell PLC RDSA USA	— USD	9.7	14.1	12.8	9.7	14.1	12.8	14.4	19.6	16.4	11.8	17.1	16.1	—	—	—
Chevron Corp CVX USA	— USD	20.6	26.8	25.0	21.7	28.1	26.0	19.4	23.9	22.7	18.4	24.2	24.1	3.1	2.9	3.3
Petroleo Brasileiro SA Petrobras PBR	— USD	10.8	11.3	8.2	10.8	11.3	8.2	14.1	11.6	10.5	9.5	8.9	8.6	3.3	—	3.8
Repsol YPF SA REPPY USA	67,631 EUR	6.6	10.1	9.8	7.5	11.4	11.0	22.1	11.0	11.9	12.1	8.3	9.3	2.9	5.4	5.4
Average		11.9	15.6	14.0	12.4	16.2	14.5	17.5	16.5	15.4	13.0	14.6	14.5	3.1	4.2	4.2
BG Group PLC BG. GB	— USD	11.0	13.4	11.8	11.2	13.7	12.0	14.4	15.4	17.6	12.7	14.6	16.6	1.5	—	1.6

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Royal Dutch Shell PLC RDSA USA	378 USD	32.6	28.1	4.6	68.5	56.9	1.8	89.8	51.6	1.1	-79.5	-623.4	-10.7	-7.0	-27.7	32.5
Chevron Corp CVX USA	204,928 USD	19.4	23.8	4.6	73.0	48.4	10.3	80.9	41.8	11.2	2,599.4	24.3	-26.6	6.7	8.5	11.1
Petroleo Brasileiro SA Petrobras PBR	120,052 USD	30.7	26.4	8.7	10.7	18.2	6.7	10.0	-13.1	-2.9	84.6	-77.7	274.0	-38.9	-21.4	—
Repsol YPF SA REPPY USA	60,430 EUR	23.3	0.5	6.5	135.2	-29.1	13.8	200.7	-48.3	18.0	-112.7	570.2	-66.9	-58.7	—	—
Average		26.5	19.7	6.1	71.9	23.6	8.2	95.4	8.0	6.9	-676.7	-26.7	42.5	-24.5	-13.5	21.8
BG Group PLC BG. GB	16,772 USD	6.0	23.6	9.7	-2.8	36.8	21.0	4.1	25.6	23.9	62.8	28.6	-10.0	7.0	5.0	5.0

BG Group PLC BG. (XLON) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
1,364.00 GBX	2,000.00 GBX	1,400.00 GBX	2,700.00 GBX	Medium	Narrow	Stable	—	—	Oil & Gas - Integrated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Royal Dutch Shell PLC RDS.A USA	19 USD	18.7	18.2	17.9	13.7	14.5	14.2	9.6	11.8	11.5	5.3	6.4	5.7	-0.4	1.8	1.5
Chevron Corp CVX USA	19,024 USD	43.2	40.9	44.3	22.0	23.9	24.9	15.7	18.8	19.8	9.3	10.6	11.2	5.7	5.8	4.0
Petroleo Brasileiro SA Petrobras PBR	19,184 USD	41.1	38.6	37.7	27.2	26.7	26.0	20.1	19.1	18.8	16.0	14.5	13.0	-15.7	-2.8	-9.5
Repsol YPF SA REPPY USA	4,952 EUR	23.7	20.4	20.8	19.7	16.3	16.7	12.6	9.3	10.0	8.2	4.2	4.7	0.9	5.9	1.8
Average		31.7	29.5	30.2	20.7	20.4	20.5	14.5	14.8	15.0	9.7	8.9	8.7	-2.4	2.7	-0.6
BG Group PLC BG. GB	3,590 USD	57.1	53.7	58.0	49.7	51.8	55.7	34.8	38.4	45.0	21.4	21.8	24.6	-12.0	-12.5	-10.2

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Royal Dutch Shell PLC RDS.A USA	44 USD	30.0	21.9	20.9	23.1	18.0	17.3	52.1	51.2	33.7	0.9	0.5	0.6	2.2	2.0	2.0
Chevron Corp CVX USA	11,190 USD	10.7	8.3	7.0	9.6	7.6	6.6	903.4	—	—	0.2	0.2	0.1	1.8	1.7	1.6
Petroleo Brasileiro SA Petrobras PBR	69,653 USD	38.4	43.2	45.0	27.7	30.2	31.0	19.9	27.9	29.5	2.1	2.1	2.2	1.7	1.8	1.8
Repsol YPF SA REPPY USA	14,940 EUR	61.9	52.0	41.1	34.4	30.8	26.3	11.0	9.1	10.0	1.3	1.4	1.1	2.8	2.6	2.5
Average		35.3	31.4	28.5	23.7	21.7	20.3	246.6	29.4	24.4	1.1	1.1	1.0	2.1	2.0	2.0
BG Group PLC BG. GB	9,704 USD	36.9	42.2	38.9	26.9	29.7	28.0	29.3	35.8	42.2	1.2	1.2	1.1	1.9	2.0	1.8

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)	2010	2011(E)	2012(E)
Royal Dutch Shell PLC RDS.A USA	219,873 USD	2.19	1.82	1.62	-5.03	-4.16	-4.71	4.45	5.91	5.91	-0.27	1.38	1.23	49.6	23.7	33.5
Chevron Corp CVX USA	204,606 USD	8.51	10.03	9.82	2.93	5.02	4.85	15.62	20.54	20.41	5.85	7.30	5.41	29.8	22.8	22.8
Petroleo Brasileiro SA Petrobras PBR	144,468 USD	3.37	2.37	1.55	-3.69	-3.99	-5.62	2.89	3.01	2.74	-1.91	-0.32	-1.21	27.6	25.0	25.7
Repsol YPF SA REPPY USA	19,600 USD	5.28	6.39	5.13	-6.96	-4.65	-4.34	4.62	8.44	6.70	0.44	2.94	0.97	17.2	31.5	26.7
Average		4.8	5.2	4.5	-3.2	-1.9	-2.5	6.9	9.5	8.9	1.0	2.8	1.6	31.1	25.8	27.2
BG Group PLC BG. GB	46,294 GBP	0.74	0.74	0.10	-2.11	-2.97	-3.87	1.88	2.36	2.43	-0.59	-0.76	-0.68	20.3	16.8	13.4

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

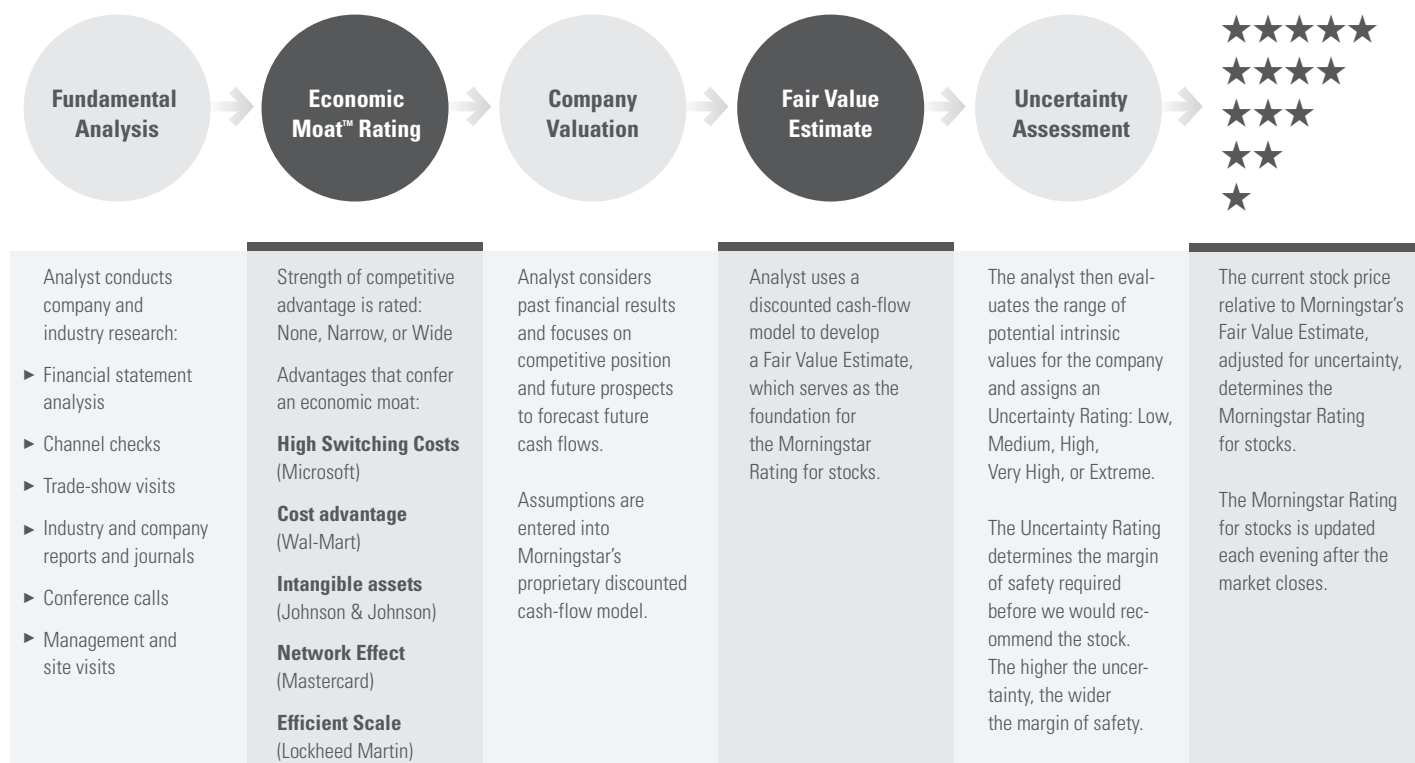
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive
 - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

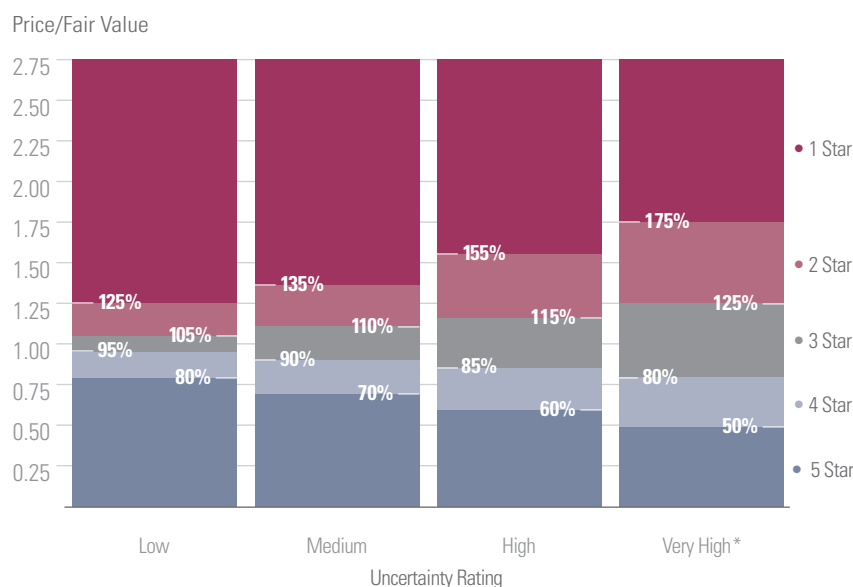
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

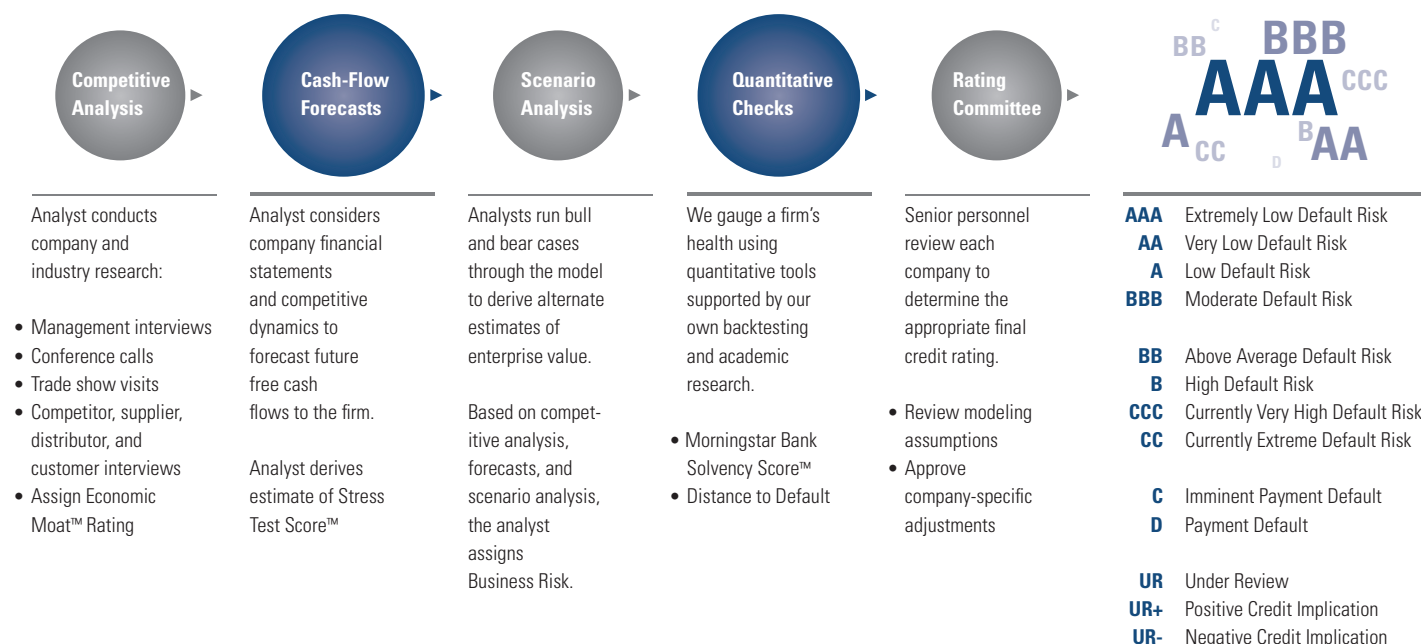
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

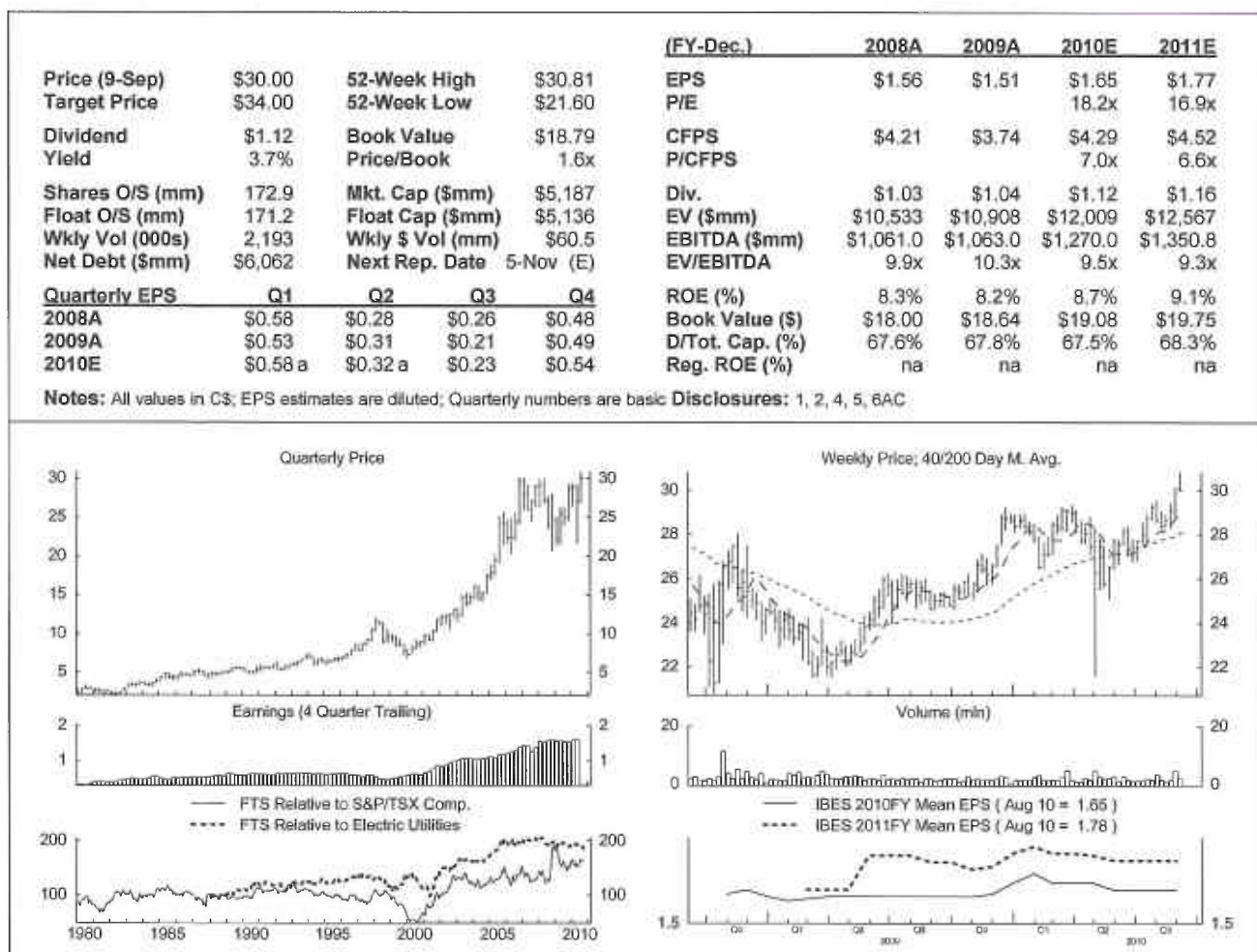
Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

September 9, 2010
Research Fact Sheet
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA, CFA



Company Description – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Belize Electricity (70.1%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the Terasen Gas Companies (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis reported Q2/10 EPS of \$0.32, which was in line with our estimate of \$0.33 and the First Call Mean of \$0.32 (range \$0.30–0.33). Results from Fortis' individual business segments were generally consistent with

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our estimates, but corporate costs were slightly higher than anticipated.

Corporate Developments – On August 26, 2010, Fortis announced that it is part of a partnership that is proposing to construct a 335 MW expansion of the Waneta Dam, located near Trail, B.C. The capital cost of the project is estimated at \$900 million, and the facility is expected to be placed in service during the spring of 2015. Fortis owns a 51% interest in the partnership and will be responsible for operating and maintaining the facility once it is placed into service. Revenues from the facility are expected to be largely capacity-based, which should reduce hydrological risk associated with the facility.

On July 28, 2010, the Accounting Standards Board (AcSB) issued an exposure draft proposing that qualifying entities with rate-regulated operations may elect to defer the adoption of International Financial Reporting Standards (IFRS) until reporting periods beginning on or after January 1, 2013. The Canadian AcSB is of the view that it is prudent for rate-regulated entities to be given the

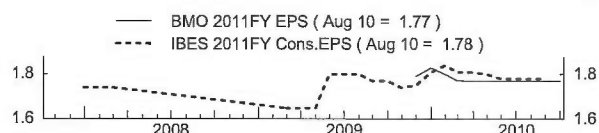
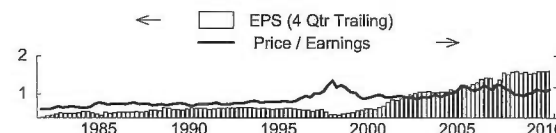
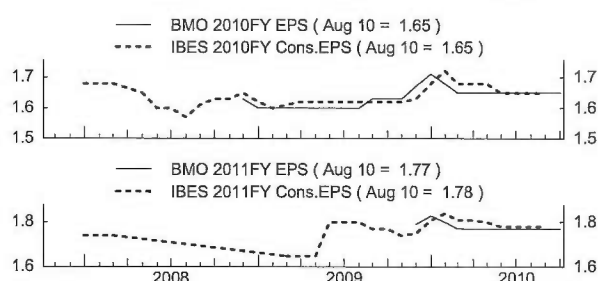
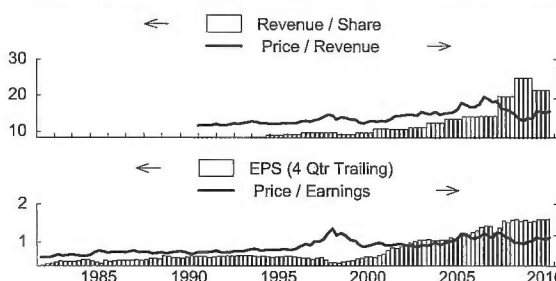
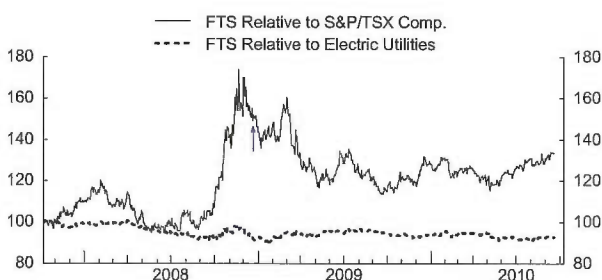
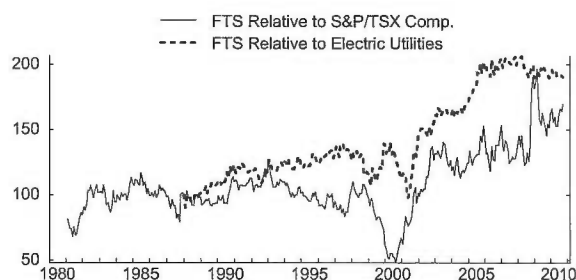
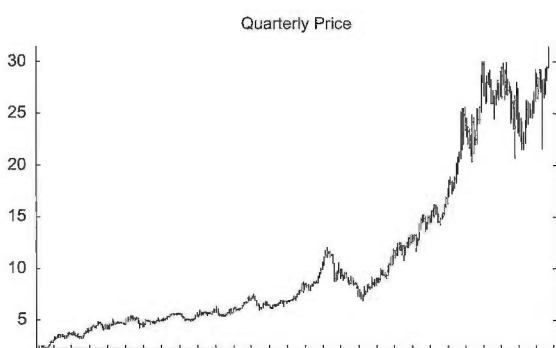
opportunity to delay the adoption of IFRS in light of the fact that the International Accounting Standards Board has not finalized deliberations on the recognition, measurement and disclosure of regulatory assets and liabilities. If the exposure draft is ratified, Fortis will elect to defer the adoption of IFRS until 2013.

Forecasts – Our diluted EPS estimates are \$1.65 in 2010, \$1.77 in 2011 and \$1.84 in 2012.

Valuation – Our target price of \$34 is based on a weighted valuation approach: 15x diluted 2012E EPS of \$1.84 (12.5%); 1.75x 2012E BVPS of \$20.92 (12.5%); and a target yield of 3.50%, assuming 2012E dividends per share of \$1.20 (75%).

Recommendation – We believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Large Cap stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.60	18	1.12	3.8	70	18.79	1.6	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	8.0		14.5			12.4		
10 Year:	10.1		9.3			11.1		
20 Year:	5.0		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2010.

FTS - Rating as of 9-Oct-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: September 17, 2010

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 15x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Distribution of Ratings (June 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starline Universe
Buy	Outperform	37.1%	13.7%	43.6%	40.9%	51.0%	54.4%
Hold	Market Perform	59.3%	10.4%	52.7%	54.8%	45.4%	40.2%
Sell	Underperform	3.6%	11.8%	3.6%	4.3%	3.6%	5.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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A member of BMO  Financial Group

Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

October 19, 2010
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 BMO Nesbitt Burns Inc.
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA, CFA

Updating Valuation Multiples; Outperform Rating Maintained

Event

On October 19, we revised our earnings estimates and P/E and P/BV valuation multiples for Emera Inc. following a meeting with management. In order to be consistent with our sector valuations, we are also revising our P/E valuation multiples for Fortis Inc.

Impact

Positive.

Forecasts

There are no changes to our forecasts.

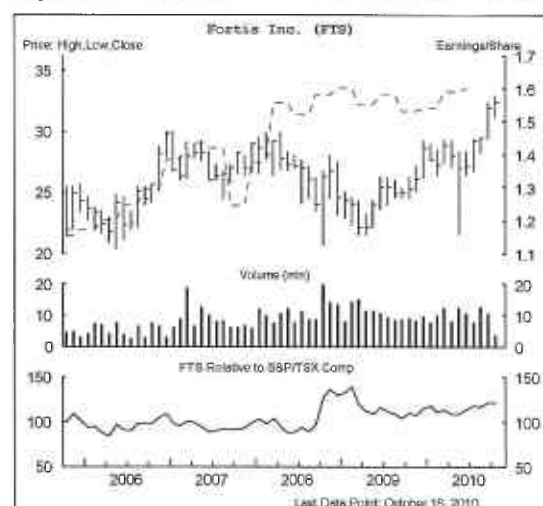
Valuation

Our revised \$35 target price (previously \$34) is based on a weighted valuation approach: 18x (previously 15x) 2012E EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.20 (75%). We have revised our target P/E valuation multiple to be consistent with the average P/E multiple at which Fortis traded during 2005–2007 (range 17–20x P/E).

Recommendation

At current levels, we believe that Fortis's shares are attractively valued considering the company's low-risk, diversified business model. Our rating is Outperform.

Price (18-Oct) \$32.43 **52-Week High** \$32.94
Target Price \$35.00↑ **52-Week Low** \$21.60



(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			19.7x	18.3x
CFPS	\$4.21	\$3.74	\$4.29	\$4.52
P/CFPS			7.6x	7.2x
Div.	\$1.03	\$1.04	\$1.12	\$1.16
EV (\$mm)	\$10,533	\$10,908	\$12,551	\$13,112
EBITDA (\$mm)	\$1,061.0	\$1,063.0	\$1,270.0	\$1,350.8
EV/EBITDA	9.9x	10.3x	9.9x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58a	\$0.32a	\$0.23	\$0.54
Dividend	\$1.12	Yield		3.5%
Book Value	\$18.79	Price/Book		1.7x
Shares O/S (mm)	172.9	Mkt. Cap (\$mm)		\$5,607
Float O/S (mm)	171.2	Float Cap (\$mm)		\$5,552
Wkly Vol (000s)	2,216	Wkly \$ Vol (mm)		\$62.5
Net Debt (\$mm)	\$6,062.0	Next Rep. Date		05-Nov (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.65; 2011E: \$1.78

Changes

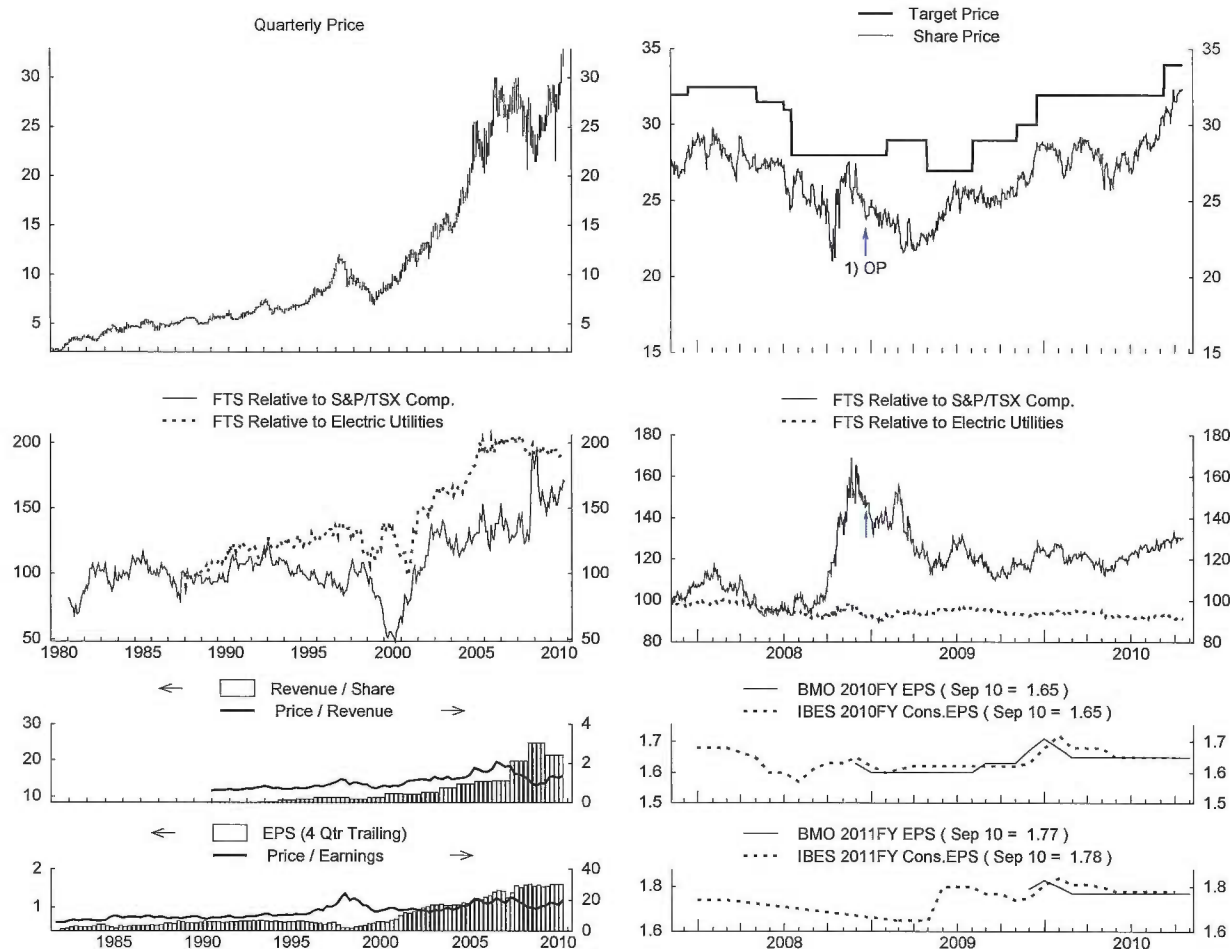
Target
 \$34.00 to \$35.00

Table 1: Consolidated Summary

19-Oct-10												Michael McGowan	
Current Price:		\$32.91										BMO Capital Markets	
12-Month Target Price:		\$35.00											
ROR:		9.9%											
		Recommendation:										Outperform	
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.00	\$1.05	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.67	\$1.81	\$1.87	
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.65	\$1.77	\$1.84	
Segmented EPS													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20	\$0.20	
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	
Fortis Properties		\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	
Fortis Generation		\$0.07	\$0.10	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.09	\$0.11	\$0.11	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.16	\$0.17	\$0.17	\$0.17	
FortisAlberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.34	\$0.40	\$0.43	\$0.45	
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.27	\$0.29	
Terasan Int.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.76	\$0.81	\$0.81	
Other/Corporate		(\$0.03)	(\$0.12)	(\$0.25)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.43)	(\$0.44)	(\$0.43)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.51	\$0.67	\$0.62	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	50.2%	64.2%	67.5%	66.4%	64.2%	64.2%	
Average Shares (mm)		65.1	69.2	64.7	101.8	103.6	137.6	157.4	170.2	172.1	173.0	177.4	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.70	\$12.26	\$15.72	\$18.00	\$18.64	\$19.08	\$19.75	\$20.02	
Market Valuation													
Price: High		\$13.28	\$15.34	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.85	-	-	-	
Price: Low		\$10.75	\$11.23	\$14.23	\$17.00	\$20.35	\$24.00	\$20.70	\$21.52	-	-	-	
Price: Current		-	-	-	-	-	-	-	-	\$32.91	-	-	
P/E Ratio: High		13.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	-	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	-	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	19.7	18.2	17.5	
Price/Book Value: High		1.5	1.7	1.7	3.2	2.4	1.8	1.7	1.5	-	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	1.7	1.7	1.6	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	-	-	-	
Yield: Low Price		4.5%	4.5%	3.8%	3.5%	3.3%	3.3%	5.0%	4.8%	-	-	-	
Yield: Current		-	-	-	-	-	-	-	-	3.4%	3.5%	3.5%	
Balance Sheet (\$mm)													
Debt (S-T)		181.5	142.5	222.1	80.3	182.5	911.0	750.0	639.0	552.9	507.0	755.8	
Debt (L-T)		925.5	1,000.9	1,881.5	2,133.8	2,404.5	4,576.0	4,840.0	5,237.0	5,200.3	5,265.4	5,612.0	
Minority Interest		-40.0	36.8	37.5	39.5	130.0	115.0	145.0	120.0	123.0	122.0	123.0	
Preferred Shares		0.0	125.0	321.5	319.5	442.0	442.0	657.0	657.0	911.0	917.0	917.0	
Convertible Debentures		14.4	24.5	32.9	32.3	53.5	45.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		384.5	514.7	1,003.1	1,232.4	1,235.7	2,600.7	3,046.7	3,192.7	3,258.1	3,419.2	3,738.7	
		1,746.9	1,950.4	3,492.7	3,605.8	4,568.1	8,591.7	9,391.7	9,902.7	10,145.3	10,706.4	11,450.5	
Balance Sheet (%)													
Debt (S-T)		10.4%	7.3%	6.6%	2.1%	4.0%	10.6%	8.0%	6.5%	5.5%	5.8%	6.8%	
Debt (L-T)		53.0%	51.6%	53.5%	56.0%	54.4%	52.7%	51.8%	52.9%	51.3%	52.7%	50.8%	
Minority Interest		2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.6%	1.2%	1.2%	1.1%	1.1%	
Preferred Shares		0.0%	6.4%	9.2%	8.4%	5.6%	5.1%	7.1%	6.7%	9.0%	8.6%	8.0%	
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.2%	31.5%	28.6%	31.2%	27.8%	29.9%	32.4%	32.2%	32.2%	31.7%	33.2%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.6	89.1	119.2	143.2	187.4	252.5	252.0	288.1	312.5	331.8	
Cash Flow from Operations		134.4	150.7	283.7	320.0	279.8	373.0	653.0	637.0	740.9	798.7	825.5	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.60	20	1.12	3.5	70	18.79	1.7	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.8		14.5			12.4		
10 Year:	10.0		9.3			11.1		
20 Year:	4.7		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2010.

FTS - Rating as of 7-Nov-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: October 18, 2010

IMPORTANT DISCLOSURES

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (September 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	36.5%	13.6%	40.7%	40.4%	49.1%	55.4%
Hold	Market Perform	60.2%	11.3%	55.9%	55.6%	49.1%	39.7%
Sell	Underperform	3.3%	12.5%	3.4%	4.0%	1.9%	1.6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

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Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$32.70
Target Price: \$35.00

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

November 5, 2010
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA, CFA

Q3 Comparable Earnings in Line

Impact

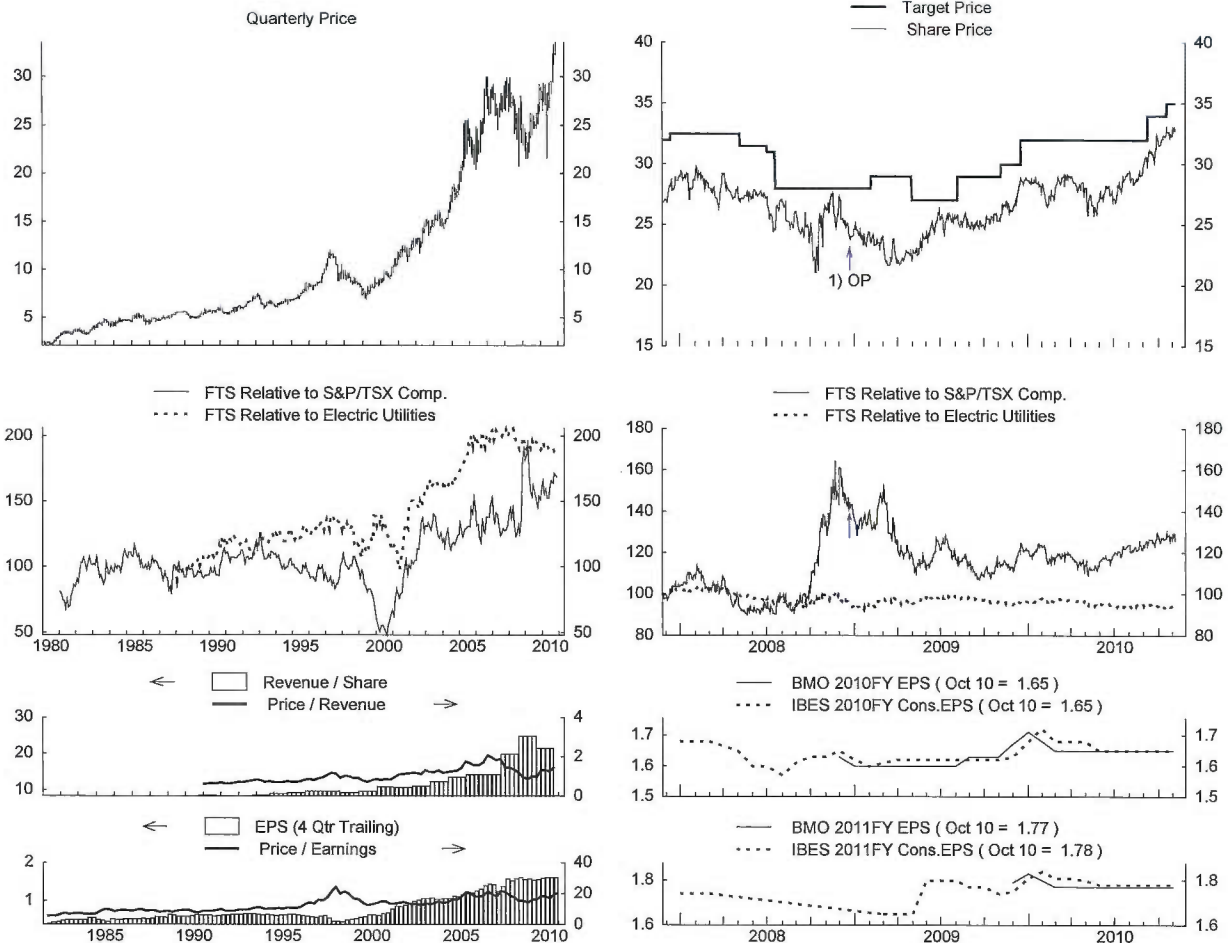
Neutral

Details & Analysis

Fortis reported Q3/10 GAAP EPS of \$0.26. After adjusting for the recovery of a \$4 million expense recorded in Q4/09 regarding the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable EPS were \$0.24. This is consistent with our estimate of \$0.23 and the First Call Mean of \$0.24 (range \$0.23–0.26). The majority of the company's business segments appear to be performing well. Earnings from most of the business segments either met or exceeded our estimates, with earnings at FortisAlberta and FortisGeneration being particularly strong. There were no material changes to Fortis's capital expenditure program. The company expects to invest \$1.1 billion of capital in 2010 (year-to-date spending was \$703 million) and approximately \$5.5 billion during 2010-2014. Overall, this appeared to be a steady quarter. We continue to believe that Fortis's shares are attractively valued considering the company's relatively low-risk business model.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	6.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.89	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.60	20	1.12	3.5	70	18.79	1.7	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.8		14.5			12.4		
10 Year:	10.0		9.3			11.1		
20 Year:	4.7		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2010.

FTS - Rating as of 26-Nov-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: November 4, 2010

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

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Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

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Distribution of Ratings (September 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	36.5%	13.6%	40.7%	40.4%	49.1%	55.4%
Hold	Market Perform	60.2%	11.3%	55.9%	55.6%	49.1%	39.7%
Sell	Underperform	3.3%	12.5%	3.4%	4.0%	1.9%	4.8%

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OP = Outperform - Forecast to outperform the market;

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Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

November 7, 2010
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
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 Assoc: Mark Laing, CA, CFA

Another Steady Quarter: Q3/10 Results in Line

Event

Fortis reported Q3/10 GAAP EPS of \$0.26. After adjusting for the recovery of a \$4 million expense recorded in Q4/09 regarding the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable EPS were \$0.24. This is consistent with our estimate of \$0.23 and the First Call Mean of \$0.24 (range \$0.23–0.26). Earnings from most of the business segments either met or exceeded our estimates, with earnings at FortisAlberta, FortisBC and FortisGeneration being particularly strong and offsetting slightly higher-than-expected corporate expenses.

Impact

Neutral.

Forecasts

There are no changes to our EPS estimates; however, we are increasing our dividend estimates slightly in order to better align our forecast payout ratios for 2011 and 2012 with payout ratios experienced in 2009-2010E. Our 2011 DPS increases to \$1.18 from \$1.16 and our 2012E DPS estimate increases to \$1.24 from \$1.20.

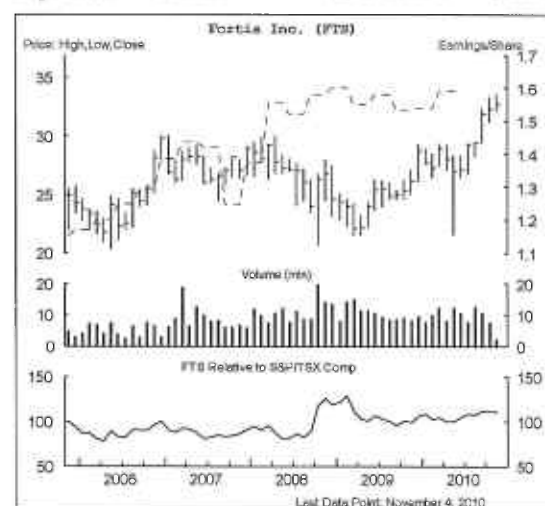
Valuation

Our \$35.50 (previously \$35.00) target price is based on a weighted valuation approach: 18x (previously 15x) 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.78 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

Recommendation

At current levels, we believe that Fortis's shares are attractively valued considering the company's low-risk, diversified business model. Our rating is Outperform.

Price (5-Nov) \$33.26
Target Price \$35.50↑
52-Week High \$33.58
52-Week Low \$21.60



(FY-Dec.)	2008A	2009A	2010E	2011E
EPS	\$1.56	\$1.51	\$1.65	\$1.77
P/E			20.2x	18.8x
CFPS	\$4.21	\$3.74	\$4.29	\$4.52
P/CFPS			7.8x	7.4x
Div.	\$1.03	\$1.04	\$1.12	\$1.18
EV (\$mm)	\$10,533	\$10,908	\$12,525	\$13,086
EBITDA (\$mm)	\$1,061.0	\$1,063.0	\$1,270.0	\$1,350.8
EV/EBITDA	9.9x	10.3x	9.9x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2008A	\$0.58	\$0.28	\$0.26	\$0.48
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58a	\$0.32a	\$0.24a	\$0.53↓
Dividend	\$1.12	Yield		3.4%
Book Value	\$18.75	Price/Book		1.8x
Shares O/S (mm)	173.6	Mkt. Cap (\$mm)		\$5,773
Float O/S (mm)	171.7	Float Cap (\$mm)		\$5,710
Wkly Vol (000s)	2,205	Wkly \$ Vol (mm)		\$62.7
Net Debt (\$mm)	\$6,195.0	Next Rep. Date		10-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.65; 2011E: \$1.78

Changes

Quarterly EPS
 Q4/10E \$0.54 to \$0.53
Target
 \$35.00 to \$35.50

Another Steady Quarter – Q3/10 Results in Line

Fortis reported Q3/10 GAAP EPS of \$0.26. After adjusting for the recovery of a \$4 million expense recorded in Q4/09 regarding the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane, comparable EPS were \$0.24. This is consistent with our estimate of \$0.23 and the First Call Mean of \$0.24 (range \$0.23–0.26). Earnings from most of the business segments either met or exceeded our estimates, with earnings at FortisAlberta, FortisBC and FortisGeneration being particularly strong and offsetting slightly higher than expected corporate expenses.

Fortis has historically grown through acquisition and its last major transaction was the acquisition of the Terasen Gas utilities, which was completed in May 2007. Now that financial markets have stabilized, we would expect Fortis to continue to review potential acquisition candidates, with the most likely targets regulated utility companies operating in the U.S. Absent an acquisition, we believe that Fortis will continue to advance its capital expenditure program and seek out accretive greenfield/brownfield development opportunities. The company's announcement in late August that it had acquired a 51% interest in the partnership responsible for constructing the 335 MW Wanteta Dam expansion in Trail, BC, is a good example of Fortis developing projects that complement its regulated utility operations.

There are no changes to the company's expenditure program. Fortis expects to invest \$1.1 billion of capital in 2010 and approximately \$5 billion during 2010–2014. Although the company has not finalized its capital expenditure budgets for 2011, we expect 2011E capital expenditures to be consistent with 2010 levels.

Our \$35.50 (previously \$35.00) target price is based on a weighted valuation approach: 18x (previously 15x) 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.78 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%). The slight increase to our target price was driven by revisions to our dividend outlook.

We believe that Fortis's shares are attractively valued considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Q3 Results

As set out in Table 1, on a comparable basis, net income increased by 13.9% in Q3/10 versus Q3/09. In order to present results on a comparable basis, Q3/10 GAAP income was adjusted for the recovery of a \$4 million expense recorded in Q4/09 regarding the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane. Since we normalized earnings for this expense in Q4/09, in order to be consistent we have adjusted Q3/10 earnings to exclude the recovery.

Table 1: Historical Q3 Income by Business Segment

	Q3/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q3/10 Adjusted Earnings (\$mm)	Q3/09 GAAP	Adj. (\$mm)	Q3/09 Adjusted Earnings (\$mm)	Variance Q3/10 Adj. vs. Q3/09 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	(5.0)	(4.0)	(9.0)	(3.0)	-	(3.0)	(6.0)	200.0%
Regulated Electric Utilities - Canadian								
FortisAlberta	19.0	-	19.0	15.0	-	15.0	4.0	26.7%
FortisBC	11.0	-	11.0	9.0	-	9.0	2.0	22.2%
Newfoundland Power	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Other Canadian	5.0	-	5.0	5.0	-	5.0	0.0	0.0%
	43.0	-	43.0	36.0	-	36.0	7.0	19.4%
Regulated Electric Utilities - Caribbean	8.0	-	8.0	7.0	-	7.0	1.0	14.3%
Non-Regulated - Fortis Generation	9.0	-	9.0	4.0	-	4.0	5.0	125.0%
Non-Regulated - Fortis Properties	9.0	-	9.0	9.0	-	9.0	0.0	0.0%
Corporate and Other	(19.0)	-	(19.0)	(17.0)	-	(17.0)	(2.0)	11.8%
Net Earnings Applicable to Common Shares	45.0	(4.0)	41.0	36.0	0.0	36.0	(5.0)	13.9%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows below.

Regulated Gas Utilities – Terasen Gas Companies

The adjusted Q3/10 net loss of \$9 million from Terasen Gas was greater than our estimate of a \$5.9 million loss and a net loss of \$3 million in Q3/09. The increased loss in Q3/10 was primarily the result of lower gas volumes during the quarter and increased operating and maintenance expenses at Terasen Gas Inc.

Regulated Electric Utilities – FortisAlberta

Q3/10 net income of \$19 million was greater than our estimate of \$17.4 million and Q3/09 net income of \$15 million.

Earnings in Q3/10 benefitted from an increase in customer distribution rates arising from the 2009 Alberta Utilities Commission (AUC) Generic Cost of Capital Hearing, which increased FortisAlberta's allowed ROE to 9% from 8.51% and increased the company's deemed equity thickness to 41% from 37%.

During the quarter, FortisAlberta recorded a revenue accrual of \$22 million (with \$14 million of the total relating to H1/10) to reflect higher approved rates associated with a regulatory decision issued for its 2010–2011 rate filing. The revenue increase will offset rising costs associated with rate base growth (amortization, operating expense and financing charges) and is not expected to significantly increase earnings. The rate increase, however, will improve cash flow at FortisAlberta.

Regulated Electric Utilities – FortisBC

Q3/10 net income of \$11 million was greater than Q3/09 net income of \$9 million and our estimate of \$8.6 million. Higher revenues due to the increase in customer electricity rates were partially offset by increased operating costs and lower electricity sales due to unfavourable weather conditions.

Regulated Electric Utilities – Newfoundland Power

Q3/10 net income of \$8 million was consistent with our estimate of \$8 million and slightly greater than Q3/09 net income of \$7 million. Newfoundland Power appears to be having a strong year. Reported net income was consistent with our estimate, despite additional operating costs of approximately \$2 million, which were incurred to repair damage caused by Hurricane Igor in September.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$8 million in Q3/10 versus our estimate of \$8.6 million and Q3/09 net income of \$7 million. The increase in Q3/10 earnings was largely driven by a \$1 million deferral of previously expensed business taxes at Belize Electricity, which are expected to be collected in future rates.

Unregulated – Fortis Generation

Fortis Generation reported net income of \$9 million, which was greater than our estimate of \$5.7 million and Q3/09 net income of \$4 million. The difference between actual and expected results was due to a combination of increased production in Belize as a result of higher rainfall.

Unregulated – Fortis Properties

Fortis properties reported net income of \$9 million, which was consistent with our estimate of \$9.3 million and Q3/09 net income of \$9 million. Occupancy decreased to 93.7% at the end of the quarter versus 96.2% at the end of Q3/09. Revenue per available room increased to \$89.54 during Q3/10 versus \$89.02 during Q3/09.

Estimates

There are no changes to our EPS estimates; however, we are increasing our dividend estimates slightly in order to better align our forecast payout ratios for 2011 and 2012 with payout ratios experienced in 2009–2010E. Our 2011 DPS increases to \$1.18 from \$1.16 and our 2012E DPS estimate increases to \$1.24 from \$1.20.

Table 2: Consolidated Summary

05-Nov-10

Current Price: \$33.26

12-Month Target Price: \$35.50

ROR: 10.3%

Michael McGowan

BMO Capital Markets

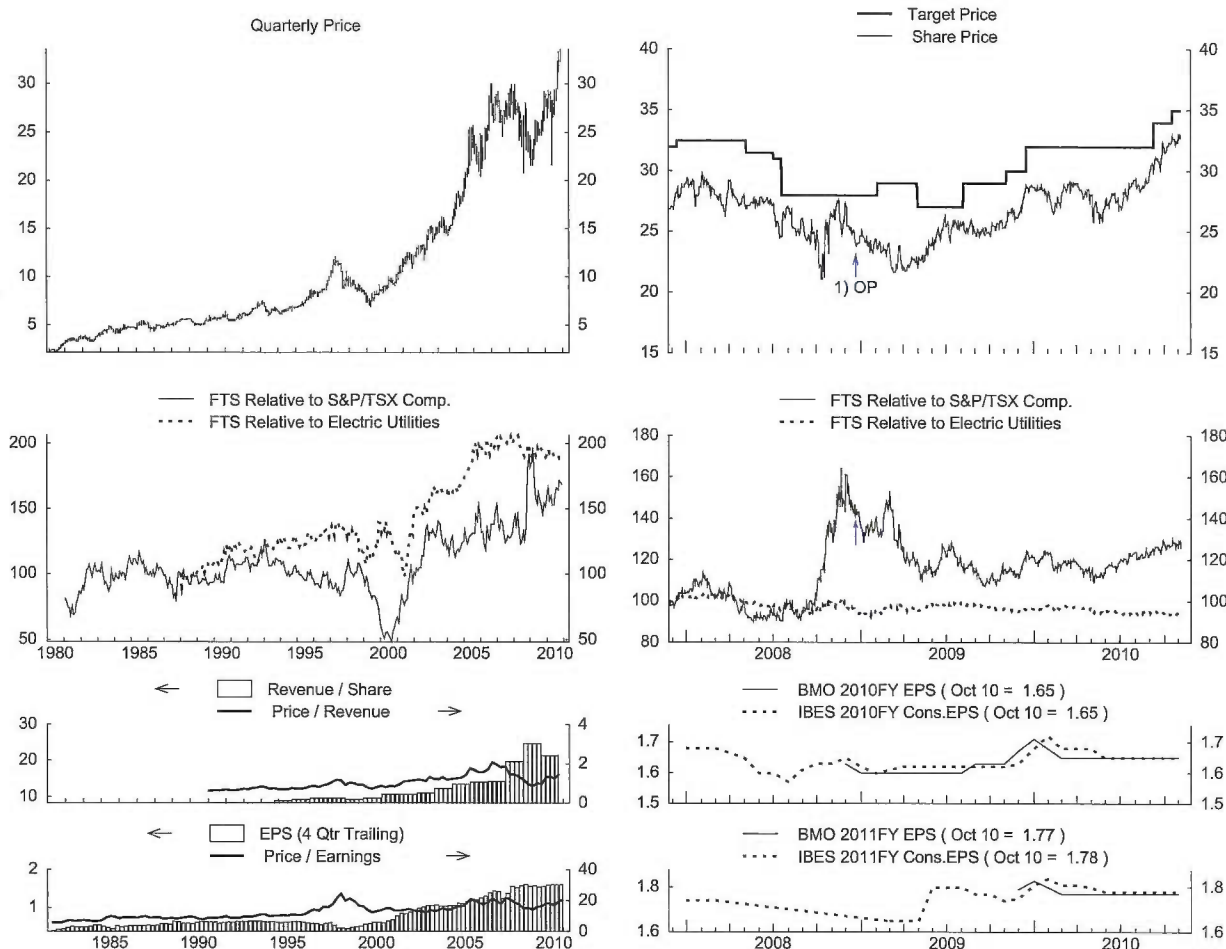
Recommendation:

Outperform

	Year Ending December 31											Recommendation:	Outperform
	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E		
Total Basic Earnings Per Share	\$0.97	\$1.06	\$1.09	\$1.17	\$1.35	\$1.35	\$1.20	\$1.54	\$1.67	\$1.81	\$1.87		
Total Diluted Earnings Per Share	\$0.98	\$1.03	\$0.90	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.65	\$1.77	\$1.84		
Segmented EPS													
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.39	\$0.32	\$0.20	\$0.19	\$0.30	\$0.20	\$0.20		
Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11		
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15		
Fortis Generation	\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.11	\$0.11	\$0.11		
Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.15	\$0.23	\$0.24	\$0.19	\$0.15	\$0.15	\$0.17	\$0.17		
FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.36	\$0.29	\$0.35	\$0.40	\$0.43	\$0.44		
Fortis3C	\$0.00	\$0.00	\$0.21	\$0.34	\$0.35	\$0.23	\$0.22	\$0.22	\$0.25	\$0.27	\$0.29		
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.77	\$0.81	\$0.81		
OtherCorporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.39)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.43)	(\$0.42)		
Dividends	\$0.49	\$0.62	\$0.34	\$0.51	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.18	\$1.24		
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.4%	59.2%	65.2%	67.0%	67.1%	65.3%	65.3%		
Average Shares (mm)	68.1	69.2	64.7	101.8	103.5	137.5	157.4	170.2	172.4	173.7	173.7		
Net Book Value	\$5.50	\$5.84	\$10.47	\$11.75	\$12.25	\$15.72	\$15.00	\$18.64	\$19.00	\$19.64	\$20.76		
Market Valuation													
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.54	\$28.86	-	-	-		
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.80	\$20.70	\$21.62	-	-	-		
Plus: Current	-	-	-	-	-	-	-	-	\$33.26	-	-		
P/E Ratio: High	13.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	-	-	-		
P/E Ratio: Low	11.1	10.9	12.5	14.5	14.7	18.0	12.9	14.0	-	-	-		
P/E Ratio: Current	-	-	-	-	-	-	-	-	19.9	18.4	17.8		
Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	-	-	-		
Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-	-	-		
Price/Book Value: Current	-	-	-	-	-	-	-	-	1.8	1.7	1.6		
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.3%	2.7%	3.4%	3.6%	-	-	-		
Yield: Low Price	4.6%	4.5%	3.6%	3.6%	3.3%	2.9%	5.0%	4.8%	-	-	-		
Yield: Current	-	-	-	-	-	-	-	-	3.4%	3.5%	3.7%		
Balance Sheet (\$mm)													
Debt (\$-T)	181.6	142.6	229.1	80.3	182.5	911.0	850.0	699.0	953.6	610.7	709.9		
Debt (\$-LT)	625.5	1,005.9	1,881.6	2,133.8	2,494.3	4,575.0	4,840.0	5,237.0	5,200.3	5,686.4	5,812.0		
Minority Interest	40.0	36.8	37.5	39.5	130.0	115.0	145.0	123.0	123.0	123.0	123.0		
Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	657.0	657.0	917.0	917.0	917.0		
Convertible Debentures	14.4	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	44.0		
Shareholders' Equity	559.5	516.7	1,000.1	1,213.4	1,275.7	2,500.7	3,045.7	3,122.7	3,227.4	3,416.3	3,788.5		
	1,740.0	1,650.4	3,462.7	3,866.8	4,588.1	8,591.7	9,391.7	9,902.7	10,146.3	10,795.4	11,450.5		
Balance Sheet (%)													
Debt (\$-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	5.9%	6.0%	5.5%	5.7%	5.7%		
Debt (\$-LT)	53.0%	51.5%	53.9%	55.0%	54.4%	52.7%	51.5%	52.9%	51.3%	52.7%	50.6%		
Minority Interest	2.3%	1.9%	1.1%	1.0%	2.6%	1.3%	1.5%	1.2%	1.2%	1.1%	1.1%		
Preferred Shares	0.0%	6.4%	9.2%	8.8%	9.6%	5.1%	7.1%	6.7%	9.0%	8.9%	8.0%		
Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%		
Shareholders' Equity	33.5%	31.3%	28.5%	31.2%	27.8%	29.2%	32.4%	32.2%	32.5%	31.6%	32.1%		
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Income Statement													
Net Profit to Common	63.9	73.6	69.1	119.2	149.2	187.4	252.5	302.0	287.8	313.9	333.2		
Cash Flow from Operations	134.4	160.7	283.7	320.0	379.8	373.0	663.0	637.0	742.5	700.1	827.3		

Source: Company reports, BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.60	20	1.12	3.5	70	18.79	1.7	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.8		14.5			12.4		
10 Year:	10.0		9.3			11.1		
20 Year:	4.7		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2010.

FTS - Rating as of 26-Nov-07 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: November 4, 2010

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (September 30, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	36.5%	13.6%	40.7%	40.4%	49.1%	55.4%
Hold	Market Perform	60.2%	11.3%	55.9%	55.6%	49.1%	39.7%
Sell	Underperform	3.3%	12.5%	3.4%	4.0%	1.9%	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

December 14, 2010

Research Comment

Toronto, Ontario

Michael McGowan, CA, CFA

BMO Nesbitt Burns Inc.

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Assoc: Mark Laing, CA, CFA

Annual Dividend Increased by 3.6%; Outperform Rating Maintained

Event

On December 14, 2010, Fortis announced that it is increasing its annual dividend by 3.6% to \$1.16/share from \$1.12/share. The revised quarterly dividend of \$0.29/share will be payable on March 1 to shareholders of record as of February 11, 2011.

Impact

Neutral. The revised annual dividend of \$1.16/share is slightly lower than the FY 2011E DPS forecast of \$1.18/share that we published in our research comment regarding Q3/2010 earnings.

Forecasts

We have updated our estimates to reflect FY 2011E dividends of \$1.16. We have also trimmed our FY 2012E dividend estimate to \$1.22 from \$1.24.

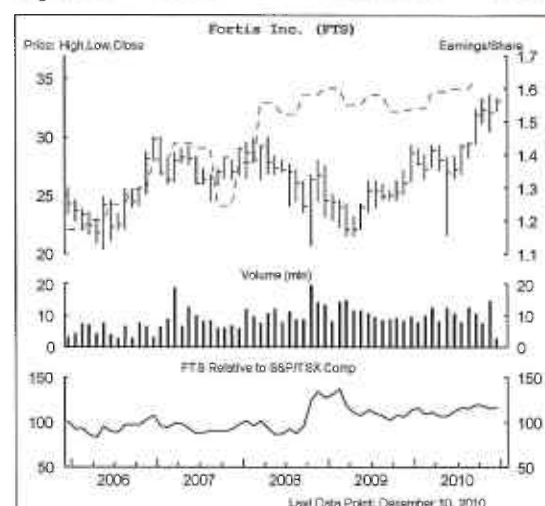
Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.82 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (13-Dec) \$33.50 52-Week High \$33.63
 Target Price \$35.50 52-Week Low \$21.60



(FY-Dec.)	2009A	2010E	2011E	2012E
EPS	\$1.51	\$1.65	\$1.77	\$1.84
P/E		20.3x	18.9x	18.2x
CFPS	\$3.74	\$4.31	\$4.54	\$4.65
P/CFPS		7.8x	7.4x	7.2x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,623	\$13,200	\$13,628
EBITDA (\$mm)	\$1,063.0	\$1,271.0	\$1,351.7	\$1,404.2
EV/EBITDA	10.3x	9.9x	9.8x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010E	\$0.58a	\$0.32a	\$0.24a	\$0.53
2011E	\$0.62	\$0.35	\$0.25	\$0.58
Dividend	\$1.12	Yield		3.3%
Book Value	\$18.75	Price/Book		1.8x
Shares O/S (mm)	173.6	Mkt. Cap (mm)		\$5,815
Float O/S (mm)	171.7	Float Cap (mm)		\$5,752
Wkly Vol (000s)	2,308	Wkly \$ Vol (mm)		\$67.4
Net Debt (\$mm)	\$6,195	Next Rep. Date		10-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

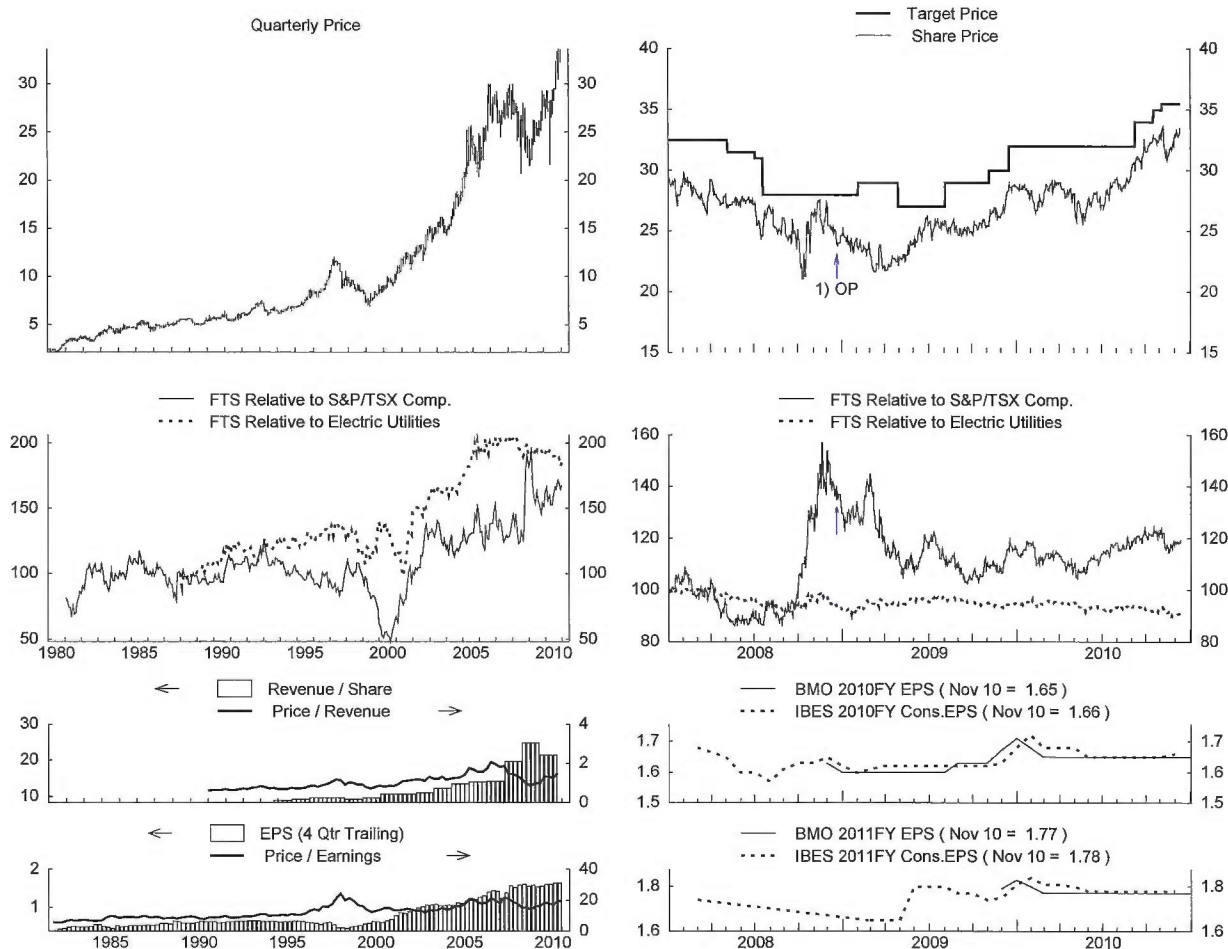
First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.65; 2011E: \$1.77; 2012E: \$1.84

Table 1: Consolidated Summary

14-Dec-10												Michael McGowan
Current Price:		\$33.50										BMO Capital Markets
12-Month Target Price:		\$35.50										
ROR:		9.4%										
		Recommendation:										Outperform
		Year Ending December 31										
		2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.05	\$1.17	\$1.35	\$1.35	\$1.60	\$1.54	\$1.67	\$1.81	\$1.87
Total Diluted Earnings Per Share		\$0.93	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.65	\$1.77	\$1.84
Segmented EPS												
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.30	\$0.19	\$0.20	\$0.20	\$0.20
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15
Fortis Generation		\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.11	\$0.11	\$0.11
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.15	\$0.17	\$0.17
FortisAlberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.40	\$0.43	\$0.44
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.25	\$0.27	\$0.29
Tetrasen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.71	\$0.72	\$0.77	\$0.81	\$0.81
Other/Corporate		(\$0.08)	(\$0.12)	(\$0.38)	(\$0.30)	(\$0.32)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.42)	(\$0.43)	(\$0.42)
Dividends		\$0.49	\$0.52	\$0.64	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.15	\$1.23
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	50.2%	54.2%	57.6%	57.0%	54.2%	55.2%
Average Shares (mm)		65.1	69.2	84.7	101.6	103.6	137.5	157.4	170.2	173.4	173.7	175.1
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.35	\$15.77	\$18.00	\$18.54	\$19.00	\$19.67	\$20.22
Market Valuation												
Price: High		\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.54	\$28.85	-	-	-
Price: Low		\$10.75	\$11.63	\$14.22	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	-	-	-
Price: Current		-	-	-	-	-	-	-	\$33.50	-	-	-
P/E Ratio: High		13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	-	-	-
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	-	-	-
P/E Ratio: Current		-	-	-	-	-	-	-	-	20.0	18.8	17.9
Price/Book Value: High		1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	-	-	-
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	-	-	-
Price/Book Value: Current		-	-	-	-	-	-	-	-	1.6	1.7	1.6
Yield: High Price		3.7%	3.4%	3.0%	3.4%	2.2%	2.7%	3.4%	3.6%	-	-	-
Yield: Low Price		4.5%	4.5%	3.8%	3.0%	3.3%	3.5%	3.0%	4.8%	-	-	-
Yield: Current		-	-	-	-	-	-	-	-	3.3%	3.5%	3.6%
Balance Sheet (\$mm)												
Debt (S-T)		181.6	142.6	229.1	80.3	182.5	911.0	680.0	639.0	563.1	500.7	758.4
Debt (L-T)		925.5	1,005.9	1,581.5	2,133.5	2,494.5	4,679.0	4,840.0	5,237.0	5,200.3	5,885.4	5,873.0
Minority Interest		40.0	26.8	37.5	39.6	130.0	115.0	145.0	123.0	123.0	123.0	123.0
Preferred Shares		0.0	135.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0
Convertible Debentures		14.4	34.5	22.9	22.3	55.5	45.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity		856.5	816.7	1,000.1	1,213.2	1,276.7	2,600.7	3,046.7	3,152.7	3,297.6	3,620.0	3,798.9
		1,746.9	1,950.4	3,432.7	3,808.5	4,588.1	8,691.7	9,391.7	9,902.7	10,145.1	10,756.2	11,450.3
Balance Sheet (%)												
Debt (S-T)		10.4%	7.3%	6.6%	3.1%	4.0%	10.5%	6.9%	6.5%	5.5%	5.6%	6.6%
Debt (L-T)		53.0%	51.0%	53.9%	55.0%	54.4%	52.7%	51.5%	52.6%	51.3%	52.7%	50.8%
Minority Interest		2.3%	1.2%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.2%	1.1%	1.1%
Preferred Shares		0.0%	6.4%	9.2%	8.4%	9.0%	5.1%	7.1%	6.7%	9.0%	8.8%	8.0%
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity		33.6%	31.5%	28.0%	31.9%	27.8%	29.9%	32.4%	32.2%	32.5%	31.7%	33.2%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement												
Net Profit to Common		63.3	73.5	89.1	119.2	143.2	167.4	252.5	262.0	265.1	313.9	333.2
Cash Flow from Operations		154.4	180.7	253.7	320.0	279.8	373.0	653.0	637.0	742.5	750.1	827.3

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.63	20	1.12	3.5	69	18.75	1.7	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	7.2		11.8			12.4		
10 Year:	10.2		9.3			11.1		
20 Year:	4.8		5.7			7.5		

* Current EPS is the 4 Quarter Trailing to Q3/2010.

FTS - Rating as of 2-Jan-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: December 13, 2010

IMPORTANT DISCLOSURES

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Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (September 30, 2010)

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$34.24
Target Price: \$35.50

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

February 10, 2011
Brief Research Note
Gas & Electric Utilities

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Q4/10 Results Slightly Below Expectations

Impact

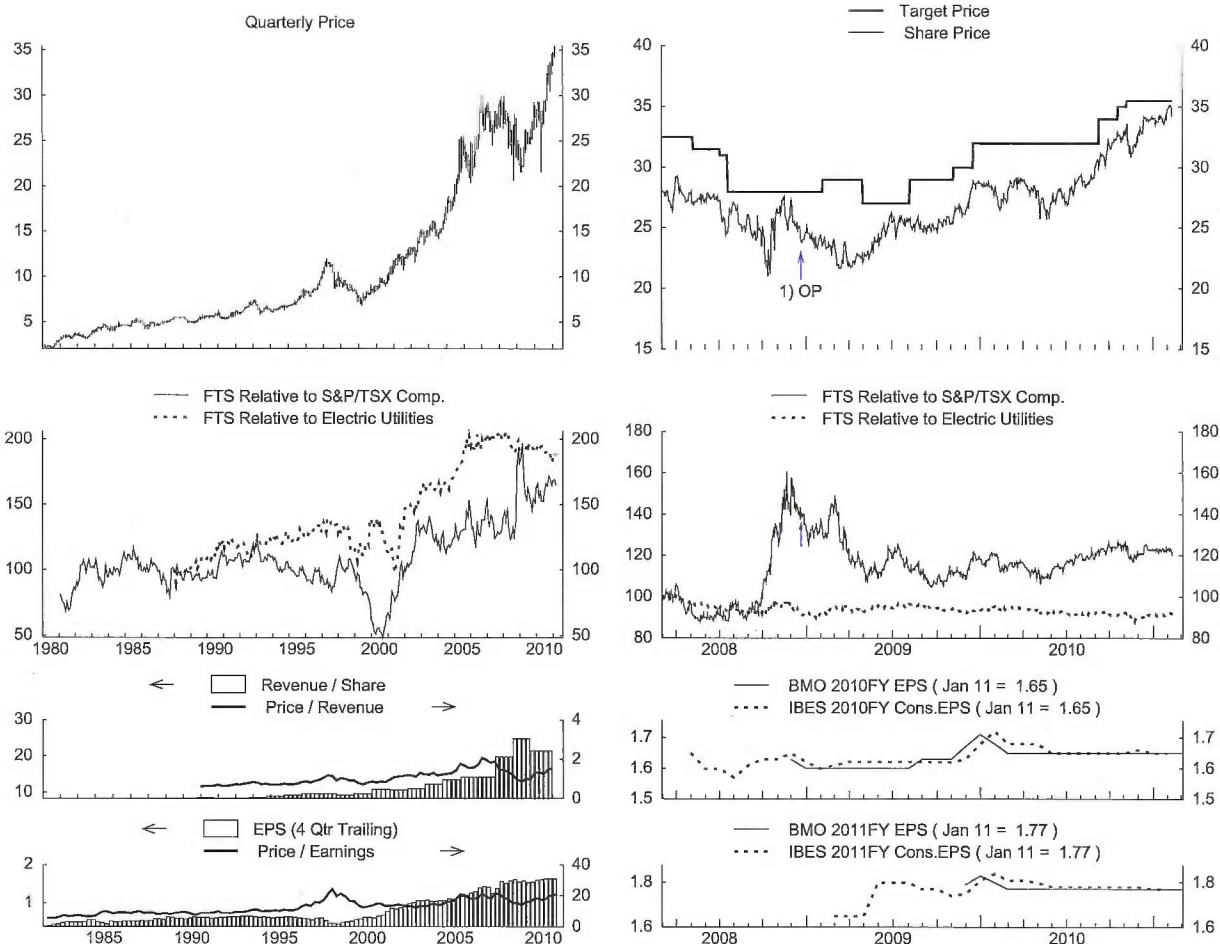
Neutral

Details & Analysis

Fortis reported Q4/10 EPS of \$0.49, which was slightly below our estimate of \$0.53 and the First Call Mean estimate of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at Fortis Alberta, Terasen Gas, and FortisCaribbean, partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis is forecasting capital expenditures of \$1.2 billion and the company expects to invest \$5.5 billion in capital projects over the next five years. Disclosure in the release stated that due to the uncertainty surrounding the treatment of regulatory assets and liabilities under IFRS, Fortis is planning to adopt U.S. GAAP in 2012. Overall, this appeared to be a very clean quarter. Although Q4/10 results were slightly lower than expected, full-year adjusted 2010 earnings of \$281 million increased by 7.3% compared to adjusted earnings of \$262 million in 2009. This represents fairly significant earnings growth for a company whose primary business is the ownership and operation of regulated utilities.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.63	21	1.12	3.2	69	18.75	1.8	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.9		11.8			9.8		
10 Year:	10.6		9.3			10.4		
20 Year:	5.0		5.7			7.2		

* Current EPS is the 4 Quarter Trailing to Q3/2010.

FTS - Rating as of 29-Feb-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: February 9, 2011

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Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (December 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

February 10, 2011
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
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 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA, CFA

Q4/10 Below Slightly Below Expectations; Long-Term Growth Profile Remains Intact

Event

Fortis reported Q4/10 EPS of \$0.49, which was slightly below our estimate of \$0.53 and the First Call Mean estimate of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at FortisAlberta, Terasen Gas and FortisCaribbean, partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis is forecasting capital expenditures of \$1.2 billion and expects to invest \$5.5 billion in capital projects over the next five years.

Impact

Neutral. Overall, this appeared to be a very clean quarter. Although Q4/10 results were slightly lower than expected, full-year adjusted 2010 earnings of \$281 million increased by 7.3% compared to adjusted earnings of \$262 million in 2009. This represents fairly significant earnings growth for a company whose primary business is the ownership and operation of regulated utilities.

Forecasts

We have updated our model to reflect Q4/10 results. Our diluted EPS estimates of \$1.77 in 2011E and \$1.84 in 2012E are unchanged.

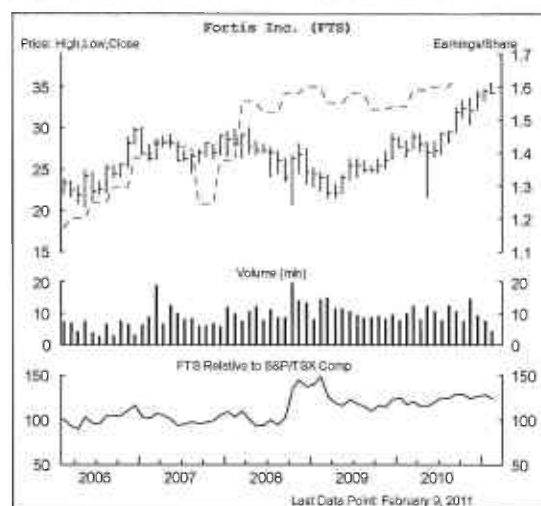
Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.86 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (10-Feb) \$33.81 **52-Week High** \$35.45
Target Price \$35.50 **52-Week Low** \$21.60



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.77	\$1.84
P/E			19.1x	18.4x
CFPS	\$3.74	\$4.51	\$4.71↑	\$4.81↑
P/CFPS			7.2x	7.0x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,894	\$13,469	\$13,900
EBITDA (\$mm)	\$1,063.0	\$1,271.0	\$1,351.7	\$1,404.2
EV/EBITDA	10.3x	10.1x	10.0x	9.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.62	\$0.35	\$0.25	\$0.58
Dividend	\$1.16	Yield		3.4%
Book Value	\$19.00	Price/Book		1.8x
Shares O/S (mm)	173.6	Mkt. Cap (mm)		\$5,869
Float O/S (mm)	171.7	Float Cap (mm)		\$5,805
Wkly Vol (000s)	2,304	Wkly \$ Vol (mm)		\$69.0
Net Debt (\$mm)	\$6,023	Next Rep. Date		04-May (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2010E: \$1.65; 2011E: \$1.77; 2012E: \$1.84

Q4/10 Results Below Expectations; Long-Term Growth Profile Remains Intact

Fortis reported Q4/10 EPS of \$0.49, which was slightly below our estimate of \$0.53 and the First Call Mean estimate of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at FortisAlberta, Terasen Gas and FortisCaribbean, partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis is forecasting capital expenditures of \$1.2 billion and the company expects to invest \$5.5 billion in capital projects over the next five years.

Although Q4/10 results were slightly lower than expected, full-year adjusted 2010 earnings of \$281 million increased by 7.3% compared to adjusted earnings of \$262 million in 2009. This represents fairly significant earnings growth for a company whose primary business is the ownership and operation of regulated utilities.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.82 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Although Fortis' shares have appreciated recently, we believe that the company remains a compelling long-term investment. Fortis has shown an ability to consistently deliver relatively low-risk earnings and dividend growth. While the company's organic growth prospects are relatively well known, there are a number of potential catalysts that could positively impact Fortis' shares, including: (1) the potential acquisition of additional regulated utilities, either in the U.S. or Canada; and (2) the prospect of developing regulated transmission assets in Ontario. Accordingly, we are maintaining our Outperform rating.

Where Do We Go From Here?

Fortis historically has grown through acquisition and its last major transaction was the acquisition of the Terasen Gas utilities, which was completed in May 2007. We expect Fortis to continue to review potential acquisition candidates, with the most likely targets regulated utilities operating in the U.S. Absent an acquisition, we believe that Fortis will continue to advance its capital expenditure program and seek out accretive greenfield/brownfield development opportunities. The company's announcement in late August that it had acquired a 51% interest in the partnership responsible for constructing the 335 MW Wanteta Dam expansion in Trail, B.C., is a good example of Fortis developing projects that complement its regulated utility operations.

Another potential area of growth is transmission investment in Ontario. In coming years, the transmission grid in Ontario will likely need reinforcement and require additional capacity in certain areas as additional renewable energy facilities are added to the grid. At the present time most transmission capacity in Ontario is owned by Hydro One (100% Government of Ontario); however, in August, the Ontario Energy Board issued the Framework for Transmission Project Development Plans (EB-2010-059), which sought to establish a competitive process for developing new transmission assets in Ontario. In advance of the possibility of large-scale

transmission development in Ontario being put out for tender, Fortis has entered into a joint venture with the First Nations' Lake Huron Anishinabek Transmission Company Inc. ("LHATC") to pursue the development of transmission assets in Ontario. Fortis will hold a minimum 51% interest in the joint venture and LHATC will have the opportunity to acquire up to a 49% interest in the joint venture. We expect the joint venture will bid on the following projects, should tenders be solicited: (1) a new 500 kV line that would run from Algoma/Sault Ste. Marie to Sudbury; and (2) reinforcement of the 500 kV line that runs from Sudbury to Barrie. While it remains to be seen whether Fortis will be successful in its quest to build out transmission in Ontario, we believe that the announcement of the joint venture is a positive development for the company.

Revised Capital Expenditure Budget

Consistent with prior years, Fortis' fourth-quarter results contained a capital expenditure forecast. In 2011, Fortis expects to invest \$1.2 billion, with the majority of spending occurring at its regulated electric utilities. A comparison of forecast capital expenditures in 2011 and historical capital spending is set out in Table 1.

Table 1: Capital Expenditure Forecast (\$mm)

	2009A	2010A	2011E
Regulated Gas Utilities - Canadian			
Terasen Gas Companies	246	253	281
Regulated Electric Utilities - Canadian			
FortisAlberta	407	379	420
FortisBC	115	139	99
Newfoundland Power	74	78	73
Other Canadian	46	48	46
Regulated Electric Utilities - Caribbean	92	72	83
Non-Regulated - Fortis Generation & Corporate	18	85	183
Non-Regulated - Fortis Properties	26	19	27
Total	1,024	1,073	1,212

Source: Company Reports

Fortis maintained capital expenditure guidance of \$5.5 billion over the next five years. The breakdown of this anticipated spending is as follows: 63% is expected to be spent at the regulated electric utilities, driven by FortisAlberta and Fortis BC; approximately 20% is expected to be spent by the Terasen entities; and 17% is expected to be incurred at the non-regulated entities.

Regulatory Update

After a lull in 2010, we expect regulatory activity to increase in 2011. The Alberta Utilities Commission will hold two separate proceedings: (1) a generic cost of capital proceeding, including a full review of cost of capital and deemed capital structure; and (2) a review process designed to determine whether Alberta will adopt performance-based regulation. The 2011

Generic Cost of Capital Hearing is scheduled to begin on May 30, 2011. Utilities have been asked to file submissions regarding the potential implementation of Performance Based Regulation by March 31, 2011. A review process related to PBR is expected to begin after the submissions have been received by individual utilities.

In addition to the formal regulatory proceedings outlined above, a number of Fortis' utilities are expected to make rate or other filings in 2011:

- The Terasen entities are expected to pursue an amalgamation
- The Terasen entities may file a rate application for the years 2012–2013
- FortisAlberta is expected to submit a cost of service application for the years 2012–2013 by the end of Q1/2011
- Newfoundland Power may file an application to increase customer rates, effective for 2012.

Q4/10 Results

As set out in Table 2, on a comparable basis, net income increased by 2.4% in Q4/10 versus Q4/09. In order to present results on a comparable basis, Q4/09 GAAP income was adjusted to reverse a \$5 million expense recorded regarding the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane. Terasen subsequently recovered \$4 million of this amount in Q3/10. Q4/09 GAAP earnings were also adjusted for a \$3 million non-recurring tax benefit recorded at the Other Canadian segment related to a future income tax recovery at FortisOntario.

Table 2: Historical Q4 Income by Business Segment

	Q4/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/10 Adjusted Earnings (\$mm)	Q4/09 GAAP	Adj. (\$mm)	Q4/09 Adjusted Earnings (\$mm)	Variance Q4/10 Adj vs. Q4/09 Adj	Variance %
Regulated Gas Utilities - Canadian								
Terasen Gas Companies	45.0	0.0	45.0	48.0	5.0	53.0	(8.0)	-15.1%
Regulated Electric Utilities - Canadian								
FortisAlberta	17.0	-	17.0	15.0	-	15.0	2.0	13.3%
FortisBC	10.0	-	10.0	8.0	-	8.0	2.0	25.0%
Newfoundland Power	9.0	-	9.0	8.0	-	8.0	1.0	12.5%
Other Canadian	5.0	0.0	5.0	6.0	(3.0)	3.0	2.0	66.7%
	41.0	0.0	41.0	37.0	(3.0)	34.0	7.0	20.6%
Regulated Electric Utilities - Caribbean	5.0	-	5.0	7.0	-	7.0	(2.0)	-28.6%
Non-Regulated - Fortis Generation	5.0	-	5.0	3.0	-	3.0	2.0	66.7%
Non-Regulated - Fortis Properties	7.0	-	7.0	5.0	-	5.0	2.0	40.0%
Corporate and Other	(18.0)	-	(18.0)	(19.0)	-	(19.0)	1.0	-5.3%
Net Earnings Applicable to Common Shares	85.0	0.0	85.0	81.0	2.0	83.0	4.0	2.4%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

Regulated Gas Utilities – Terasen Gas Companies

Q4/10 net income of \$45 million was less than our estimate of \$50.9 million and Q4/09 adjusted net income of \$53 million. We attribute the majority of the variance to seasonality, as timing differences resulted in a higher proportion of expenses recorded in Q4/10 compared to

Q4/09. On an annual basis, adjusted net income increased by 3.3% to \$126 million in 2010 from \$122 million in 2009.

Regulated Electric Utilities – FortisAlberta

Q4/10 net income of \$17 million was lower than our estimate of \$19.3 million but greater than Q4/09 net income of \$15 million.

Earnings in Q4/10 benefitted from an increase in customer distribution rates arising from the 2009 Alberta Utilities Commission (AUC) Generic Cost of Capital Hearing, which increased FortisAlberta's allowed ROE to 9% from 8.51% and increased the company's deemed equity thickness to 41% from 37%.

On an annual basis, net income increased by 13.3% to \$68 million in 2010 from \$60 million in 2009.

Regulated Electric Utilities – FortisBC

Q4/10 net income of \$10 million was greater than Q4/09 net income of \$8 million but consistent with our estimate of \$9.9 million. The increase in earnings was largely driven by an increase in FortisBC's allowed ROE to 9.9% in 2010 from 8.87% in 2009 and additional performance-based rate setting adjustments recorded in 2010 compared to 2009.

On an annual basis, net income increased by 13.5% in 2010 to \$42 million from \$37 million in 2009.

Regulated Electric Utilities – Newfoundland Power

Q4/10 net income of \$9 million was consistent with our estimate of \$8.8 million and slightly greater than Q4/09 net income of \$8 million. The increase in earnings was largely the result of a 3.5% increase in electricity rates and lower effective corporate tax rates.

On an annual basis, net income increased by 9.4% to \$35 million in 2010 from \$32 million in 2009.

Regulated Electric Utilities – Other Canadian

Q4/10 net income of \$5 million was consistent with our estimate of \$4.5 million and greater than Q4/09 adjusted net income of net income of \$3 million. The increase in earnings was partially driven by lower financing charges at Maritime Electric, and a 3.8% rate increase at Algoma Power that became effective on December 1, 2010.

On an annual basis, adjusted net income increased by 11.8% to \$19 million in 2010 from \$17 million in 2009.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$5 million in Q4/10 versus our estimate of \$8.5 million and Q4/09 net income of \$7 million. The decrease in Q4/10 earnings reflects higher administrative expenses regarding the ongoing legal dispute between Belize Electricity and its regulator. Q4/09 results also benefitted from a change in amortization estimates, which increased earnings at Fortis Turks and Caicos by \$1.5 million.

On an annual basis, adjusted net income decreased by 8% to \$23 million in 2010 from \$25 million in 2009. During 2010, Belize Electricity contributed only \$1.5 million to consolidated earnings. Fortis believes that in the normal course of business, Belize Electricity's annual earnings contribution should be closer to \$10 million.

Unregulated – Fortis Generation

Fortis Generation reported net income of \$5 million, which was consistent with our estimate of \$5.1 million and greater than Q4/09 net income of \$3 million. The difference between actual and expected results was due to a combination of increased production and higher average realized power prices during the quarter.

On an annual basis, adjusted net income increased by 25% to \$20 million in 2010 from \$16 million in 2009.

Unregulated – Fortis Properties

Fortis properties reported net income of \$7 million, which exceeded both our estimate of \$5.2 million and Q4/09 net income of \$5 million. Rent increases and lower effective corporate income taxes drove the increase. Occupancy decreased to 94.5% at the end of the quarter versus 96.2% at the end of Q4/09. Revenue per available room increased to \$70.76 during Q4/10 versus \$68.87 during Q4/09.

On an annual basis, adjusted net income increased by 8.3% to \$26 million in 2010 from \$24 million in 2009.

Other Items

Fortis Now Likely to Adopt U.S. GAAP in 2012 Instead of IFRS

Disclosure in the release stated that due to the uncertainty surrounding the treatment of regulatory assets and liabilities under IFRS, Fortis is planning to adopt U.S. GAAP, effective January 1, 2012. Fortis will continue to report under Canadian GAAP in 2011, pursuant to an exception granted by the Accounting and Standards Board, which allowed qualifying entities with rate regulated operations to defer the adoption of IFRS until reporting periods beginning on or after January 1, 2012.

Support Structure Agreement Between Bell Aliant and Newfoundland Power

In December 2010, Newfoundland Power and Bell Aliant announced a new Support Structure Agreement. Pursuant to this agreement, Bell Aliant will acquire 40% of all shared-use poles and related infrastructure for approximately \$46 million. The acquisition will reduce Newfoundland Power's rate base by approximately 5%, and Newfoundland Power is expected to use a portion of the proceeds to repay debt. As a result of the reduction in rate base, recurring earnings from Newfoundland Power are expected to decline by approximately \$1 million.

Estimates

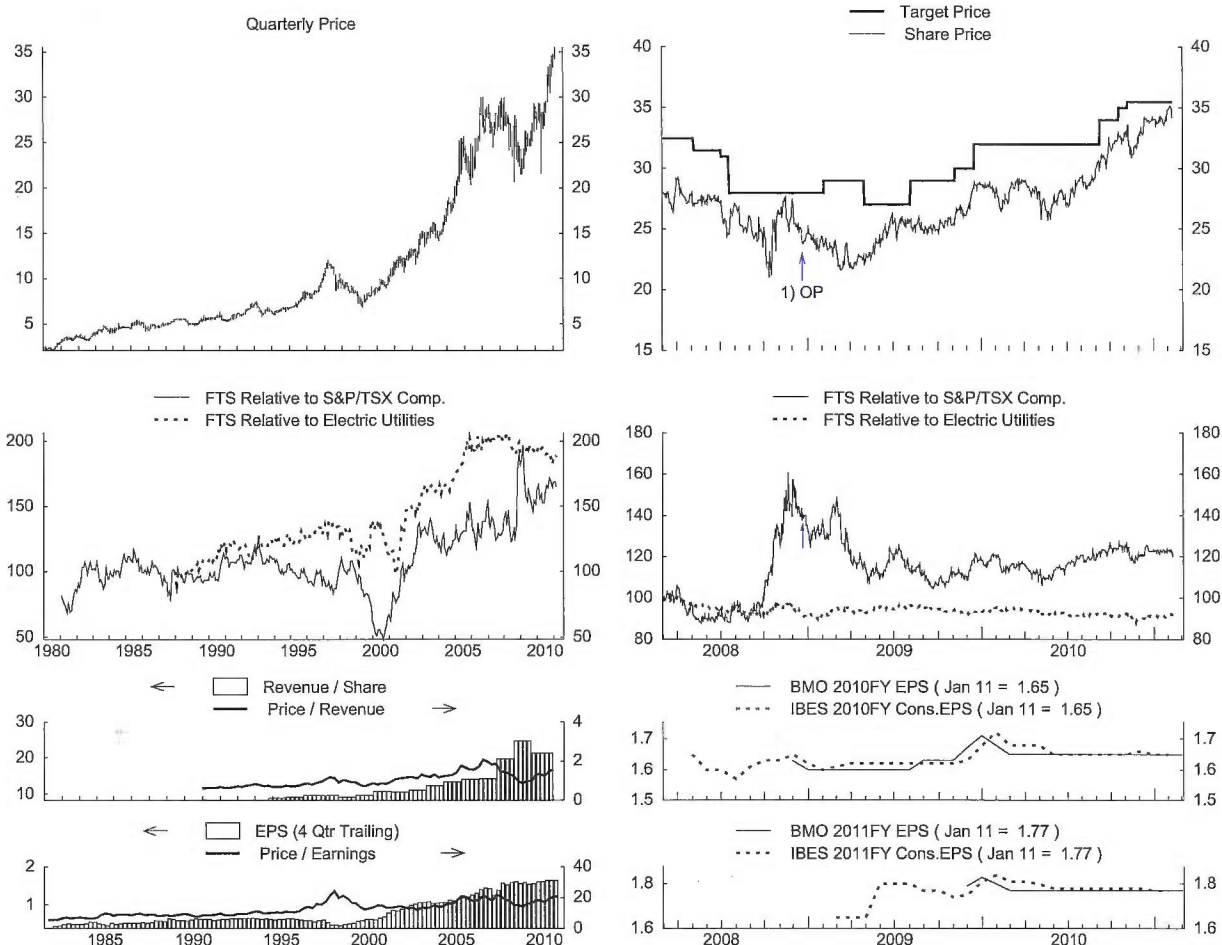
We have updated our model to reflect Q4/10 results. Our diluted EPS estimates of \$1.77 in 2011E and \$1.84 in 2012E are unchanged.

Table 3: Consolidated Summary

10-Feb-11													Michael McGowan
Current Price:													BMO Capital Markets
12-Month Target Price:													
ROR:		8.4%											
		Recommendation:											Outperform
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.05	\$1.17	\$1.38	\$1.35	\$1.50	\$1.54	\$1.52	\$1.60	\$1.67	
Total Diluted Earnings Per Share		\$0.90	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.55	\$1.59	\$1.77	\$1.84	
Segmented EPS													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20	\$0.19	
Other Canadian		\$0.24	\$0.30	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.10	\$0.11	\$0.12	
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	
Fortis Generation		\$0.07	\$0.15	\$0.15	\$0.31	\$0.25	\$0.17	\$0.19	\$0.09	\$0.13	\$0.12	\$0.12	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.17	\$0.17	
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.43	\$0.44	
Fortis BC		\$0.00	\$0.00	\$0.31	\$0.34	\$0.25	\$0.29	\$0.22	\$0.22	\$0.34	\$0.27	\$0.29	
Teresen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.78	\$0.79	
Other/Corporate		(\$0.05)	(\$0.12)	(\$0.26)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.43)	(\$0.42)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.69	\$1.01	\$1.04	\$1.12	\$1.15	\$1.22	
Payout Ratio		49.9%	48.5%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	64.4%	65.2%	
Average Shares (mm)		65.1	65.2	64.7	101.8	103.6	137.5	157.4	170.2	173.9	173.7	175.1	
Net Book Value		\$8.50	\$8.64	\$10.47	\$11.75	\$12.25	\$15.72	\$16.00	\$16.64	\$19.04	\$19.70	\$20.85	
Market Valuation													
Price: High		\$13.38	\$15.24	\$17.75	\$25.54	\$30.00	\$30.00	\$39.04	\$39.95	\$34.20	-	-	
Price: Low		\$10.75	\$11.63	\$14.29	\$17.00	\$20.35	\$24.50	\$20.70	\$21.68	\$25.67	-	-	
Price: Current		-	-	-	-	-	-	-	-	-	\$33.81	-	
P/E Ratio: High		15.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	21.3	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	15.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	18.8	18.1	
Price/Book Value: High		1.5	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.7	1.5	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	
Yield: Low Price		4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-	
Yield: Current		-	-	-	-	-	-	-	-	-	3.4%	3.0%	
Balance Sheet (\$mm)													
Debt (S-T)		181.8	142.5	229.1	80.3	182.5	911.0	590.0	535.0	414.0	327.5	459.3	
Debt (L-T)		925.5	1,006.9	1,681.6	2,183.8	2,494.5	4,576.0	4,840.0	5,737.0	5,959.0	5,799.0	5,025.7	
Minority Interest		40.0	35.8	37.5	39.5	120.0	115.0	145.0	123.0	162.0	163.0	162.0	
Preferred Shares		0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	
Convertible Debentures		14.4	24.9	22.9	23.3	53.5	45.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		584.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,048.7	3,192.7	3,376.0	3,435.3	3,808.0	
		1,745.9	1,850.4	3,492.7	3,508.9	4,588.1	8,091.7	9,391.7	9,902.7	10,407.0	10,675.8	11,319.9	
Balance Sheet (%)													
Debt (S-T)		10.4%	7.7%	6.0%	2.1%	4.0%	10.0%	6.0%	5.3%	4.0%	3.1%	4.1%	
Debt (L-T)		53.0%	51.6%	53.9%	56.0%	54.4%	52.7%	51.8%	52.9%	53.5%	54.3%	52.3%	
Minority Interest		2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.5%	1.5%	1.4%	
Preferred Shares		0.0%	6.4%	9.2%	8.4%	9.5%	5.1%	7.1%	5.7%	8.8%	8.5%	8.1%	
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.2%	31.5%	28.5%	31.0%	27.8%	29.2%	32.4%	31.2%	31.5%	32.1%	33.5%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.5	89.1	119.2	143.2	187.4	252.5	263.0	291.0	312.8	333.0	
Cash Flow from Operations		134.4	150.7	283.7	320.0	279.8	373.0	563.0	637.0	783.0	817.9	857.2	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.84	10	0.38	6.2	60	5.28	1.2	12
1993	0.84	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	5.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.63	21	1.12	3.2	69	18.75	1.8	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.9		11.8			9.8		
10 Year:	10.6		9.3			10.4		
20 Year:	5.0		5.7			7.2		

* Current EPS is the 4 Quarter Trailing to Q3/2010.

FTS - Rating as of 29-Feb-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: February 9, 2011

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Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (December 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;

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Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Fortis

(FTS-TSX)

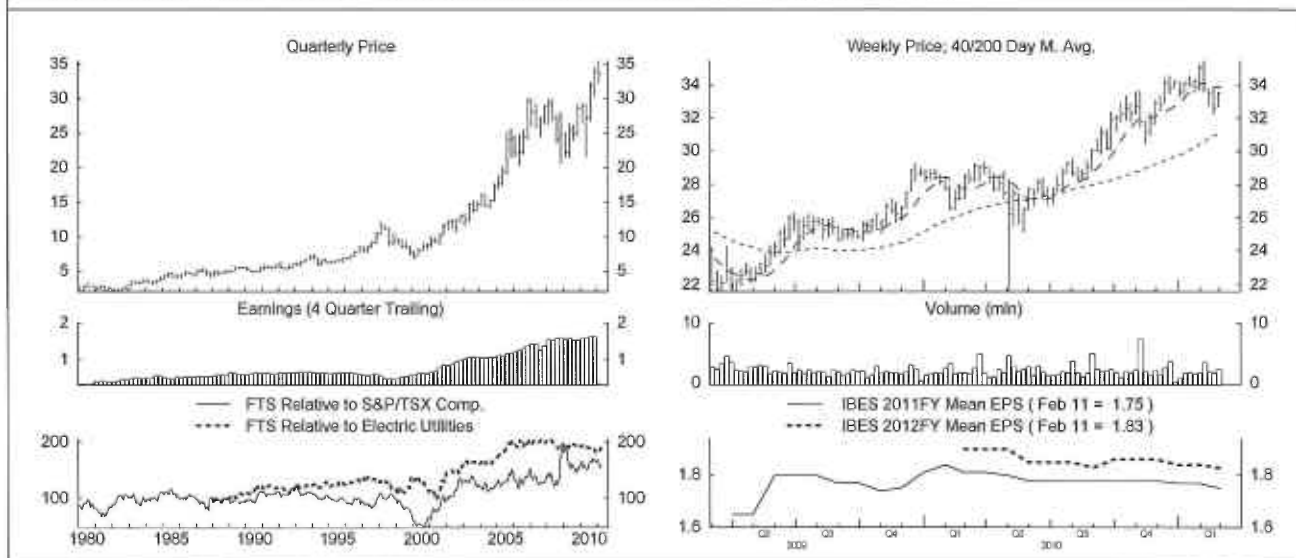
Stock Rating: Outperform
Industry Rating: Market Perform

March 3, 2011
Research Fact Sheet
Gas & Electric Utilities

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				(FY-Dec.)	2009A	2010A	2011E	2012E	
Price (3-Mar)	\$33.53	52-Week High	\$35.45	EPS	\$1.51	\$1.59	\$1.77	\$1.84	
Target Price	\$35.50	52-Week Low	\$21.60	P/E			18.9x	18.2x	
Dividend	\$1.16	Book Value	\$19.00	CFPS	\$3.74	\$4.51	\$4.71	\$4.81	
Yield	3.5%	Price/Book	1.8x	P/CFPS			7.1x	7.0x	
Shares O/S (mm)	173.6	Mkt. Cap (\$mm)	\$5,820	Div.	\$1.04	\$1.12	\$1.16	\$1.22	
Float O/S (mm)	171.7	Float Cap (\$mm)	\$5,757	EV (\$mm)	\$10,908	\$12,221	\$13,002	\$13,415	
Wkly Vol (000s)	2,313	Wkly \$ Vol (mm)	\$70.2	EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,353.7	\$1,407.6	
Net Debt (\$mm)	\$6,023	Next Rep. Date 04-May (E)		EV/EBITDA	10.3x	10.6x	9.6x	9.5x	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	8.2%	8.5%	9.1%	8.8%
2009A	\$0.53	\$0.31	\$0.21	\$0.49	Book Value (\$)	\$18.64	\$19.04	\$19.70	\$20.85
2010A	\$0.58	\$0.32	\$0.24	\$0.49	D/Tot. Cap. (%)	61.0%	59.4%	59.3%	58.3%
2011E	\$0.62	\$0.35	\$0.25	\$0.58	Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC



Company Description – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Belize Electricity (70.1%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the Terasen Gas Companies (100%, British Columbia).
Website: fortisinc.com

Recent Results – Fortis reported Q4/10 GAAP EPS of \$0.49, slightly below our estimate of \$0.53 and the First Call Mean of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at FortisAlberta, Terasen Gas and FortisCaribbean,

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partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis forecasts capital expenditures of \$1.2 billion and expects to invest \$5.5 billion in capital projects over the next five years.

Corporate Developments – Disclosure in the Q4/10 release stated that due to the uncertainty surrounding the treatment of regulatory assets and liabilities under IFRS, Fortis is planning to adopt U.S. GAAP, effective January 1, 2012. Fortis will continue to report under Canadian GAAP in 2011, pursuant to an exception granted by the Accounting Standards Board, which allowed qualifying entities with rate regulated operations to defer the adoption of IFRS until reporting periods beginning on or after January 1, 2012.

On February 2, 2011, FortisOntario (100% Fortis Inc.) announced that it and the First Nations' Lake Huron Anishinabek Transmission Company Inc. ("LHATC") have entered into a memorandum of understanding to create a joint venture to pursue the development of regulated

transmission projects in Ontario. FortisOntario will hold a minimum 51% interest in the joint venture and LHATC will have the opportunity to acquire up to a 49% interest in the joint venture.

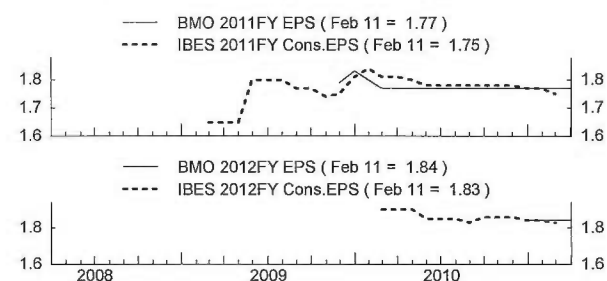
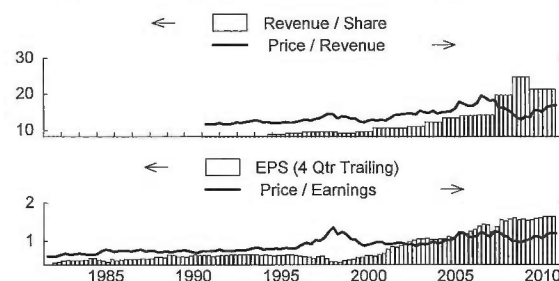
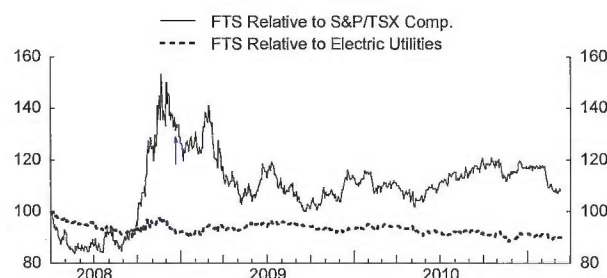
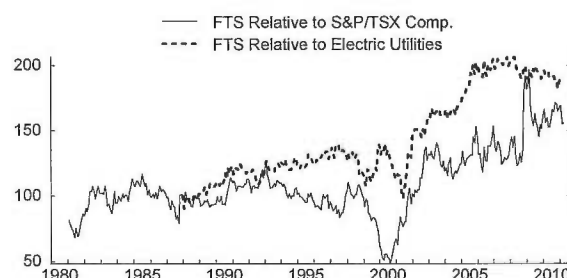
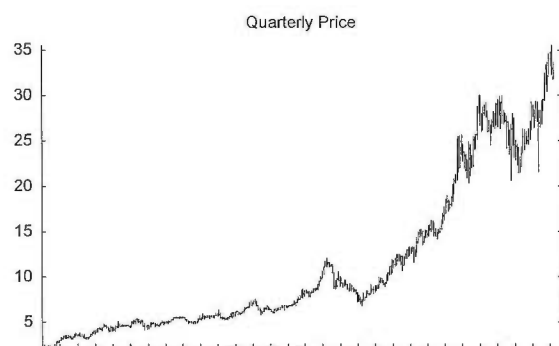
On December 14, 2010, Fortis announced a 3.6% increase in its annual dividend to \$1.16/share from \$1.12/share.

Forecasts – Our diluted EPS estimates are \$1.77 in 2011 and \$1.84 in 2012.

Valuation – Our target price of \$35.50 is based on a weighted valuation approach: 18x diluted 2012E EPS of \$1.84 (12.5%); 1.75x 2012E BVPS of \$20.86 (12.5%); and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Recommendation – We believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Large Cap stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	18.65	1.8	9
Current*	1.63	20	1.16	3.5	71	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.9		12.6			10.1		
10 Year:	10.6		9.7			10.5		
20 Year:	5.0		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q4/2010.

FTS - Rating as of 1-Apr-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: March 11, 2011

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

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Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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A member of BMO  Financial Group

Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$32.30
Target Price: \$35.50

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

May 4, 2011

Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc. Mark Laing, CA, CFA

Q1/11 Results: A Strong Start to the Year

Impact

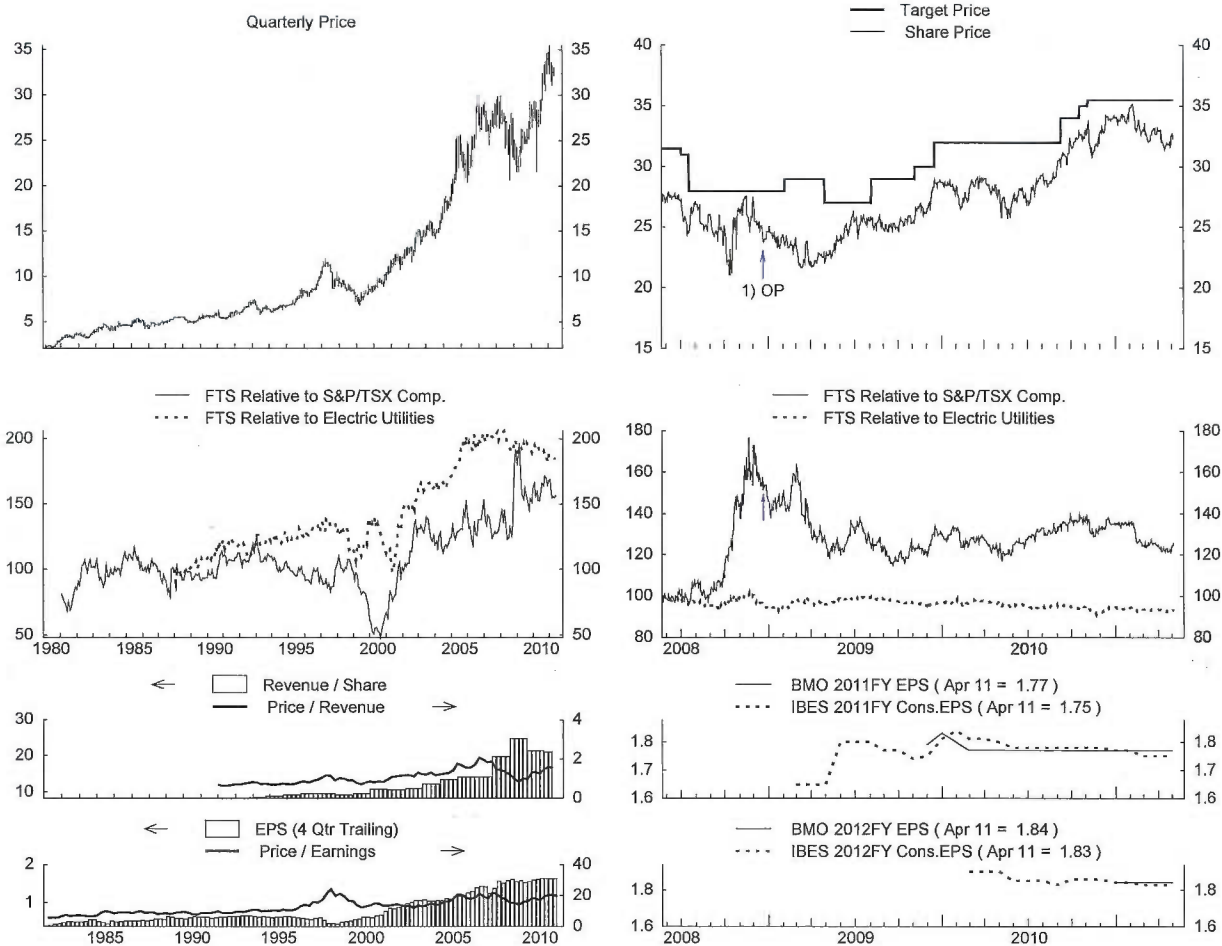
Slightly Positive

Details & Analysis

Fortis reported Q1/11 EPS of \$0.67 vs. our estimate of \$0.62 and the First Call Mean of \$0.62 (range \$0.61-0.63). The difference between actual and expected earnings was primarily the result of strong earnings at the western utilities: FortisAlberta, FortisBC, and FortisBC Energy Inc. (formerly Terasen Gas). As energy sales at the western utilities (both electricity and natural gas) appear to have increased significantly during Q1/11 vs. Q1/10, we attribute the majority of the earnings increase to seasonality. There was no change to the company's capital budget guidance. Fortis continues to expect to invest \$5.5 billion in its business segments over the next five years. Overall, this appeared to be fairly clean quarter and we would characterize it as a strong start to the year.

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Fortis Inc. (FTS)



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1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	10	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
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1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.9	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.63	20	1.16	3.6	71	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.3		12.6			10.1		
10 Year:	9.8		9.7			10.5		
20 Year:	5.0		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q4/2010.

FTS - Rating as of 22-May-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: May 3, 2011

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

May 4, 2011
 Research Comment
 Toronto, Ontario

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A Strong Start to the Year: Q1/11 Results Exceed Expectations

Event

Fortis reported Q1/11 EPS of \$0.67 versus our estimate of \$0.62 and the First Call Mean estimate of \$0.62 (range \$0.61-0.63). The difference between actual and estimated earnings was primarily the result of strong results at the western utilities: FortisAlberta, FortisBC and FortisBC Energy Inc. (formerly Terasen Gas).

Impact

Slightly Positive. While we attribute the majority of the variance between actual and estimated results to seasonality (energy sales at the western utilities increased anywhere from 8% to 25%), we nonetheless believe that Q1/11 earnings represent a strong start to 2011.

Forecasts

There are no changes to our annual EPS estimates; however, we have adjusted our quarterly estimates to reflect Q1/11 results.

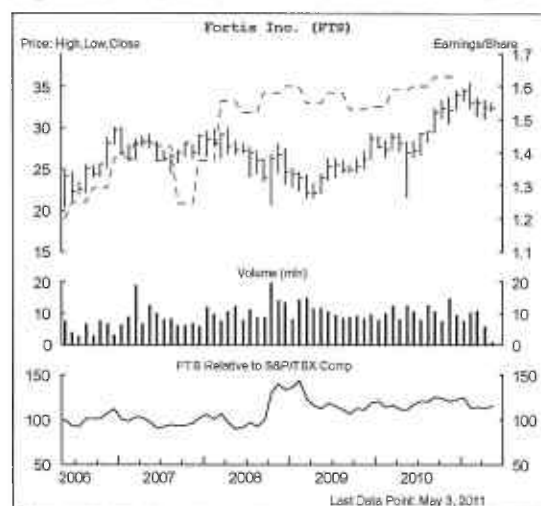
Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.85 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Recommendation

At current levels, we believe the shares are attractively valued. Our rating is Outperform.

Price (3-May) \$32.30 52-Week High \$35.45
 Target Price \$35.50 52-Week Low \$21.60



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.77	\$1.84
P/E			18.2x	17.6x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			6.9x	6.7x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,896	\$13,306
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,353.7	\$1,407.6
EV/EBITDA	10.3x	10.6x	9.5x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.35	\$0.26↑	\$0.52↓
Dividend	\$1.16	Yield		3.6%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	175.4	Mkt. Cap (mm)		\$5,665
Float O/S (mm)	174.0	Float Cap (mm)		\$5,620
Wkly Vol (000s)	2,248	Wkly \$ Vol (mm)		\$69.6
Net Debt (\$mm)	\$5,915	Next Rep. Date		15-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.75; 2012E: \$1.83

Changes

Quarterly EPS
 Q3/11E \$0.25 to \$0.26
 Q4/11E \$0.58 to \$0.52

A Strong Start to the Year: Q1/11 Results Exceed Expectations

Fortis reported Q1/11 EPS of \$0.67 versus our estimate of \$0.62 and the First Call Mean estimate of \$0.62 (range \$0.61–0.63). The difference between actual and estimated earnings was primarily the result of strong earnings at the western utilities: FortisAlberta, FortisBC and FortisBC Energy Inc. (formerly Terasen Gas).

While we attribute the majority of the variance between actual and estimated results to seasonality (energy sales at the western utilities increased anywhere from 8% to 25%), we nonetheless believe that Q1/11 results represent a strong start to 2011.

With respect to growth, we expect Fortis to continue to evaluate the potential acquisition of regulated natural gas or electric utilities in the U.S. Regardless of whether an acquisition occurs, Fortis will continue to advance its capital expenditure program (which calls for investment of \$5.5 billion over the next five years) in order to drive organic growth. Fortis also continues to evaluate a number of other opportunities to grow rate base, such as investments in new natural gas infrastructure. For example, the company is considering seeking regulatory approval to invest in fuelling stations that would be used by large industrial/commercial vehicles that rely on natural gas as fuel, as opposed to more traditional fuels such as diesel or gasoline. We understand that Fortis also continues to pursue the development of large-scale transmission infrastructure in Ontario, although the company acknowledges that this may be a longer-term initiative.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.85 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

We are maintaining our Outperform rating, as we believe the company's shares are attractively valued, especially in light of its relatively low-risk business model.

Regulatory Update

After a lull in 2010, we expect 2011 to be relatively busy from a regulatory perspective. The Alberta Utilities Commission (AUC) is currently moving forward with a Generic Cost of Capital proceeding. The formal hearing is scheduled to begin on May 30, 2011, and the AUC is expected to issue a cost of capital decision by the end of the year. The AUC is also exploring the implementation of Performance Based Regulation; however, we understand that a final decision on PBR is not expected until mid-2012.

In addition to the broad regulatory initiatives outlined above, a number of Fortis' utilities are expected to make rate or other filings in 2011:

- The FortisBC Energy utilities (formerly the Terasen companies) are expected to pursue an amalgamation;
- The FortisBC Energy utilities may file a rate application for the years 2012–2013;

- FortisAlberta has filed cost-of-service application for the years 2012–2013, in which it is seeking a return on estimated mid-year net rate bases of \$1,760 million in 2011E, \$2,013 million in 2012E and \$2,224 million in 2013E; and
- Newfoundland Power may file an application to increase customer rates, effective for 2012.

Q1/11 Results

Fortis reported Q1/11 GAAP net income of \$117 million, which was \$10.1 million greater than our estimate of \$106.9 million and \$17 million greater than Q1/10 GAAP net income of \$100 million. A comparison of Q1/11 and Q1/10 results by business segment is set out in Table 1.

Table 1: Historical Q1 Income by Business Segment

	Q1/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q1/11 Adjusted Earnings (\$mm)	Q1/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q1/10 Adjusted Earnings (\$mm)	Variance Q1/11 Adj. vs. Q1/10 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Fortis BC Energy Companies	76.0	-	76.0	73.0	-	73.0	3.0	4.1%
Regulated Electric Utilities - Canadian								
FortisAlberta	21.0	-	21.0	14.0	-	14.0	7.0	50.0%
FortisBC	19.0	-	19.0	14.0	-	14.0	5.0	35.7%
Newfoundland Power	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Other Canadian	6.0	-	6.0	5.0	-	5.0	1.0	20.0%
	53.0	-	53.0	40.0	-	40.0	13.0	32.5%
Regulated Electric Utilities - Caribbean	4.0	-	4.0	4.0	-	4.0	0.0	0.0%
Non-Regulated - Fortis Generation	3.0	-	3.0	2.0	-	2.0	1.0	50.0%
Non-Regulated - Fortis Properties	1.0	-	1.0	2.0	-	2.0	(1.0)	-50.0%
Corporate and Other	(20.0)	-	(20.0)	(21.0)	-	(21.0)	1.0	-4.8%
Net Earnings Applicable to Common Shares	117.0	0.0	117.0	100.0	0.0	100.0	(17.0)	17.0%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

Regulated Gas Utilities – Fortis BC Energy Companies

Q1/11 net income of \$76 million from FortisBC Energy exceeded our estimate of \$72.2 million and Q1/10 net income of \$73 million. We attribute the majority of the variance to seasonality, as cooler weather during the quarter and improved economic conditions in the forest sector led to much higher sales volumes (52,336 GJ in Q1/11 vs. 42,106 GJ in Q1/10).

Regulated Electric Utilities – FortisAlberta

Q1/11 net income of \$21 million was significantly greater than our estimate of \$14.8 million and Q1/10 net income of \$14 million. The increase in earnings in Q1/11 versus Q1/10 was primarily due to higher energy deliveries (4,402 GWh in Q1/11 vs. 4,109 GWh in Q1/10) and timing with respect to the recording in 2010 of the cumulative impact of the 2010–2011 regulatory rate decision. During Q3/10, Fortis recorded a revenue accrual of \$22 million (with \$14 million of the total relating to H1/10) to reflect higher approved rates. In addition, Q1/11 results benefitted from a \$1 million gain on the sale of property.

Regulated Electric Utilities – FortisBC

Q1/11 net income of \$19 million was greater than Q1/10 net income of \$14 million and our estimate of \$16.2 million. The increase in earnings was largely driven by higher electricity sales during the quarter (905 GWh in Q1/11 vs. 820 GWh in Q1/10) and rate base growth, due to infrastructure investments.

Regulated Electric Utilities – Newfoundland Power

Q1/11 net income of \$7 million was generally consistent with our estimate of \$6.6 million and Q1/10 net income of \$7 million.

Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$4 million in Q1/11 versus our estimate of \$4.2 million and Q1/10 net income of \$4 million.

Unregulated – Fortis Generation

Fortis Generation reported Q1/11 net income of \$3 million, lower than our estimate of \$5 million and \$1 million greater than Q1/10 net income of \$2 million. The variance between Q1/11 and Q1/10 results was largely due to a combination of increased production and higher average realized power prices.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$1 million, which was lower than our estimate of \$2.3 million and Q1/10 net income of \$2 million. Lower performance at the hotel operations, primarily due to the continued unfavourable impact of the economic downturn, caused the decrease. Occupancy at the real estate division decreased to 94.3% at the end of the quarter versus 95.8% at the end of Q1/10. At the hospitality division, revenue per available room increased slightly to \$63.29 during Q1/11 versus \$62.93 during Q1/10.

Estimates

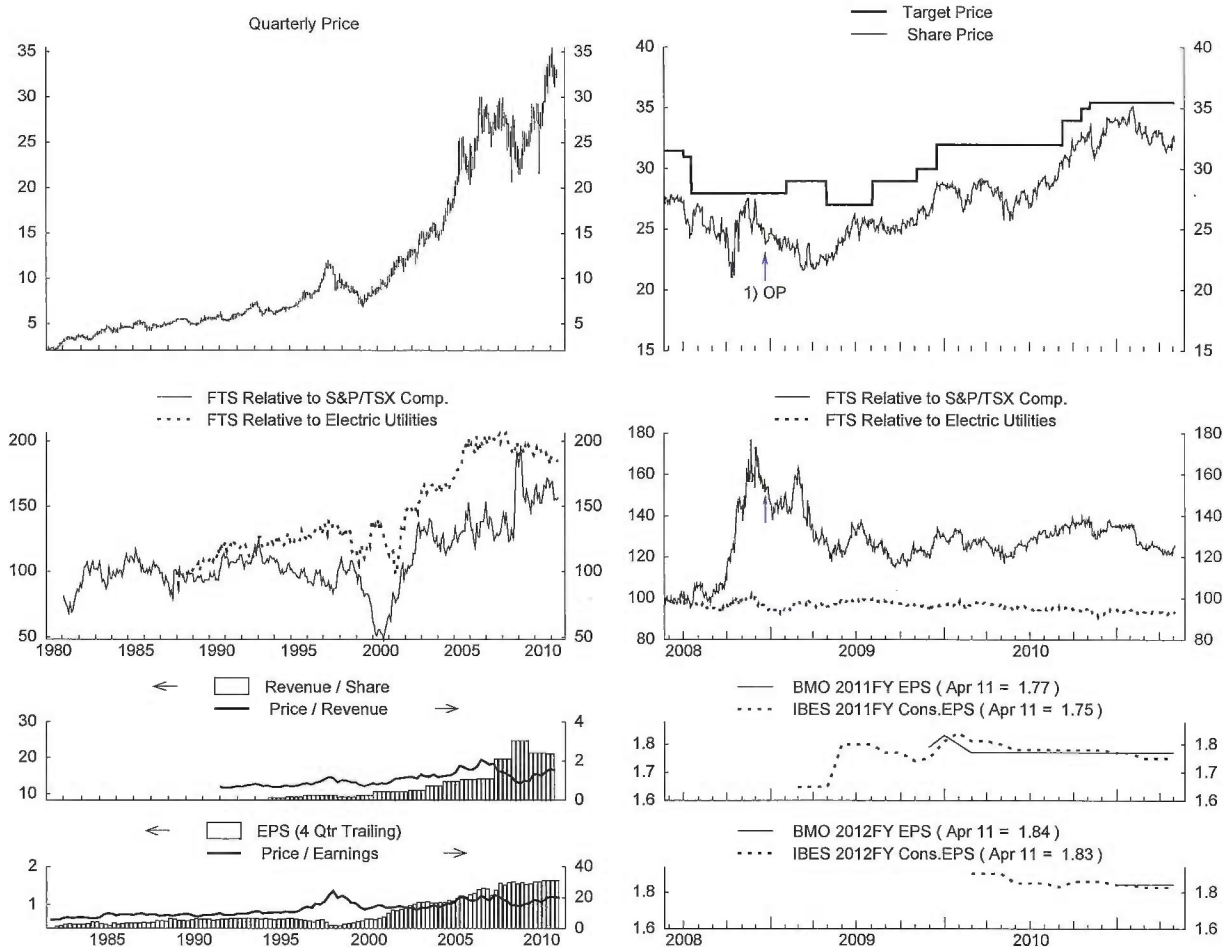
There are no changes to our annual EPS estimates; however, we have adjusted our quarterly estimates to reflect Q1/11 results.

Table 2: Consolidated Summary

04-May-11												Michael McGowan	
Current Price:		\$32.35										BMO Capital Markets	
12-Month Target Price:		\$35.50											
ROR:		13.3%											
		Recommendation:										Outperform	
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.08	\$1.17	\$1.38	\$1.36	\$1.50	\$1.54	\$1.62	\$1.80	\$1.87	
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.62	\$1.77	\$1.84	
Segmented EPS:													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.39	\$0.29	\$0.22	\$0.30	\$0.19	\$0.20	\$0.20	\$0.19	
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.12	
Fortis Properties		\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	
Fortis Generation		\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.12	\$0.12	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.15	\$0.15	\$0.15	
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.38	\$0.29	\$0.38	\$0.39	\$0.43	\$0.44	
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.27	\$0.29	
Tarascan Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.79	\$0.79	
Other/Corporate		(\$0.01)	(\$0.12)	(\$0.26)	(\$0.30)	(\$0.39)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.42)	(\$0.41)	
Dividends:		\$0.49	\$0.62	\$0.54	\$0.61	\$0.67	\$0.62	\$1.00	\$1.04	\$1.12	\$1.15	\$1.22	
Payout Ratio:		49.9%	48.9%	51.4%	52.3%	48.4%	50.2%	64.2%	67.6%	69.3%	64.5%	65.3%	
Average Shares (mm)		66.1	69.2	84.7	101.8	109.6	137.6	157.4	170.2	173.9	173.7	173.1	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.25	\$16.72	\$18.00	\$18.64	\$19.04	\$19.70	\$20.58	
Market Valuation													
Price: High		\$15.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.85	\$34.20	-	-	
Price: Low		\$10.75	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.52	\$25.67	-	-	
Price: Current		-	-	-	-	-	-	-	-	-	\$32.35	-	
P/E Ratio: High		13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	18.0	17.3	
Price/Book Value: High		1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.6	1.6	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.5%	3.3%	-	-	
Yield: Low Price		4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.9%	4.4%	-	-	
Yield: Current		-	-	-	-	-	-	-	-	-	3.6%	3.8%	
Balance Sheet (\$mm)													
Debt (\$-T)		181.6	140.8	229.1	80.3	189.5	911.0	890.0	639.0	414.0	328.7	471.4	
Debt (\$-LT)		925.5	1,006.9	1,881.5	2,133.8	2,404.8	4,578.0	4,840.0	5,237.0	5,565.0	5,799.0	5,925.7	
Minority Interest		40.0	36.8	37.5	34.6	30.0	118.0	145.0	123.0	152.0	162.0	162.0	
Preferred Shares		0.0	125.0	321.5	318.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	
Convertible Debentures		14.4	24.5	22.9	22.3	63.5	48.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		369.5	514.7	1,000.1	1,212.9	1,275.7	2,600.7	3,045.7	3,198.7	3,305.0	3,225.0	3,601.5	
		1,745.9	1,980.4	3,492.7	3,808.8	4,388.1	8,691.7	9,361.7	9,902.7	10,407.0	10,675.7	11,321.5	
Balance Sheet (%)													
Debt (\$-T)		10.4%	7.3%	6.6%	2.1%	4.0%	10.6%	6.0%	6.6%	4.0%	3.1%	4.2%	
Debt (\$-LT)		53.0%	51.0%	53.9%	56.0%	54.4%	52.3%	51.5%	52.9%	53.5%	54.3%	52.3%	
Minority Interest		2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	
Preferred Shares		0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	6.8%	6.0%	6.1%	
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.5%	21.5%	28.6%	31.2%	27.8%	29.9%	32.4%	32.7%	31.8%	32.1%	33.6%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.6	82.1	110.2	143.3	157.4	292.5	282.0	281.0	312.6	332.8	
Cash Flow from Operations		134.4	150.7	283.7	320.0	279.8	373.0	609.0	537.0	783.0	815.8	865.2	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.80	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.63	20	1.16	3.6	71	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.3		12.6			10.1		
10 Year:	9.8		9.7			10.5		
20 Year:	5.0		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q4/2010.

FTS - Rating as of 22-May-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: May 3, 2011

IMPORTANT DISCLOSURES

Analyst's Certification

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Prior BMO Capital Markets Ratings Systems

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

Resuming Coverage After \$300 Million Equity Issuance; Proposed CVPS Acquisition

Event

We are resuming coverage of Fortis following the completion of an offering of 9.1 million common shares for gross proceeds of \$300 million that was announced on May 30, 2011. Concurrently, Fortis announced that it had agreed to acquire Central Vermont Public Service Corporation (CVPS) for US\$700 million, including the assumption of US\$230 million of debt.

Impact

Slightly Positive. We had expected Fortis to issue equity by late 2011 in order to finance its ongoing capital expenditure program, although the amount of the issuance (\$300 million) was slightly greater than what we had forecast (\$260 million) and occurred earlier than expected. With respect to the acquisition of CVPS, Fortis has long stated that it intended to expand through the acquisition of a U.S.-based utility. At a multiple of approximately 1.49x anticipated regulatory rate base, the acquisition is not cheap; however, CVPS's rate base is expected to grow by an annual CAGR of 9% during the next five years.

Forecasts

We have updated our estimates to reflect: (1) the \$300 million equity issuance; (2) the CVPS acquisition; and (3) a reduction in earnings from the Caribbean business segment to be consistent with net income reported in 2010.

Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.86 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

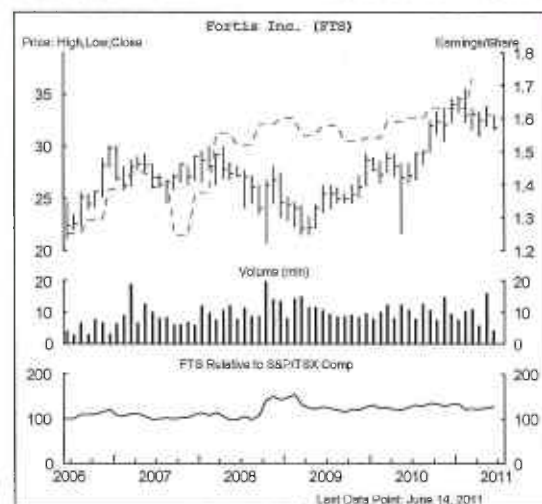
Recommendation

At current levels, we believe that Fortis's shares are attractively valued. Our rating is Outperform.

June 15, 2011
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
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 Assoc: Mark Laing, CA, CFA

Price (15-Jun) \$31.35 52-Week High \$35.45
 Target Price \$35.50 52-Week Low \$26.80



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.71↓	\$1.86↑
P/E			18.3x	16.9x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			6.7x	6.5x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,696	\$13,102
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,354.8	\$1,407.5
EV/EBITDA	10.3x	10.6x	9.4x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.35	\$0.24↓	\$0.47↓
Dividend	\$1.16	Yield		3.7%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	184.5	Mkt. Cap (mm)		\$5,784
Float O/S (mm)	183.0	Float Cap (mm)		\$5,737
Wkly Vol (000s)	2,302	Wkly \$ Vol (mm)		\$73.3
Net Debt (\$mm)	\$5,915	Next Rep. Date		15-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.75; 2012E: \$1.84

Changes	Annual EPS
	2011E \$1.77 to \$1.71
	2012E \$1.84 to \$1.86

Quarterly EPS
Q3/11E \$0.26 to \$0.24
Q4/11E \$0.52 to \$0.47

Resuming Coverage After \$300 Million Equity Issuance; Proposed Acquisition of Central Vermont Public Service Co.

We are resuming coverage of Fortis following the completion of an offering of 9.1 million common shares for gross proceeds of \$300 million that was announced on May 30, 2011. Concurrently, Fortis announced that it had agreed to acquire Central Vermont Public Service Corporation (CVPS) for US\$700 million, including the assumption of US\$230 million of debt.

With respect to the equity issuance, we expected Fortis to issue common shares by late 2011 in order to finance its ongoing capital expenditure program, although the amount of the issuance (\$300 million) was slightly greater than what we had forecast (\$260 million) and occurred earlier than expected.

With respect to the acquisition of CVPS, Fortis has long stated that it intended to expand into the U.S. through the acquisition of a U.S.-based utility. At a multiple of approximately 1.49x anticipated regulatory rate base, the acquisition is not cheap, and we estimate that CVPS will only be approximately \$0.05/share accretive to EPS in the first full year of ownership. The acquisition is, however, consistent with a strategy that Fortis has successfully employed in the past. CVPS is expected to grow its rate base by a CAGR of 9% per year, and this growth rate should translate into additional earnings accretion over time.

CVPS may also present Fortis with incidental acquisition opportunities. CVPS holds a 41% ownership interest in Vermont Transco, LLC, the entity that owns and operates the high-voltage transmission system in Vermont. It is possible that as the demand for green energy in the U.S. increases, the capacity of the transmission line owned by Vermont Transco could be expanded in order to accommodate additional imports of electricity from Quebec.

Although we view the acquisition positively, we are maintaining our \$35.50 price target, based on the relatively limited amount of accretion initially expected from the acquisition.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.86 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

About Central Vermont Public Service Corp.

Fortis has agreed to acquire all of the issued and outstanding common shares of Central Vermont Public Service Corp. ("CVPS"), a regulated integrated electric utility located in Vermont, for US\$35.10/share, resulting in aggregate purchase price of US\$700 million, including the assumption of US\$230 million of debt.

CVPS is the largest electric utility in Vermont, and is principally engaged in the purchase, production, transmission, distribution and sale of electricity.

CVPS serves nearly 160,000 customers in about two-thirds of the cities and towns throughout the state of Vermont. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. In addition, CVPS holds a 41% ownership interest in Vermont Transco, LLC, the entity that owns and operates the high-voltage transmission system in Vermont. Additional details about CVPS are set out below:

- The \$35.10/share offer represented a premium of 44.3% to CVPS's closing price of \$24.32, the day before the transaction was announced. The implied acquisition P/E multiplies based on 2011E guidance provided by CVPS are 21.9–20.0x 2011E earnings.
- Fortis has stated that in 2010, total assets and rate base assets of CVPS were approximately US\$711 million and US\$426 million, respectively.
- 2011E rate base has been forecast at US\$471 million. CVPS expects rate base to reach approximately US\$650 million by 2015, representing a compound average annual growth rate of approximately 9% from 2010 to 2015. A breakdown of historical and projected rate base for CVPS is provided in Table 1.

Table 1: Historical and Projected Rate Base (US\$mm)

	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Rate Base	236	236	302	344	385	426	471	518	574	602	646

Source: Company Reports, BMO Capital Markets

- CVPS's allowed rate of return on common equity for 2011 has been set at 9.45% with a deemed equity thickness of 57%. Although CVPS's deemed ROE is similar to that earned by Canadian-domiciled utilities, the equity thickness of 57% is very high by Canadian standards (most regulated utilities in Canada do not have equity thicknesses that exceed 40%).

We believe that the discrepancy between CVPS's capital structure (57% equity) and Fortis's capital structure (approximately 32% common equity, 9% preferred equity) is one of the reasons why the CVPS acquisition is accretive.

- CVPS operates principally under cost-of-service regulation. The regulatory framework at CVPS enables the company to recover fuel, purchased power and transmission costs, along with capital program costs with minimal lag.
- Consistent with Fortis's other subsidiaries, CVPS will continue to operate as a separate company with its own board of directors and local management team. In addition, Fortis

will provide approximately \$21 million for the benefit of CVPS customers, in a manner to be determined through the regulatory approval process.

- If the acquisition does not proceed, Fortis is entitled to a termination fee of US\$17.5 million, along with the reimbursement of up to US\$2 million for prudently incurred expenses.
- Regulatory approvals are expected within 6–12 months.

An Update on Belize Electricity Limited

On June 13, Fortis issued a press release to communicate that the Government of Belize issued a media release on Friday, June 10, announcing that the government desired to purchase a majority interest in Belize Electricity Limited (“BEL”; 70% Fortis) in order to assume control of the company. Fortis has indicated that it has not yet received a proposal from the Government of Belize.

The government’s announcement is the latest development in the acrimonious relationship between BEL and the Government of Belize, which began in May 2008, when the Belize Public Utilities Commission (“PUC”) issued a preliminary decision on BEL’s 2008 rate application. At that time, the PUC denied BEL’s request to increase rates in response to rising commodity prices. Fortis subsequently commenced a legal challenge against the PUC’s decision. On March 15, 2011 the Supreme Court of Belize upheld the PUC’s jurisdiction to set rates, and noted in its ruling that “Good Utility Practice as defined by [the Independent Expert appointed by the Court] in his Report is not applicable to Belize.”

Unsurprisingly, Fortis has not been able to earn a fair return from its investment in BEL in over three years. In 2010, the earnings contribution from BEL was only \$1.5 million, whereas in previous years, it had been as high as \$10 million.

During follow-up conversations, Fortis management stated that while it would be willing to divest its investment in BEL, any sale would have to be completed at a reasonable price and Fortis would not be willing to sell anything less than its entire investment in BEL. At the time of writing, BEL had a book value of \$125 million (\$0.68/share). Fortis is also exposed to Belize through its investment in BECOL (a company that owns unregulated power generation in Belize), which has a current book value of approximately \$160 million (\$0.88/share).

We expect continued uncertainty with respect to Fortis’s Belizean investments in the coming months. In our view, we believe a best-case scenario would involve Fortis divesting both BEL and BECOL for cash proceeds at prices that exceed book value. A worst-case scenario would involve some sort of expropriation of these assets by the Government of Belize.

Although we believe the uncertainty with respect to Fortis’s Belizean operations is negative, we note that these assets represent a relatively small proportion of the company’s consolidated operations. We estimate that income from both BEL and BECOL represent approximately 6% of our 2012E EPS estimate.

Estimates

We have updated our estimates to reflect: (1) the \$300 million equity issuance; (2) the CVPS acquisition; and (3) a reduction in earnings from the Caribbean business segment to be consistent with net income reported in 2010.

Our 2011E diluted EPS estimate declines to \$1.71 from \$1.77 due to a combination of dilution from the \$300 million common share issuance, and reduced net income expectations from Fortis's Caribbean investments.

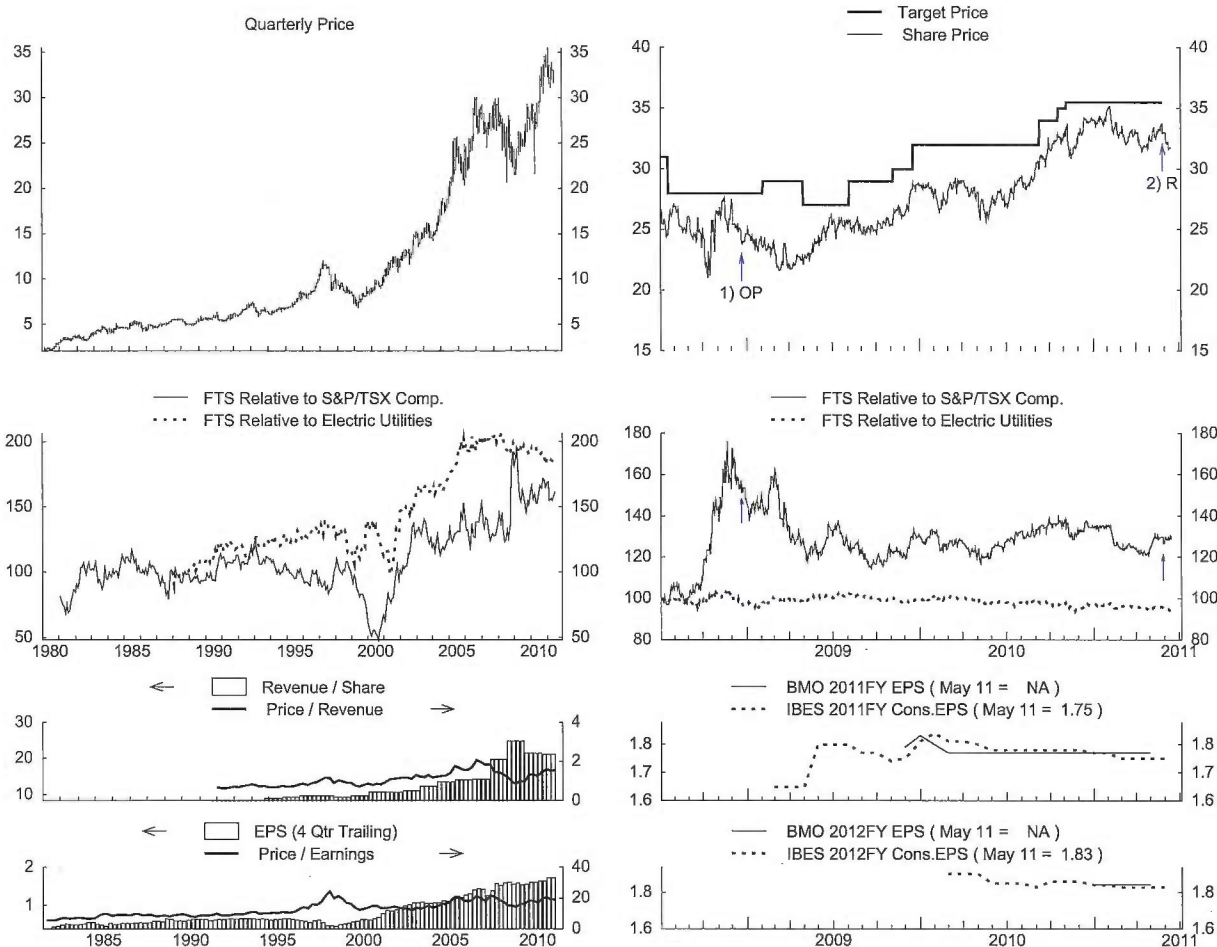
Our 2012E diluted EPS estimate increases slightly to \$1.86 from \$1.84, as expected accretion from the CVPS estimate is partially offset by a reduction in earnings from the Caribbean segment.

Table 2: Consolidated Summary

15-Jun-11												Michael McGowan
Current Price:	\$31.35											BMO Capital Markets
12-Month Target Price:	\$35.50											
ROR:	16.9%											
											Recommendation:	Outperform
Year Ending December 31												
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share	\$0.97	\$1.05	\$1.05	\$1.17	\$1.35	\$1.35	\$1.50	\$1.54	\$1.55	\$1.73	\$1.89	
Total Diluted Earnings Per Share	\$0.90	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.59	\$1.71	\$1.85	
Segmented EPS												
Newfoundland Power	\$0.44	\$0.45	\$0.37	\$0.29	\$0.20	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	
Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.15	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	
Fortis Generation	\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.11	\$0.11	
Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.13	\$0.13	
FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	
FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.25	\$0.25	
Telus Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.75	
Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.35)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.48)	(\$0.40)	(\$0.42)	
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22	
Payout Ratio	49.9%	48.5%	51.4%	52.5%	48.4%	60.2%	64.2%	67.6%	69.3%	66.9%	64.4%	
Average Shares (mm)	65.1	69.2	66.7	101.5	103.5	137.5	157.4	170.3	173.5	178.9	184.4	
Net Book Value	\$2.50	\$2.54	\$10.47	\$11.75	\$12.25	\$15.72	\$18.00	\$18.64	\$19.04	\$20.11	\$20.80	
Market Valuation												
Price: High	\$13.25	\$15.24	\$17.75	\$25.54	\$30.00	\$30.00	\$29.54	\$28.55	\$34.20	-	-	
Price: Low	\$10.75	\$11.53	\$14.20	\$17.00	\$20.55	\$24.50	\$20.70	\$21.52	\$25.57	-	-	
Price: Current	-	-	-	-	-	-	-	-	-	\$31.35	-	
P/E Ratio: High	13.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	15.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	-	-	18.1	15.5	
Price/Book Value: High	1.5	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-	
Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.5	1.5	
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.0%	3.3%	-	-	
Yield: Low Price	4.0%	4.5%	3.5%	3.5%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-	
Yield: Current	-	-	-	-	-	-	-	-	-	3.7%	3.9%	
Balance Sheet (\$mm)												
Debt (S-T)	181.5	142.5	229.1	80.3	182.5	911.0	550.0	639.0	414.0	48.2	213.5	
Debt (L-T)	925.5	1,006.9	1,881.5	2,133.8	2,404.8	4,578.0	4,840.0	5,337.0	5,555.0	5,799.0	6,617.2	
Minority Interest	40.0	35.8	37.5	39.5	130.0	115.0	145.0	123.0	102.0	152.0	152.0	
Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	657.0	917.0	917.0	917.0	
Convertible Debentures	14.4	34.0	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity	564.5	916.7	1,000.1	1,213.4	1,275.7	2,500.7	3,045.7	3,152.7	3,305.0	3,705.0	3,840.2	
	1,745.9	1,950.4	3,452.7	3,856.8	4,988.1	8,591.7	9,391.7	9,902.7	10,407.0	10,676.3	11,814.1	
Balance Sheet (%)												
Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	5.9%	6.5%	4.0%	0.5%	1.8%	
Debt (L-T)	53.0%	51.6%	55.9%	55.0%	54.4%	52.7%	51.5%	52.9%	53.3%	54.3%	55.2%	
Minority Interest	2.3%	1.9%	1.1%	1.0%	2.5%	1.3%	1.5%	1.2%	1.5%	1.5%	1.4%	
Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.0%	5.1%	7.1%	6.7%	8.8%	8.6%	7.8%	
Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity	33.5%	31.5%	28.5%	31.2%	27.2%	29.2%	31.4%	32.2%	31.8%	34.7%	32.5%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement												
Net Profit to Common	53.3	73.6	69.1	119.2	143.2	157.4	252.5	252.0	291.0	310.3	349.3	
Cash Flow from Operations	134.4	150.7	283.7	320.0	279.8	374.0	558.0	537.0	753.0	814.8	850.2	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	7.5		12.6			10.1		
10 Year:	10.3		9.5			10.5		
20 Year:	5.3		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 3-Jul-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97

Last Daily Data Point: June 14, 2011

IMPORTANT DISCLOSURES

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

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Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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A member of BMO  Financial Group

Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

Government of Belize Expropriates Fortis's 70% Ownership Interest in Belize Electricity Ltd.

Event

Fortis has announced that on Monday, June 20, the Government of Belize passed legislation and issued an order to expropriate Fortis's 70% interest in Belize Electricity Limited ("BEL") and dismiss BEL's board of directors.

Impact

Negative. In our research comment dated June 15 ([link](#)), we provided an update regarding BEL, specifically concerning comments made by the Government of Belize regarding its desire to acquire a majority interest in BEL and highlighted the possibility of government expropriation. Fortis is also exposed to Belize through its investment in BECOL, which owns unregulated power generation in the country. Although the government has not passed legislation to expropriate BECOL, BECOL may now experience difficulty collecting amounts billed to BEL for energy sales. We understand that BEL has a book value of \$125 million (\$0.68/share) and BECOL has a book value of \$160 million (\$0.88/share). Given this development, we believe Fortis may be required to record an impairment charge against its Belizean investments; however, its exposure to the country is relatively limited as BEL and BECOL represent less than 3% of total assets.

Forecasts

We removed the earnings contribution from BEL from our model on June 15. In order to be conservative, for periods after Q1/11 we have now eliminated all earnings contributions from BECOL.

Valuation

Our \$35 price target is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.86 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

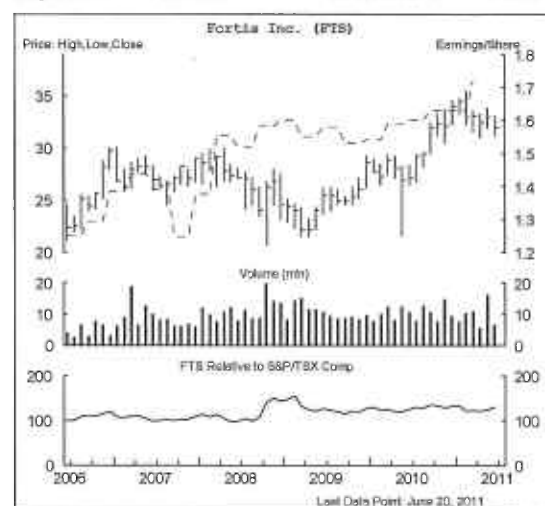
Recommendation

While this development is unfortunate, we continue to believe that Fortis represents a compelling long-term investment. Our rating is Outperform.

June 21, 2011
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 BMO Nesbitt Burns Inc.
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA, CFA

Price (20-Jun) \$32.04 52-Week High \$35.45
 Target Price \$35.00↓ 52-Week Low \$26.80



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.64↓	\$1.78↓
P/E			19.5x	18.0x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			6.8x	6.7x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,703	\$13,883
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,352.1	\$1,458.4
EV/EBITDA	10.3x	10.6x	9.4x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.34↓	\$0.22↓	\$0.44↓
Dividend	\$1.16	Yield		3.6%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	184.5	Mkt. Cap (mm)		\$5,911
Float O/S (mm)	183.0	Float Cap (mm)		\$5,863
Wkly Vol (000s)	2,283	Wkly \$ Vol (mm)		\$72.9
Net Debt (\$mm)	\$5,915	Next Rep. Date		15-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.73; 2012E: \$1.85

Changes

Annual EPS
 2011E \$1.71 to \$1.64
 2012E \$1.86 to \$1.78

Quarterly EPS

Q2/11E \$0.35 to \$0.34
 Q3/11E \$0.24 to \$0.22
 Q4/11E \$0.47 to \$0.44

Target

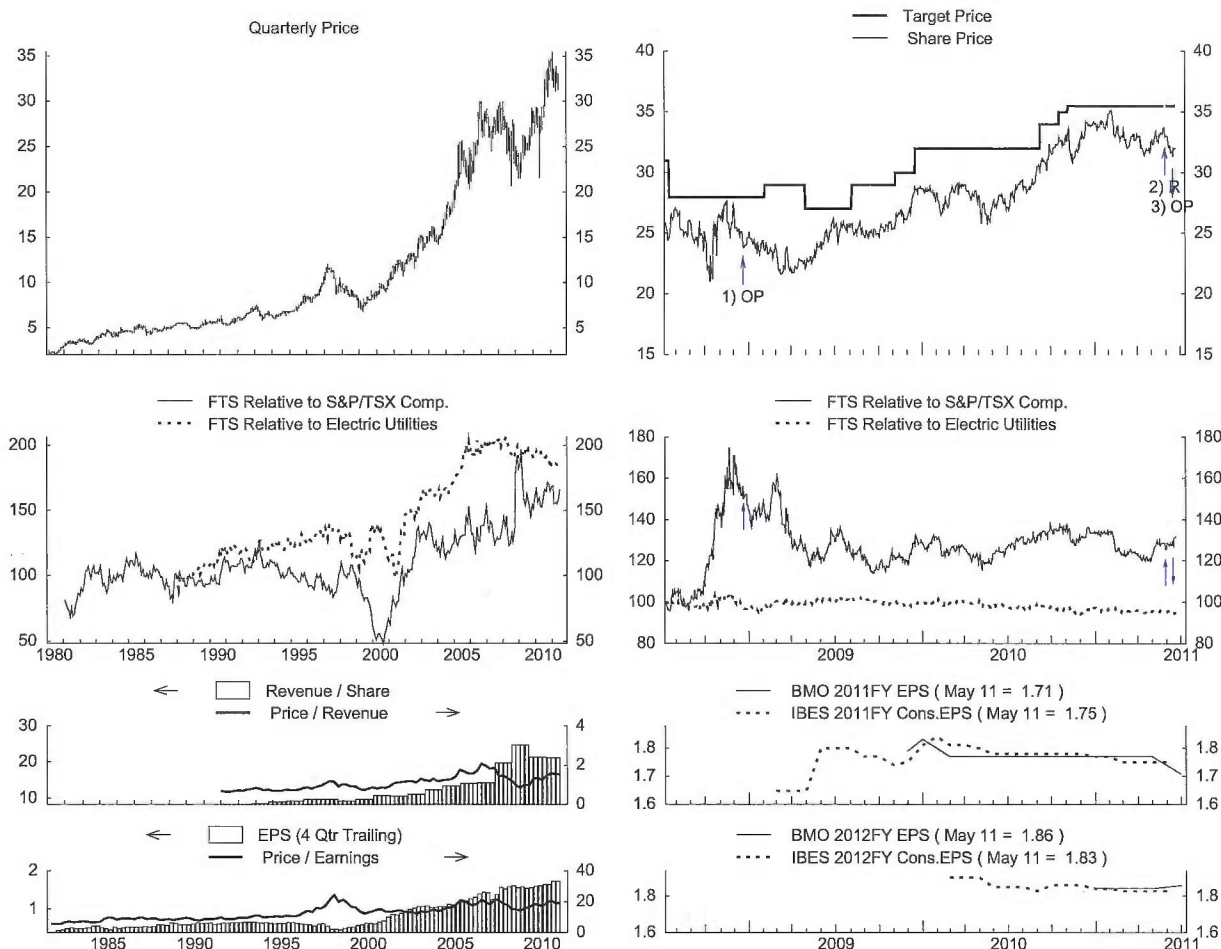
\$35.50 to \$35.00

Table 1: Consolidated Summary

21-Jun-11													Michael McGowan
Current Price:													BMO Capital Markets
12-Month Target Price:													
ROR:		13.0%											
		Recommendation:											Outperform
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.00	\$1.05	\$1.17	\$1.36	\$1.35	\$1.50	\$1.54	\$1.62	\$1.66	\$1.81	
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.32	\$1.29	\$1.35	\$1.31	\$1.59	\$1.59	\$1.78	
Segmented EPS													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.39	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	
Fortis Generation		\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.04	\$0.04	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.15	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12	
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.25	\$0.25	
Teresen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.75	
Other/Corporate		(\$0.02)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.32)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.40)	(\$0.44)	
Dividends		\$0.40	\$0.52	\$0.54	\$0.61	\$0.67	\$0.50	\$1.03	\$1.04	\$1.12	\$1.15	\$1.23	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	50.2%	64.2%	67.6%	69.3%	70.9%	67.5%	
Average Shares (mm)		65.1	69.2	64.7	101.8	103.6	137.6	157.4	170.2	173.9	178.9	184.4	
Net Book Value		\$9.50	\$8.84	\$10.47	\$11.75	\$12.35	\$15.72	\$18.00	\$16.54	\$19.04	\$20.04	\$20.54	
Market Valuation													
Price: High		\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$24.04	\$28.55	\$34.20	-	-	
Price: Low		\$10.75	\$11.53	\$14.23	\$17.00	\$20.35	\$24.80	\$20.70	\$21.02	\$25.57	-	-	
Price: Current		-	-	-	-	-	-	-	-	-	\$32.01	-	
P/E Ratio: High		13.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	19.3	17.7	
Price/Book Value: High		1.5	1.7	1.7	2.3	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.5	1.5	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.0%	3.3%	-	-	
Yield: Low Price		4.5%	4.5%	3.5%	3.5%	3.3%	3.3%	3.0%	4.5%	4.6%	-	-	
Yield: Current		-	-	-	-	-	-	-	-	-	3.5%	3.5%	
Balance Sheet (\$mm)													
Debt (S-T)		161.6	142.6	229.3	80.3	162.5	911.0	680.0	639.0	414.0	62.1	243.8	
Debt (L-T)		925.5	1,005.9	1,681.6	2,133.6	2,494.0	4,075.0	4,840.0	5,237.0	5,565.0	5,799.0	6,597.2	
Minority Interest		40.0	36.8	37.5	39.5	130.0	115.0	148.0	129.0	163.0	153.0	163.0	
Preferred Shares		0.0	125.0	321.5	319.5	443.0	442.0	657.0	667.0	217.0	217.0	217.0	
Convertible Debentures		14.4	34.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		584.5	614.7	1,000.1	1,313.4	1,275.1	2,600.7	3,048.7	3,192.7	3,305.0	3,562.2	3,850.1	
		1,746.9	1,980.4	3,462.7	3,806.8	4,586.1	6,691.7	9,391.7	9,503.7	10,407.0	10,575.3	11,514.1	
Balance Sheet (%)													
Debt (S-T)		10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	5.9%	5.9%	4.0%	0.6%	2.1%	
Debt (L-T)		53.0%	51.6%	53.0%	50.0%	54.4%	62.7%	51.5%	52.2%	53.9%	54.3%	56.3%	
Minority Interest		2.3%	1.9%	1.1%	1.0%	3.5%	1.3%	1.3%	1.2%	1.5%	1.3%	1.5%	
Preferred Shares		0.0%	6.4%	9.2%	8.4%	9.0%	5.1%	7.1%	6.7%	6.6%	6.6%	7.5%	
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.5%	31.5%	28.5%	31.2%	27.5%	29.5%	32.6%	32.2%	31.8%	34.6%	32.3%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.5	89.1	119.2	143.2	167.4	252.5	262.0	281.0	255.5	323.0	
Cash Flow from Operations		134.4	150.7	263.7	320.0	279.9	373.0	653.0	537.0	783.0	801.0	839.9	

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1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	7.5		12.6			10.1		
10 Year:	10.3		9.5			10.5		
20 Year:	5.3		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 9-Jul-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: June 20, 2011

IMPORTANT DISCLOSURES

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

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Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

July 13, 2011
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
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Updating Model to Reflect Termination of CVPS Merger Agreement and Overallotment Option

Event

We are updating our estimates to reflect: (1) Fortis's decision to terminate the Central Vermont Public Service Corp. (CVPS) merger agreement; and (2) the issuance of an additional 1.24 million common shares priced at \$33/share pursuant to the exercise of an overallotment option that was granted to underwriters on May 30, when the company announced it was issuing \$300.3 million of equity.

Impact

Slightly negative. The additional share issuance and decision to terminate the CVPS merger agreement has led to a reduction in our 2011E and 2012E EPS estimates. Somewhat positively, Fortis will receive a termination fee of US\$17.5 million from CVPS and a reimbursement of US\$2 million for expenses related to the proposed transaction.

Forecasts

Our EPS estimates decline to \$1.63 from \$1.64 in 2011E and to \$1.70 from \$1.78 in 2012E. We have not included the merger termination fee in our 2011E estimates as it represents a non-recurring gain.

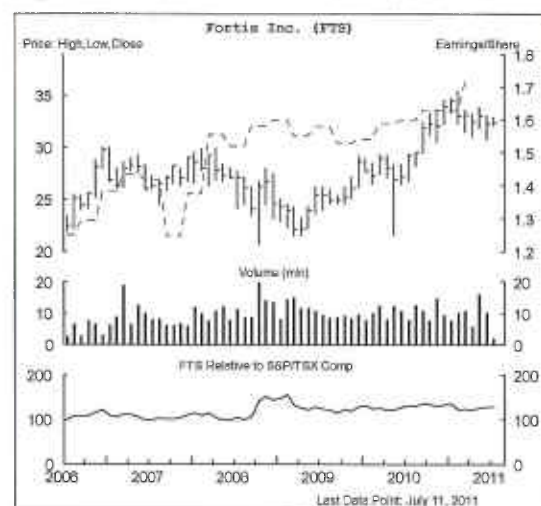
Valuation

Our \$35 price target is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.70 (12.5%); 1.75x 2012E BVPS of \$20.66 (12.5%); and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Recommendation

At current levels, we believe the shares are attractively valued. Our rating is Outperform.

Price (12-Jul) \$32.76 52-Week High \$35.45
 Target Price \$35.00 52-Week Low \$27.65



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63↓	\$1.70↓
P/E			20.1x	19.3x
CFPS	\$3.74	\$4.51	\$4.44	\$4.54
P/CFPS			7.0x	6.8x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,812	\$14,011
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,335.0	\$1,437.9
EV/EBITDA	10.3x	10.6x	9.6x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.34	\$0.22	\$0.44
Dividend	\$1.16	Yield	3.5%	
Book Value	\$19.00	Price/Book	1.7x	
Shares O/S (mm)	184.5	Mkt. Cap (mm)	\$6,044	
Float O/S (mm)	183.0	Float Cap (mm)	\$5,995	
Wkly Vol (000s)	2,306	Wkly \$ Vol (mm)	\$74.0	
Net Debt (\$mm)	\$5,915	Next Rep. Date	03-Aug (E)	

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.72; 2012E: \$1.85

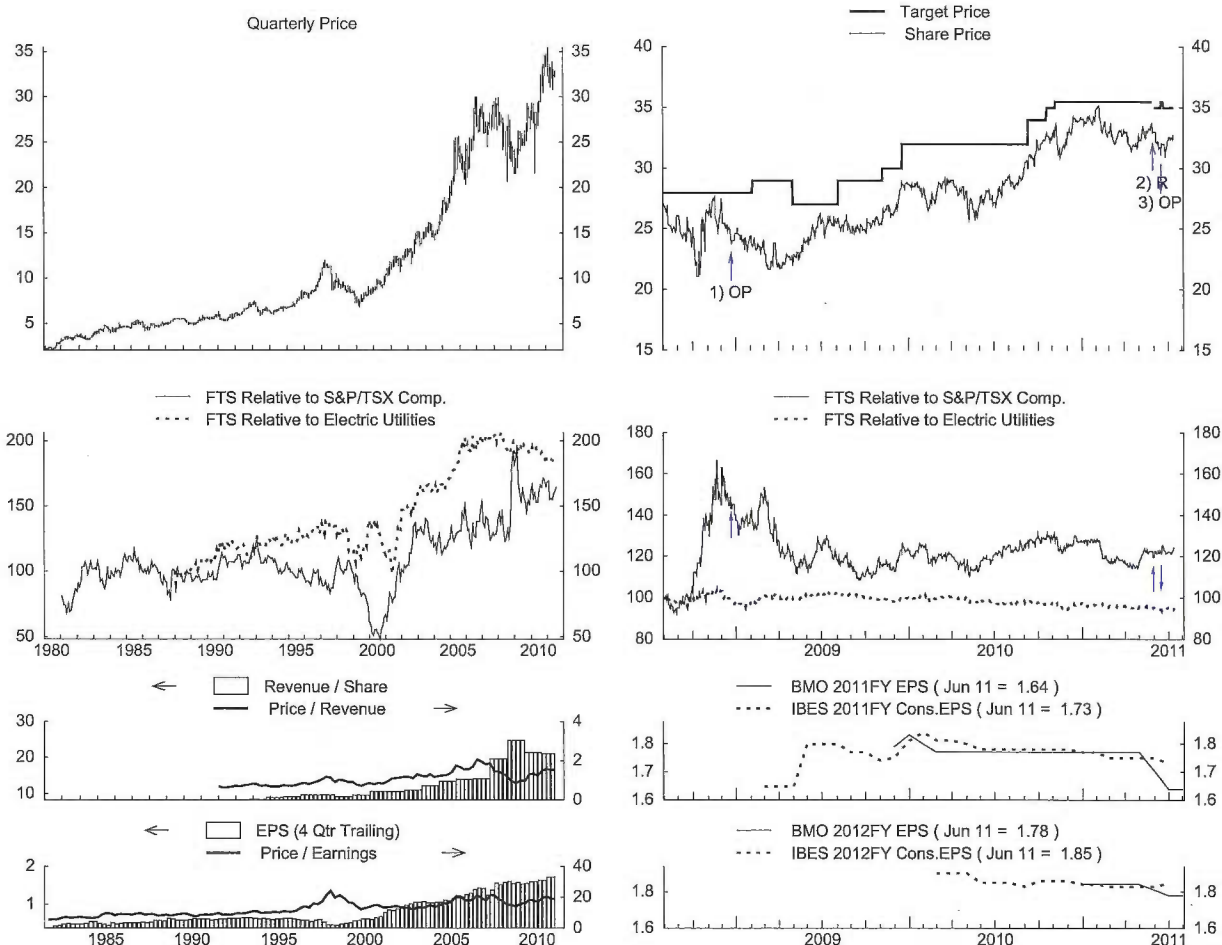
Changes	Annual EPS
	2011E \$1.64 to \$1.63
	2012E \$1.78 to \$1.70

Table 1: Consolidated Summary

13-Jul-11												Michael McGowan	
Current Price:		\$32.46										BMO Capital Markets	
12-Month Target Price:		\$35.00											
ROR:		11.4%											
		Recommendation:										Outperform	
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.05	\$1.17	\$1.38	\$1.35	\$1.50	\$1.54	\$1.62	\$1.65	\$1.72	
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.45	\$1.51	\$1.59	\$1.63	\$1.70	
Segmented EPS													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	
Other Canadian		\$0.34	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	
Fortis Generation		\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.04	\$0.04	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12	
FortisAlberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.38	\$0.39	\$0.35	\$0.35	\$0.41	\$0.43	
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.25	\$0.25	
Ternium Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.73	\$0.72	\$0.75	\$0.75	
Other/Corporate		(\$0.03)	(\$0.12)	(\$0.25)	(\$0.30)	(\$0.32)	(\$0.41)	(\$0.48)	(\$0.42)	(\$0.45)	(\$0.39)	(\$0.37)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.62	\$1.03	\$1.04	\$1.12	\$1.15	\$1.22	
Payout Ratio		49.5%	48.9%	51.4%	52.3%	48.4%	50.2%	64.2%	67.5%	69.2%	70.4%	70.9%	
Average Shares (mm)		65.1	69.2	84.7	101.5	103.5	137.6	157.4	170.2	173.9	180.6	186.7	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.35	\$10.72	\$18.00	\$18.04	\$18.95	\$20.10	\$20.65	
Market Valuation													
Price: High		\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$24.04	\$28.85	\$34.20	-	-	
Price: Low		\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.80	\$30.70	\$21.62	\$25.57	-	-	
Price: Current		-	-	-	-	-	-	-	-	-	\$32.46	-	
P/E Ratio: High		15.7	14.3	15.9	21.9	21.7	22.0	15.7	18.7	21.2	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	19.7	18.9	
Price/Book Value: High		1.6	1.7	1.7	2.3	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.6	1.5	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	
Yield: Low Price		4.5%	4.5%	3.8%	3.0%	3.2%	3.3%	5.0%	4.8%	4.4%	-	-	
Yield: Current		-	-	-	-	-	-	-	-	-	3.0%	3.8%	
Balance Sheet (\$mm)													
Debt (S-T)		191.5	142.5	229.1	80.3	182.5	911.0	650.0	599.0	414.0	15.0	(2.5)	
Debt (L-T)		525.5	1,005.9	1,881.6	3,133.8	2,404.5	4,579.0	4,840.0	3,237.0	3,365.0	5,792.0	6,345.7	
Minority Interest		40.0	35.8	37.5	34.6	130.0	115.0	148.0	123.0	162.0	162.0	162.0	
Preferred Shares		0.0	125.0	201.5	312.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	
Convertible Debentures		14.4	24.8	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		584.5	614.7	1,000.1	1,213.4	1,279.7	2,500.7	3,045.7	3,192.7	3,305.0	3,744.7	3,587.5	
		1,705.9	1,980.4	3,492.7	3,808.8	4,888.1	8,091.7	9,361.7	9,902.7	10,607.0	10,698.8	11,303.7	
Balance Sheet (%)													
Debt (S-T)		10.4%	7.3%	6.5%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	0.1%	0.0%	
Debt (L-T)		33.0%	31.6%	33.4%	56.0%	54.4%	52.7%	51.6%	52.9%	53.5%	54.4%	54.1%	
Minority Interest		2.3%	1.8%	1.1%	1.0%	2.9%	1.3%	1.5%	1.2%	1.5%	1.5%	1.5%	
Preferred Shares		0.0%	6.4%	2.2%	8.4%	6.6%	5.1%	7.1%	6.7%	8.5%	8.6%	8.1%	
Convertible Debentures		0.8%	1.3%	0.7%	0.5%	1.4%	0.3%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.3%	31.5%	28.6%	31.2%	27.8%	29.5%	32.4%	32.2%	31.6%	35.1%	33.2%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.5	89.1	119.2	143.2	187.4	252.5	262.0	281.0	297.5	319.4	
Cash Flow from Operations		134.4	160.7	283.7	320.0	279.8	373.0	563.0	637.0	753.0	803.0	842.8	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.82	19	0.37	6.8	60	4.71	1.1	13
1991	0.80	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
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2003	1.03	14	0.52	3.5	49	8.82	1.7	12
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2005	1.10	21	0.64	2.6	55	11.74	2.1	10
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2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
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Current*	1.72	19	1.16	3.6	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			10.1		
10 Year:	9.8		9.5			10.5		
20 Year:	5.3		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 31-Jul-08 = OP

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Last Daily Data Point: July 12, 2011

IMPORTANT DISCLOSURES

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

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Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Fortis

(FTS-TSX)

August 3, 2011Brief Research Note
Gas & Electric Utilities**Stock Rating:** Outperform
Stock Price: \$31.37
Target Price: \$35.00**Michael McGowan, CA, CFA**
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA, CFA**Member of:** Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

Q2/11 Earnings in Line

Impact

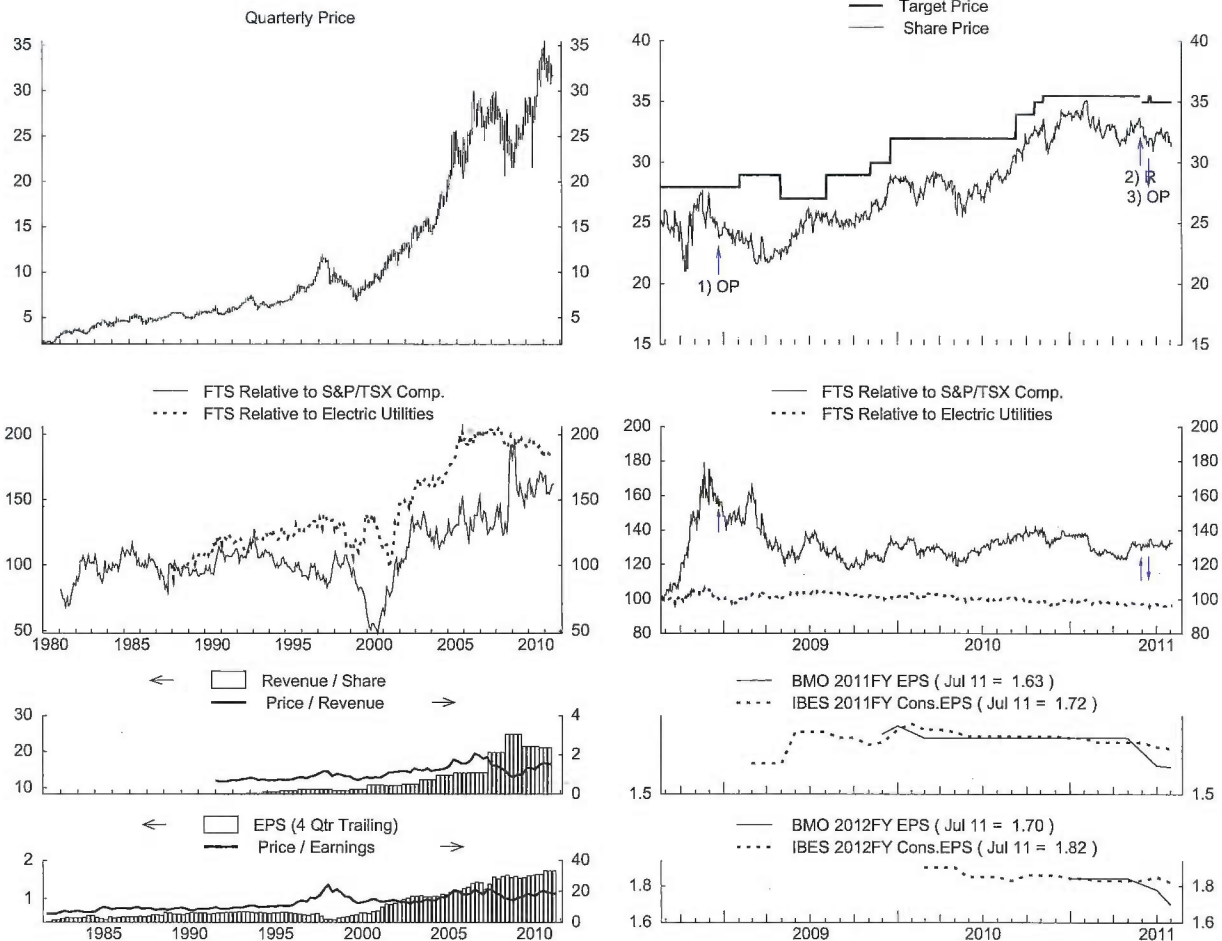
Neutral

Details & Analysis

Fortis reported Q2/11 EPS of \$0.33, which was consistent with our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36). Earnings from the majority of the company's business segments were generally in line with our estimates, with slightly stronger-than-expected results at the "Other Canadian" utilities (FortisOntario and Maritime Electric) offsetting slightly weaker-than-expected results at the FortisBC Energy companies (formerly the Terasen Companies). Disclosure in the earnings release noted that Fortis's investment in BECOL, the non-regulated entity that sells electricity to Belize Electricity Limited, has not been affected by the Government of Belize's decision to expropriate the assets of Belize Electricity Limited at this time. There was no change to the company's 2011E capital expenditure estimate of \$1.2 billion; however, the company has increased its five-year capital expenditure estimate to \$5.7 billion from \$5.5 billion previously.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.82	19	0.37	6.8	60	4.71	1.1	13
1991	0.80	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	18	1.16	3.7	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			10.1		
10 Year:	9.8		9.5			10.5		
20 Year:	5.3		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 21-Aug-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: August 2, 2011

IMPORTANT DISCLOSURES**Analyst's Certification**

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

August 3, 2011
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 BMO Nesbitt Burns Inc.
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA, CFA

Q2/11 Slightly Below Expectations; Outperform Rating Maintained

Event

Fortis reported Q2/11 EPS of \$0.33. After adjusting for \$2 million in revenue related to the implementation of a smart meter program at FortisAlberta in 2010, we believe recurring EPS were \$0.32 or slightly lower than our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36).

Impact

Neutral. We view the Q2/11 results as neutral to our outlook. Although reported EPS was slightly below our estimate and consensus, due to the nature of Fortis's business we attribute the majority of the variance to seasonality. For example, Q1/11 results exceeded consensus by \$0.05/share, while Q2/11 earnings were approximately \$0.02/share below consensus.

Forecasts

We have updated our model to reflect Q2/11 results and the estimated rate base balances set out in the revenue requirement applications for the FortisBC Energy and FortisBC Electricity companies. There is no change to our 2011E EPS estimate and our 2012E EPS estimate increases to \$1.71 from \$1.70.

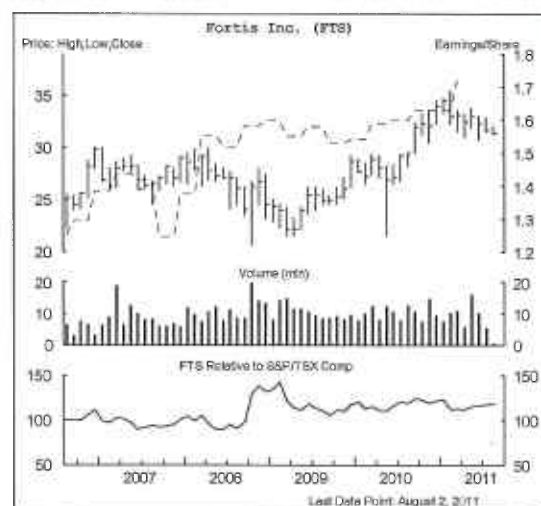
Valuation

Our \$35 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.71 (12.5%), 1.75x 2012E BVPS of \$20.61 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Recommendation

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure plan, we continue to believe that Fortis represents a good long-term investment, especially at current valuation levels. Our rating is Outperform.

Price (2-Aug) \$31.37
Target Price \$35.00
52-Week High \$35.45
52-Week Low \$28.25



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63	\$1.71↑
P/E			19.2x	18.3x
CFPS	\$3.74	\$4.51	\$4.45↑	\$4.55↑
P/CFPS			7.0x	6.9x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,622	\$13,335
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,335.0	\$1,385.6
EV/EBITDA	10.3x	10.6x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.22	\$0.45↑
Dividend	\$1.16	Yield		3.7%
Book Value	\$20.03	Price/Book		1.6x
Shares O/S (mm)	186.3	Mkt. Cap (mm)		\$5,844
Float O/S (mm)	184.9	Float Cap (mm)		\$5,800
Wkly Vol (000s)	2,268	Wkly \$ Vol (mm)		\$73.2
Net Debt (\$mm)	\$5,857	Next Rep. Date		03-Nov (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.72; 2012E: \$1.82

Changes

Annual EPS
 2012E \$1.70 to \$1.71

Annual CFPS
 2011E \$4.44 to \$4.45
 2012E \$4.54 to \$4.55

Quarterly EPS
 Q4/11E \$0.44 to \$0.45

Q2/11 Slightly Below Expectations; Likely Due to Seasonality

Fortis reported Q2/11 EPS of \$0.33. After adjusting for \$2 million in revenue related to the implementation of a smart meter program at FortisAlberta in 2010, we believe recurring EPS were \$0.32 or slightly lower than our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36).

We view the Q2/11 results as neutral to our outlook. Although reported EPS was slightly below our estimate and consensus, due to the nature of Fortis's businesses, we attribute the majority of the variance to seasonality. For example, Q1/11 results exceeded consensus by \$0.05/share, while Q2/11 earnings were approximately \$0.02/share below consensus.

With respect to growth, we expect Fortis to continue to evaluate the potential acquisition of regulated natural gas or electric utilities in the U.S. Although Fortis was not successful in its attempt to acquire Central Vermont Public Service Corp. ("CVPS"), Fortis management believes that the proposed acquisition has raised the company's profile among U.S. utilities contemplating a transaction.

Notwithstanding acquisitions, Fortis will continue to advance its capital expenditure program in order to drive organic growth. The company has maintained 2011E capital expenditure guidance of \$1.2 billion; however, it has increased its five-year capital expenditure guidance to \$5.7 billion from \$5.5 billion. The majority of this spending is expected to occur at the company's regulated utilities. Fortis also continues to evaluate a number of other opportunities to grow rate base, such as investments in new natural gas infrastructure. For example, the company is considering seeking regulatory approval to invest in fuelling stations that would be used by large industrial/commercial vehicles that rely on natural gas as fuel, as opposed to more traditional fuels such as diesel or gasoline. We understand that Fortis also continues to pursue the development of large-scale transmission infrastructure in Ontario, although the company acknowledges that this may be a longer-term initiative.

Although the company has experienced two significant developments recently (the termination of the CVPS merger agreement, and the decision by the Government of Belize to expropriate Fortis's investment in Belize Electricity Limited), we believe that Fortis is ready to move forward. With respect to CVPS, pursuant to the terms of the merger agreement, Fortis received a break fee of \$17.5 million and will be reimbursed for \$2 million of expenses. In addition, when the expropriation of BEL was announced, we removed all contributions from Belize Electricity Limited and BECOL from our estimates. In our view, any incremental earnings combined with subsequent collection of accounts receivable related to unregulated generation at BECOL should be viewed positively.

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure plan, we continue to believe that Fortis represents a good long-term investment, especially at current valuation levels. Our \$35 price target is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.71 (12.5%), 1.75x 2012E BVPS of \$20.61 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

At current levels, we believe the company's shares are attractively valued. Our rating is Outperform.

Q2/11 Results

As set out in Table 1, on a comparable basis, net income increased by 1.8% in Q2/11 versus Q2/10. In order to present results on a comparable basis, Q2/11 GAAP income was adjusted for the recognition of \$2 million of accrued revenue, which relates to the implementation of a smart metering program at FortisAlberta in 2010.

Table 1: Historical Q2 Income by Business Segment

	Q2/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/11 Adjusted Earnings (\$mm)	Q2/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/10 Adjusted Earnings (\$mm)	Variance Q2/11 Adj. vs. Q2/10 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Fortis BC Energy Companies	15.0	-	15.0	17.0	-	17.0	(2.0)	-11.8%
Regulated Electric Utilities - Canadian								
FortisAlberta	19.0	(2.0)	17.0	17.0	-	17.0	0.0	0.0%
FortisBC	9.0	-	9.0	8.0	-	8.0	1.0	12.5%
Newfoundland Power	11.0	-	11.0	11.0	-	11.0	0.0	0.0%
Other Canadian	8.0	-	8.0	4.0	-	4.0	2.0	50.0%
	45.0	(2.0)	43.0	40.0	-	40.0	3.0	7.5%
Regulated Electric Utilities - Caribbean	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Non-Regulated - Fortis Generation	2.0	-	2.0	3.0	-	3.0	(1.0)	-33.3%
Non-Regulated - Fortis Properties	7.0	-	7.0	8.0	-	8.0	(1.0)	-12.5%
Corporate and Other	(18.0)	-	(18.0)	(20.0)	-	(20.0)	2.0	-10.0%
Net Earnings Applicable to Common Shares	58.0	(2.0)	56.0	55.0	0.0	55.0	(1.0)	1.8%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

Regulated Gas Utilities – FortisBC Energy Companies

Q2/11 net income of \$15 million from FortisBC Energy was less than our estimate of \$17 million and Q2/10 net income of \$17 million. We attribute the majority of the variance to seasonality, as timing differences resulted in a higher proportion of expenses recorded in Q2/11 compared to Q2/10.

Regulated Electric Utilities – FortisAlberta

Adjusted Q2/11 net income of \$17 million was less than our estimate of \$18.6 million and consistent with Q2/10 net income of \$17 million.

Regulated Electric Utilities – FortisBC

Q2/11 net income of \$9 million was consistent with our estimate of \$9 million and slightly greater than Q2/10 net income of \$8 million. The increase in earnings was largely driven by higher electricity sales during the quarter (682 GWh in Q2/11 vs. 671 GWh in Q2/10) and rate base growth, due to infrastructure investments.

Regulated Electric Utilities – Newfoundland Power

Q2/11 net income of \$11 million was consistent with our estimate of \$10.9 million and Q2/10 net income of \$11 million.

Regulated Electric Utilities – Other Canadian

Q2/11 net income of \$6 million was greater than our estimate of \$4.5 million and Q2/10 net income of \$4 million. The increase in earnings was primarily due to electricity sales growth (562 GWh in Q2/11 vs. 535 GWh in Q2/10), and a 3.8% rate increase at Algoma Power that became effective on December 1, 2010.

Regulated Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$7 million in Q2/11 versus our estimate of \$6.8 million and Q2/10 net income of \$7 million.

Unregulated – Fortis Generation

Fortis Generation reported Q2/11 net income of \$2 million, which was greater than our estimate of \$1.4 million and Q2/10 net income of \$3 million. The difference between Q2/11 and Q2/10 results was largely due to decreased production in Belize. In order to be conservative, we removed all earnings contribution from BECOL from our estimates after Q1/11, following the announcement on June 20 that the Government of Belize had expropriated Fortis's 70% interest in Belize Electricity Limited ("BEL"). As at July 31, BEL owed BECOL US\$6.5 million for overdue energy purchases. The last payment that BECOL received for overdue energy purchases was for US\$0.5 million on July 11. Disclosure in the earnings release suggests that the Government of Belize does not intend to expropriate BECOL, and that BECOL continues to deliver electricity to BEL and invoice BEL for deliveries. Due to our conservative outlook, our model does not anticipate earnings future earnings from BECOL; however, we believe that any incremental earnings, combined with subsequent collection of accounts receivable related to unregulated generation at BECOL should be viewed positively.

Unregulated – Fortis Properties

Fortis Properties reported net income of \$7 million, which was lower than our estimate of \$9 million and Q2/10 net income of \$8 million. Decreased occupancy at hospitality properties in Western Canada was responsible for the decline. Occupancy at the real estate division decreased to 93.4% at the end of the quarter versus 94.8% at the end of Q2/10. At the hospitality division, revenue per available room decreased slightly to \$83.57 during Q2/11 versus \$83.77 during Q2/10.

Revised Capital Expenditure Forecast

There was no change to the company's 2011E capital expenditure of \$1.2 billion; however, the company has increased its five-year capital expenditure estimate to \$5.7 billion from \$5.5 billion previously. Approximately 61% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 16% relates to Fortis's non-regulated businesses.

Regulatory Update

After a lull in 2010, we expect 2011 to be relatively busy from a regulatory perspective. The Alberta Utilities Commission (AUC) is currently moving forward with a Generic Cost of Capital proceeding. The formal hearing began on June 20, 2011 and the AUC is expected to issue a cost of capital decision by the end of the year. The AUC is also exploring the implementation of Performance Based Regulation; however, we understand that a final decision on PBR is not expected until mid-2012.

In addition to the broad regulatory initiatives outlined above, a number of Fortis's utilities are expected to make rate or other filings in 2011:

- The FortisBC Energy utilities (formerly the Terasen companies) are expected to pursue an amalgamation during Q3/11;
- In May 2011, the FortisBC Energy utilities filed revenue requirements applications for 2012–2013. FortisBC Energy Inc. is seeking a return on estimated mid-year rate bases of \$2,737 million in 2012E and \$2,788 million in 2013E, and FortisBC Energy Inc. Vancouver Island is seeking a return on estimated mid-year rate bases of \$788 million in 2012E and \$814 million in 2013E;
- In June 2011, FortisBC Electric filed a Revenue Requirement Application and Integrated System Plan for 2012 – 2013, in which it is seeking a return on estimated mid-year net rate bases of \$1,145 million in 2012E, and \$1,212 million in 2013E;
- Effective September 2011, the interim Government of the Turks and Caicos Islands plans to implement a carbon tax, which will be applicable to Fortis Turks and Caicos. In the event that this tax is not permitted to be passed onto Fortis Turks and Caicos' customers, the potential impact to earnings would be approximately \$1 million in 2011 and \$2–3 million on an annual basis.

Estimates

We have updated our model to reflect Q2/11 results and the estimated rate base balances set out in the revenue requirement applications for the FortisBC Energy and FortisBC Electricity companies. There is no change to our 2011E EPS estimate and our 2012E EPS estimate increases to \$1.71 from \$1.70.

Table 2: Consolidated Summary

03-Aug-11

Current Price: \$30.87
 12-Month Target Price: \$35.00
 ROR: 17.1%

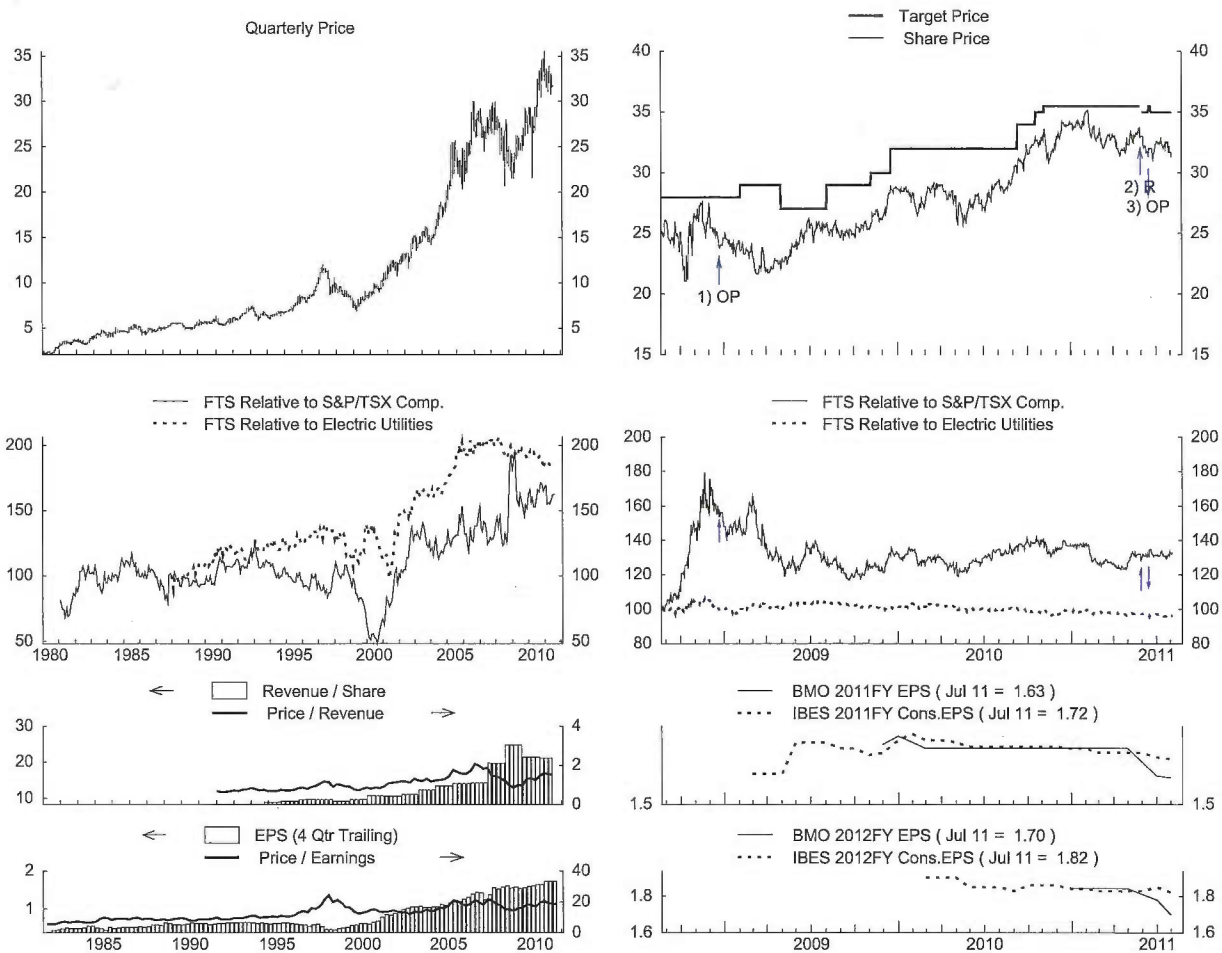
Michael McGowan
 BMO Capital Markets

Recommendation: Outperform

	Year Ending December 31										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Total Basic Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.62	\$1.65	\$1.73
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.63	\$1.71
Segmented EPS											
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18
Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16
Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.06	\$0.04
Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12
FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.36	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43
FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.29
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78
Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.39)	(\$0.38)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	70.2%	70.5%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	180.6	186.3
Net Book Value	\$8.60	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.10	\$20.61
Market Valuation											
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	-	-
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	-	-
Price: Current	-	-	-	-	-	-	-	-	-	\$30.87	-
P/E Ratio: High	13.7	14.3	18.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	-	-	18.7	17.8
Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-
Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.5	1.5
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-
Yield: Current	-	-	-	-	-	-	-	-	-	3.8%	4.0%
Balance Sheet (\$mm)											
Debt (S-T)	181.8	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(9.2)	231.4
Debt (L-T)	926.5	1,006.9	1,881.6	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,799.0	6,345.7
Minority Interest	40.0	38.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0
Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0
Convertible Debentures	14.4	24.6	22.9	22.3	63.6	45.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity	584.6	514.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,745.9	3,841.0
	1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	8,591.7	9,321.7	9,902.7	10,407.0	10,858.8	11,541.1
Balance Sheet (%)											
Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	-0.1%	2.0%
Debt (L-T)	53.0%	51.6%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%
Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%
Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.6%	7.9%
Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity	33.5%	31.5%	28.5%	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.1%	33.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement											
Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	298.7	322.4
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	653.0	637.0	763.0	803.1	848.4

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	2.1	10
2005	1.10	21	0.64	2.6	55	11.74	2.4	11
2006	1.33	22	0.76	2.9	61	16.69	1.7	9
2007	1.29	21	0.84	4.1	62	20.05	1.2	8
2008	1.56	15	1.00	3.6	68	18.65	1.5	8
2009	1.51	19	1.04	3.3	69	19.03	1.8	8
2010	1.59	21	1.12	3.7	67	19.00	1.7	9
Current*	1.72	18	1.16					
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			10.1		
10 Year:	9.8		9.5			10.5		
20 Year:	5.3		5.9			7.2		

* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 21-Aug-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: August 2, 2011

IMPORTANT DISCLOSURES

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Additional Matters

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

September 11, 2011

Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA

BMO Nesbitt Burns Inc.

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Assoc: Mark Laing, CA, CFA

Introducing 2013E Estimates; Outperform Rating Maintained

Event

We are introducing our 2013E estimates.

Impact

Slightly Positive.

Forecasts

We are introducing 2013E diluted EPS and DPS of \$1.78 and \$1.26 respectively. EPS and DPS growth is largely driven by Fortis's capital expenditure program, through which the company plans to invest \$5.7 billion in its business during the next five years. Our 2011E and 2012E diluted EPS and DPS estimates remain unchanged.

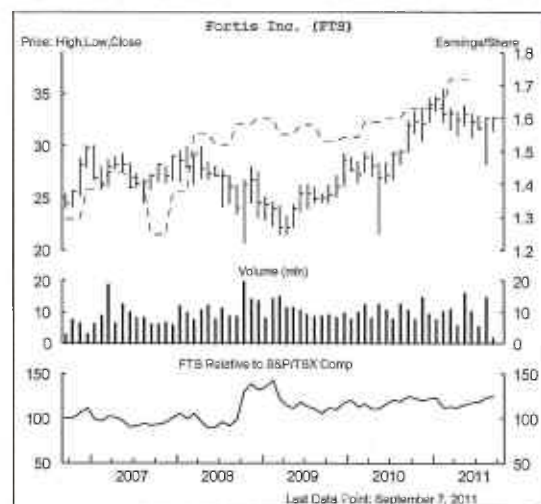
Valuation

Our revised \$35.50 target price (previously \$35) is based on a weighted valuation approach: 18x 2013E EPS of \$1.78 (12.5%); 1.75x 2013E BVPS of \$21.59 (12.5%); and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26.

Recommendation

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure program, we continue to believe Fortis represents a good long-term investment, especially at current valuation levels. Our rating is Outperform.

Price (7-Sep) \$32.70 **52-Week High** \$35.45
Target Price \$35.50† **52-Week Low** \$28.24



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63	\$1.71
P/E			20.1x	19.1x
CFPS	\$3.74	\$4.51	\$4.45	\$4.55
P/CFPS			7.3x	7.2x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,824	\$13,798
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,288.0	\$1,364.4
EV/EBITDA	10.3x	10.6x	10.0x	10.1x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.22	\$0.45
Dividend	\$1.16	Yield	3.5%	
Book Value	\$20.03	Price/Book	1.6x	
Shares O/S (mm)	186.3	Mkt. Cap (mm)	\$6,092	
Float O/S (mm)	184.9	Float Cap (mm)	\$6,046	
Wkly Vol (000s)	2,293	Wkly \$ Vol (mm)	\$74.5	
Net Debt (\$mm)	\$5,857	Next Rep. Date	03-Nov (E)	

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.69; 2012E: \$1.78

Changes

Target
 \$35.00 to \$35.50

Table 1: Consolidated Summary

09-Sep-11

Current Price:

\$32.21

12-Month Target Price:

\$35.50

ROR:

13.8%

Michael McGowan

BMO Capital Markets

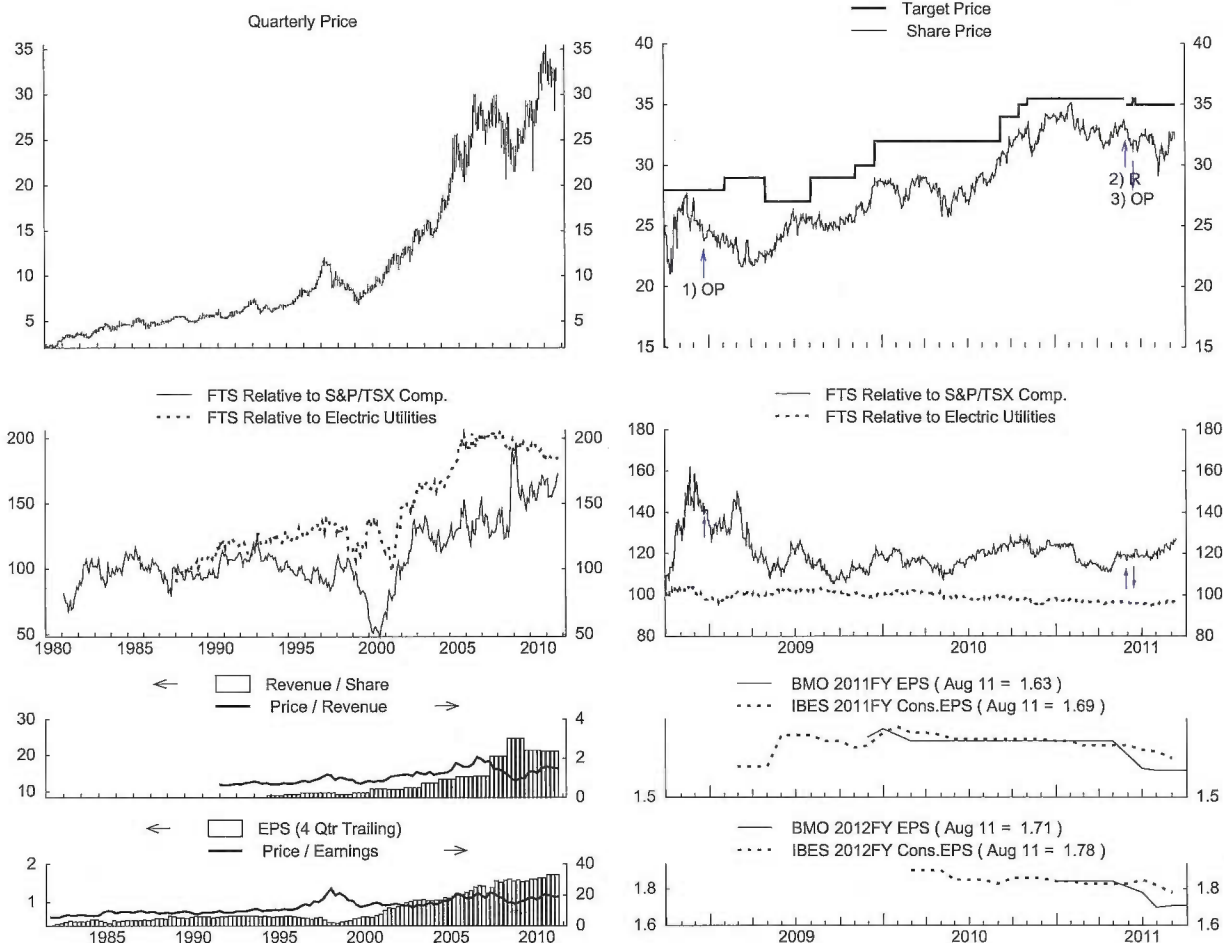
Recommendation:

Outperform

		Year Ending December 31											Recommendation:	Outperform
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.62	\$1.69	\$1.73	\$1.81	
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.63	\$1.71	\$1.78	
Segmented EPS														
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.19	
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	\$0.11	
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16	\$0.17	
	Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.06	\$0.04	\$0.04	
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12	\$0.11	
	Fortis Alberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	\$0.45	
	FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.29	\$0.30	
	Tarasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78	\$0.80	
	Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.39)	(\$0.38)	(\$0.38)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22	\$1.26	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	70.3%	70.9%	69.8%	
Average Shares (mm)		65.1	69.2	84.7	101.8	103.5	137.5	157.4	170.2	173.9	180.6	186.3	190.5	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.76	\$12.25	\$16.72	\$18.00	\$18.64	\$18.95	\$20.10	\$20.61	\$21.59	
Market Valuation														
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.85	\$34.20	-	-	-	
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	-	-	-	
	Price: Current	-	-	-	-	-	-	-	-	-	\$32.21	-	-	
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	-	
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	-	
	P/E Ratio: Current	-	-	-	-	-	-	-	-	-	19.5	18.6	17.8	
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	-	
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	-	
	Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.5	1.6	1.5	
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	-	
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-	-	
	Yield: Current	-	-	-	-	-	-	-	-	-	3.6%	3.8%	3.9%	
Balance Sheet (\$mm)														
	Debt (S-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(8.4)	222.3	433.6	
	Debt (L-T)	925.5	1,005.9	1,881.6	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,555.0	5,799.0	6,345.7	6,348.8	
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0	162.0	
	Preferred Shares	0.0	125.0	221.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0	
	Convertible Debentures	14.4	24.5	22.9	22.3	53.5	45.0	44.0	44.0	44.0	44.0	44.0	44.0	
	Shareholders' Equity	564.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,745.5	3,840.5	4,204.4	
		1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,407.0	10,659.1	11,541.4	12,109.8	
Balance Sheet (%)														
	Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	-0.1%	2.0%	3.6%	
	Debt (L-T)	53.0%	51.6%	53.9%	55.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%	52.4%	
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.6%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	1.3%	
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.6%	8.6%	7.9%	7.6%	
	Convertible Debentures	0.8%	1.2%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	
	Shareholders' Equity	33.8%	31.5%	28.6%	31.9%	27.6%	29.2%	32.4%	32.2%	31.8%	35.1%	33.3%	34.7%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement														
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	298.2	322.3	343.9	
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	563.0	637.0	783.0	802.4	848.3	885.4	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.6	67	20.03	1.6	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			11.3		
10 Year:	9.8		9.5			11.1		
20 Year:	5.3		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 30-Sep-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: September 9, 2011

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Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

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A member of BMO  Financial Group

Fortis

(FTS-TSX)

Stock Rating: **Outperform**
 Industry Rating: **Market Perform**

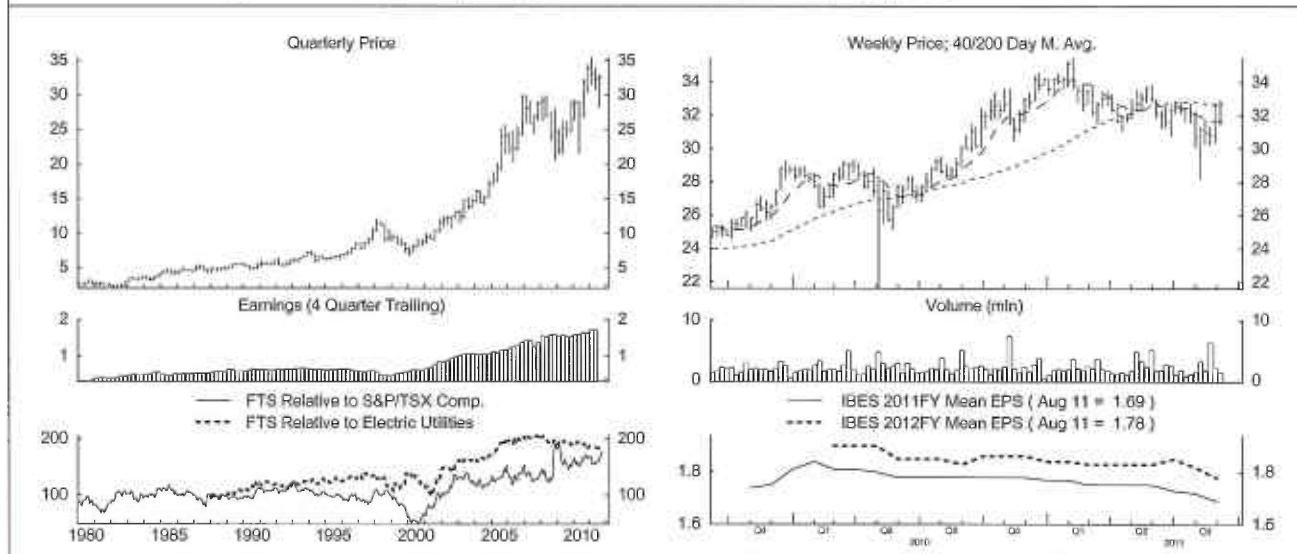
September 8, 2011
 Research Fact Sheet
 Gas & Electric Utilities

Michael McGowan, CA, CFA
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 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA, CFA

Price (8-Sep)	\$32.72	52-Week High	\$35.45	
Target Price	\$35.50	52-Week Low	\$28.24	
Dividend	\$1.16	Book Value	\$20.03	
Yield	3.5%	Price/Book	1.6x	
Shares O/S (mm)	186.3	Mkt. Cap (\$mm)	\$6,096	
Float O/S (mm)	184.9	Float Cap (\$mm)	\$6,050	
Wkly Vol (000s)	2,293	Wkly \$ Vol (mm)	\$74.5	
Net Debt (\$mm)	\$5,857	Next Rep. Date	03-Nov (E)	
Quarterly EPS				
	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67 a	\$0.32 a	\$0.22	\$0.45

(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63	\$1.71
P/E			20.1x	19.1x
CFPS	\$3.74	\$4.51	\$4.45	\$4.55
P/CFPS			7.4x	7.2x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,732	\$13,703
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,286.0	\$1,364.4
EV/EBITDA	10.3x	10.6x	9.9x	10.0x
ROE (%)	8.2%	8.5%	8.0%	8.4%
Book Value (\$)	\$18.64	\$18.95	\$20.10	\$20.61
D/Tot. Cap. (%)	61.0%	59.4%	56.3%	58.8%
Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic Disclosures: 1, 2, 3, 4, 5, 6AC



Company Description – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Belize Electricity (70.1%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the Terasen Gas Companies (100%, British Columbia).
 Website: fortisinc.com

Recent Results – Fortis reported Q2/11 EPS of \$0.33. After adjusting for \$2 million in revenue related to the implementation of a smart meter program at FortisAlberta in 2010, we believe recurring EPS were \$0.32 or slightly lower

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 5.

than our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36).

Corporate Developments – The company has maintained 2011E capital expenditure guidance of \$1.2 billion; however, it has increased its five-year capital expenditure guidance to \$5.7 billion from \$5.5 billion. Approximately 61% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 16% relates to Fortis' non-regulated businesses.

On July 12, 2011, Fortis announced its decision to terminate the Central Vermont Public Service Corp. (CVPS) merger following the determination by the board of directors that the unsolicited proposal received from Gaz Metro Limited Partnership was a "superior proposal." Fortis received a termination fee of US\$17.5 million from CVPS and a reimbursement of US\$2 million for expenses.

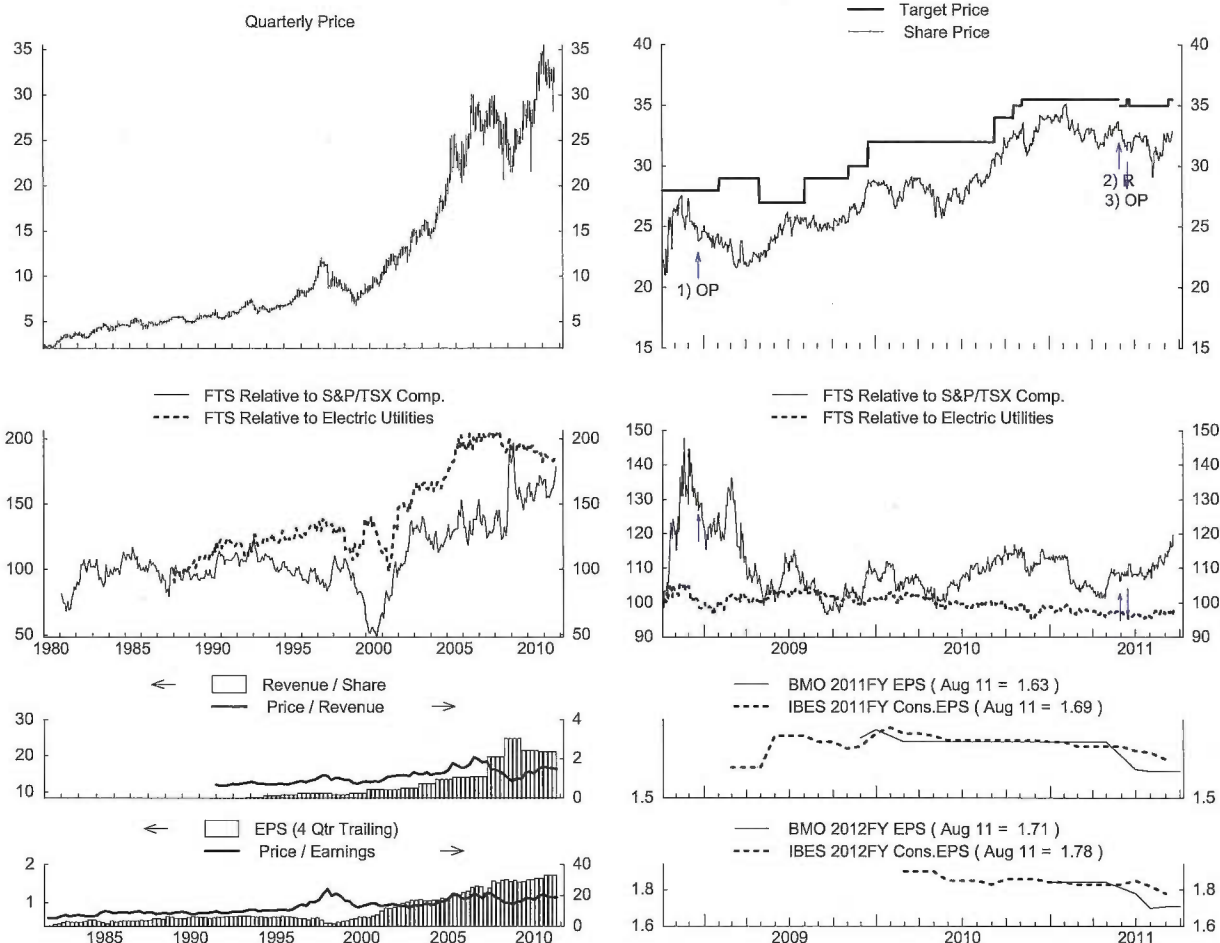
On June 20, 2011, the Government of Belize passed legislation and issued an order to expropriate Fortis's 70% interest in Belize Electricity Limited ("BEL") and dismiss BEL's board of directors.

Forecasts – Our diluted EPS estimates are \$1.63 in 2011, \$1.71 in 2012 and \$1.78 in 2013.

Valuation – Our \$35.50 target price is based on a weighted valuation approach: 18x 2013E diluted EPS of \$1.78 (12.5%), 1.75x 2013E BVPS of \$21.59 (12.5%) and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26 (75%).

Recommendation – Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure plan, we continue to believe that Fortis represents a good long-term investment, especially at current valuation levels. Our rating is Outperform. Member of Top 15 Large Cap and Income stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.45	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.6	67	20.03	1.6	9
Average:								
		15			4.7	64	1.5	10.6
Growth(%):								
5 Year:		6.6			12.6	11.3		
10 Year:		9.8			9.5	11.1		
20 Year:		5.3			5.9	7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 7-Oct-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: September 16, 2011

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

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Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

November 3, 2011
Brief Research Note
Gas & Electric Utilities

Stock Rating: Outperform
Stock Price: \$33.80
Target Price: \$35.50

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Assoc: Mark Laing, CA, CFA

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

Q3/11 Results Slightly Greater Than Expected

Impact

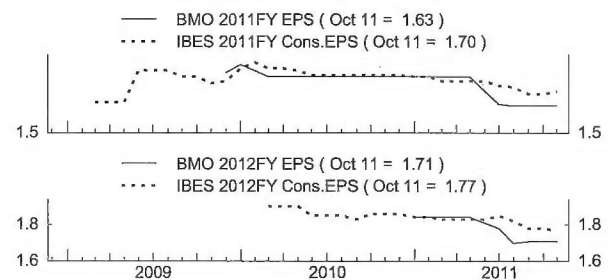
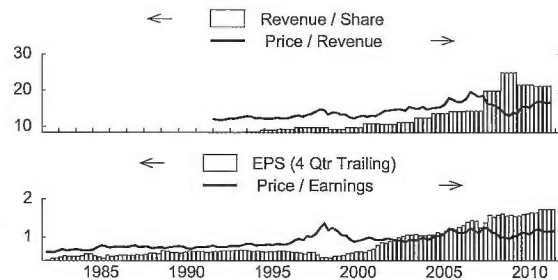
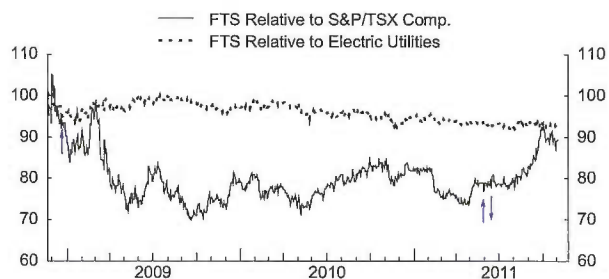
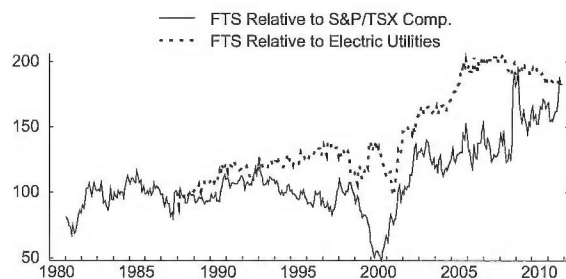
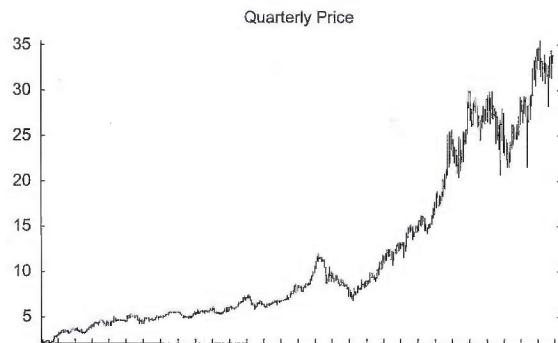
Neutral

Details & Analysis

Fortis reported Q3/11 GAAP EPS of \$0.30. After adjusting for the receipt of an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement, and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's investment in Belize Electricity Limited, which was expropriated by the Government of Belize on June 20, 2011, we believe that recurring EPS were \$0.24. Recurring EPS were slightly greater than our estimate of \$0.22 and the First Call Mean estimate of \$0.23 (range \$0.22–0.24). The difference between actual and expected EPS was largely due to stronger-than-anticipated earnings at Fortis Generation. Earnings from the company's other business segments were generally consistent with our estimates. There were no changes to the company's long-term capital expenditure program. Fortis continues to forecast 2011E capital expenditures of \$1.2 billion and capital expenditures of \$5.7 billion during the next five years. Overall, this appears to have been a steady quarter.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.38	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	20	1.16	3.4	67	20.03	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	5.9		12.6			11.3		
10 Year:	8.3		9.5			11.1		
20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 21-Nov-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: November 2, 2011

IMPORTANT DISCLOSURES**Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Distribution of Ratings (September 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

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** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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We use the following ratings system definitions:

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Fortis Inc.

FTS : TSX : C\$34.06

HOLD**Target: C\$33.00****Juan Plessis, MBA, CFA** 1.604.643.0181

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Zayem Lakhani 1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$28.24 - 35.45
Avg. Daily Vol. (000s):	484.2
Market Cap (M):	C\$6,369
Shares Out (M):	187.0
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	22.7	21.2	20.0	19.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	8.6	8.1	7.7	7.5

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Our C\$33.00 target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Infrastructure -- Utilities**STEADY AND STABLE -- Q3 RESULTS IN-LINE****Investment recommendation**

Fortis Inc. reported third quarter earnings of \$0.24 per share versus \$0.23 reported in Q3/10, in line with expectations. The company's earnings have benefited from ~\$600 million of capital expenditures in the utility businesses this year, which has mainly been invested in western Canadian utility operations. In total, capex is forecast to reach \$1.2 billion for 2011 across all segments (\$806 million spent to date), and \$5.7 billion budgeted for the five-year period, 2011 through 2015. With approximately 90% of the company's earnings generated from utility operations, rate base additions within the utility segments are expected to be the primary drivers of earnings growth. As a result, we expect to see consistent and stable growth in earnings and dividends going forward. However, we note that the company continues to pursue acquisitions of U.S.-based utility assets which could potentially have an impact on future earnings growth. We are maintaining our HOLD rating and 12-month C\$33.00 target price.

Investment highlights

- Reported Q3 recurring EPS of \$0.24, in line with consensus
- Maintaining HOLD rating and C\$33.00 target price
- No changes to 2011 and 2012 EPS estimates
 - 2011 EPS estimate: \$1.70
 - 2012 EPS estimate: \$1.75
- Received a C\$18.8 million (\$11 million after-tax) termination fee for the unsuccessful Central Vermont Public Service (CVPS) acquisition bid
- Belize Electricity expropriation compensation proceedings are ongoing with the Belize government
 - \$112 million book value
 - No earnings recorded this quarter; \$2 million contribution in Q3 last year

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Valuation

We are maintaining our 12-month target price for Fortis at C\$33.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Outlook

We are making no changes to our 2011 and 2012 earnings per share estimates of \$1.70 and \$1.75, respectively. The company's capex program in the utilities segment, primarily in western Canada, has been the driving force of earnings growth this year, and should continue to do so through 2015. Fortis' capital expenditure budget remains unchanged with the company planning to spend \$5.7 billion from 2011 through 2015, of which \$4.8 billion is toward its electric and gas utilities (mainly in BC and Alberta). This should help provide relatively steady growth in earnings throughout the period. The company's Caribbean operations continue to face challenges which have limited the segment's contribution in recent years. Fortis has not received compensation for the Belize Electric assets expropriated in June this year. Proceedings to determine a value are ongoing and we note that the potential loss is limited to its book value (\$112 million net asset value or \$0.60 per share). While we believe the company will receive some compensation for Belize Electric, we do not expect a resolution in the near-term.

In addition to organic growth projects, the company continues to seek potential acquisitions. Although the company's recent offer for Central Vermont Public Service was not consummated, earnings and cash flow benefited from the \$18.8 million (US\$17.5 million) termination fee. More important, we were pleased to see management remain focused and disciplined and withdraw from the process when the transaction price was bid higher. Management continues to look for regulated natural gas and electric operations in the United States and believes it has the capability to finance up to a \$5 billion acquisition (enterprise value) on its balance sheet, but would consider a financial partner for larger acquisitions.

Third quarter earnings summary

Fortis reported third quarter recurring earnings per share of \$0.24, in line with both our and the consensus estimate of \$0.23. Regulated earnings were \$5 million (\$0.03 per share) higher compared to the same period last year. A bulk of the improvement was driven by rate base capital expenditures at FortisBC Energy (formerly Terasen) and Fortis Alberta. The increases were partially offset by the loss of ~\$2 million (\$0.01 per share) of earnings from the expropriation of Belize Electric. The company's non-regulated operations performed in line with last year during the same period. Note that we removed the one-time \$18.8 million (\$11 million after-tax) payment received from the termination of the CVPS Merger Agreement and \$2.5 million on unrealized non-cash foreign exchange gains. For the third quarter, the company reported net earnings per share of \$0.31 versus \$0.26 last year. For the first nine months of the year, the recurring earnings per share was \$1.30, ahead of the \$1.16 recorded last year. For additional details on third quarter results, please refer to Figure 1.

Noteworthy items

- CVPS termination fee CAD\$18.8 million
 - US\$17.5 million
 - Also received US\$2 million for transaction expenses
 - Acquired 160-room full-service Hilton Suites Winnipeg Airport hotel for \$25 million
 - Received municipal approval to construct \$50 million office building
 - 12-storeys in downtown St. John
 - Construction expected to be complete in 2H/13
 - Regulatory
 - Fortis BC Energy gas companies
 - Filed updated 2012-2013 rate applications in September 2011
 - Decision expected in late Q1/12
 - Filed application to amalgamate the three FortisBC Energy gas companies
 - Newfoundland Power completed the sale of joint-use poles back to Bell Aliant (BA : TSX | HOLD)
 - Will use funds to pay down debt
 - Caribbean Utilities
 - Expects to file 2012-2016 capital investment plan in Q4/11
 - Will sign PPAs to accept up to 13 MW of renewable power from IPPs
 - Fortis Turks and Caicos
 - Filed a request for a change in the rate structure and a 6% increase in base rates
 - Carbon tax expected to be implemented September 2011
 - Has not yet been implemented
-

Figure 1: Fortis' third quarter earnings details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
FortisBC Energy Companies	(\$9)	(\$3)	66.7%	Rate base growth and lower-than-expected operating expenses. Mostly quarterly timing issues.
Newfoundland Power	\$8	\$8	0.0%	
FortisAlberta	\$19	\$19	0.0%	Higher effective tax rate due to lower income tax deductions.
FortisBC Electric	\$11	\$10	(9.1%)	
Other Canadian Regulated Utilities	\$5	\$6	20.0%	
Total Canadian Earnings	\$34	\$40	17.6%	Higher ROE allowed at Algoma Power and strong electricity sales growth.
Regulated Utilities - Caribbean	\$7	\$6	(14.3%)	No earnings from Belize Electricity due to government expropriation in June.
Non-Regulated				
Fortis Generation	\$9	\$8	(11.1%)	
Fortis Properties	\$9	\$9	0.0%	
Total Non-Regulated Earnings	\$18	\$17	(5.6%)	
Corporate and Consolidated Adjustments	(\$19)	(\$19)	(2.6%)	
Recurring Earnings	\$40	\$45	11.3%	\$11 M due to CVPS break-up fee and \$2.5 M non-cash FX hedging gain.
Non-recurring items	\$5	\$14		
Reported Net Earnings	\$45.0	\$58.0	28.9%	
EPS:				
Recurring	\$0.23	\$0.24	3.3%	
Non-recurring items	\$0.03	\$0.07	n.m.	
Reported	\$0.26	\$0.31	19.7%	
Cash Flow Per Share	\$0.94	\$0.75	(19.5%)	
Average Shares Outstanding (mln)	173.2	186.5	7.7%	
Regulated				
Earnings	\$41	\$46	12.2%	
% of total	103%	103%		
Non-Regulated				
Earnings	\$18	\$17	(5.6%)	
% of total	45%	38%		
Corporate				
Earnings	(\$19)	(\$19)	2.6%	
% of total	(47.5%)	(41.6%)		

Source: Fortis Inc., Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to our projected 12-month stock price target for Fortis include, but are not limited to: (1) price movement in electricity rates and commodities used for electricity generation could potentially impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could potentially impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in the regulatory or political climate could potentially impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

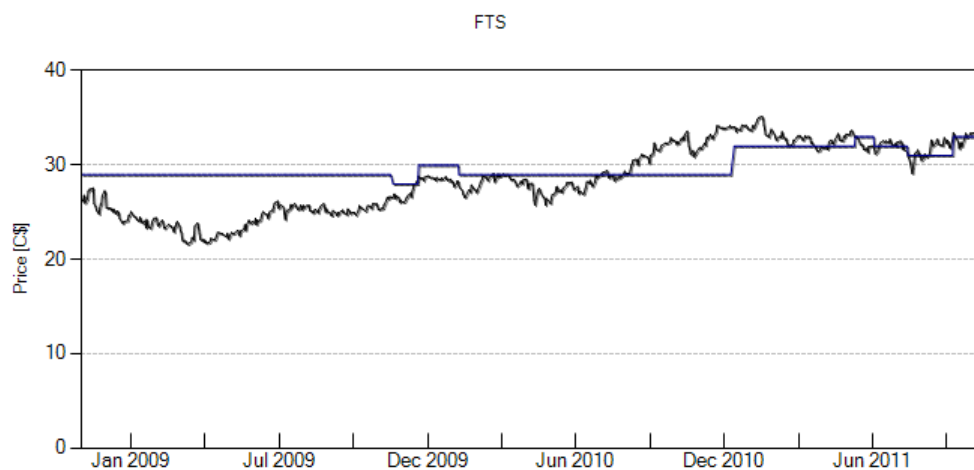
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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

An analyst has not visited Bell Aliant's material operations.

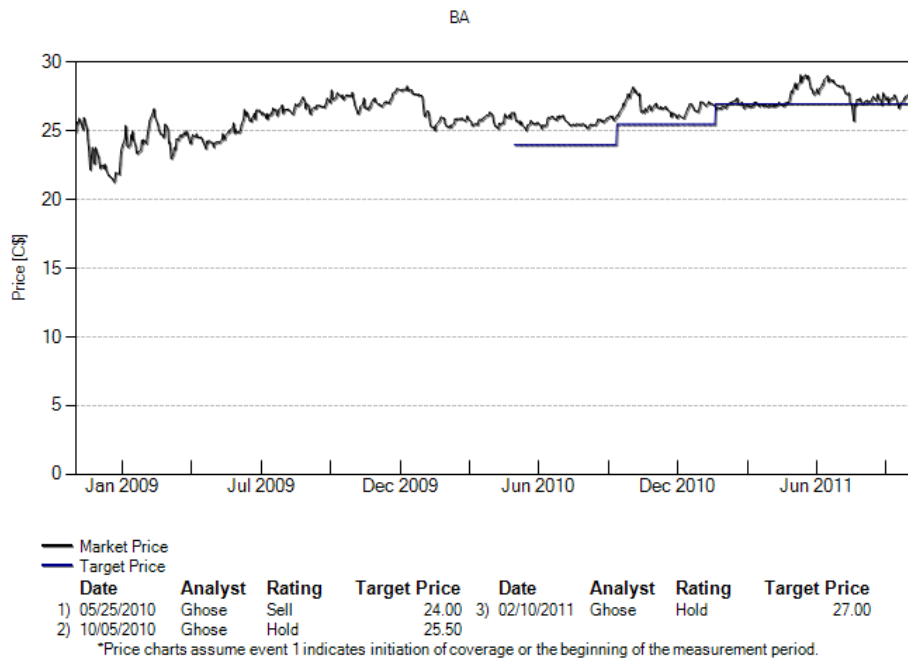
Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/23/2009	Hastings	Buy	29.00	6) 05/31/2011	Plessis	Hold	33.00
2) 11/16/2009	Hastings	Hold	28.00	7) 06/23/2011	Plessis	Hold	32.00
3) 12/17/2009	Hastings	Hold	30.00	8) 08/03/2011	Plessis	Hold	31.00
4) 02/04/2010	Hastings	Hold	29.00	9) 09/27/2011	Plessis	Hold	33.00
5) 01/04/2011	Plessis	Hold	32.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

3 November 2011

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(as of 3 October 2011)

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	#	%	#	%
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Speculative Buy	86	10.7%	64.0%	
Hold	194	24.2%	17.0%	
Sell	12	1.5%	25.0%	
	801	100%		

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Company	Disclosure
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Bell Aliant Inc.	1A, 2, 7

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

November 3, 2011

Research Comment

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Q3/11 Results Slightly Greater Than Expected; Outperform Rating Maintained

Event

Fortis reported Q3/11 EPS of \$0.30. After adjusting for the receipt of an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's investment in Belize Electricity Limited, which was expropriated by the Government of Belize on June 20, 2011, we believe that recurring EPS were \$0.24. Recurring EPS were slightly greater than our estimate of \$0.22 and the First Call Mean estimate of \$0.23 (range \$0.22–0.24). The difference between actual and expected EPS was largely due to stronger-than-anticipated earnings at Fortis Generation. Earnings from the company's other business segments were generally consistent with our estimates.

Impact

Neutral.

Forecasts

We have updated our estimates to reflect Q3 results. Our 2011E EPS increases to \$1.65. There are no changes to our 2012E and 2013E EPS estimates.

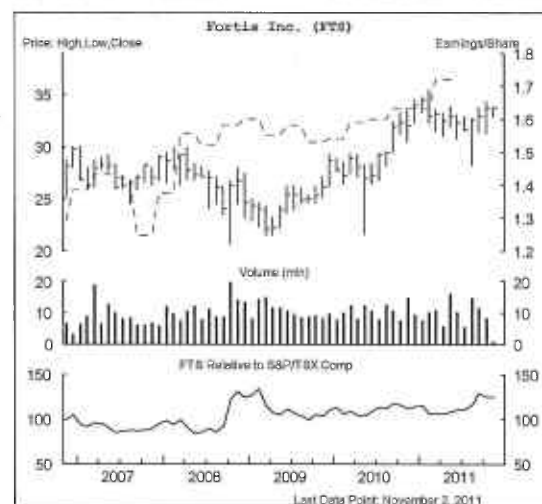
Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2013E EPS of \$1.78 (12.5%); 1.75x 2013E BVPS of \$21.53 (12.5%); and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26 (75%).

Recommendation

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure program, we continue to believe Fortis represents a good long-term investment. Our rating is Outperform.

Price (3-Nov) \$34.06 52-Week High \$35.45
Target Price \$35.50 52-Week Low \$28.24



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.65↑	\$1.71
P/E			20.6x	19.9x
CFPS	\$3.74	\$4.50	\$4.45	\$4.55
P/CFPS			7.7x	7.5x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$13,019	\$13,999
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,288.0	\$1,364.4
EV/EBITDA	10.3x	10.6x	10.1x	10.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.24a	\$0.45
Dividend	\$1.16	Yield		3.4%
Book Value	\$20.38	Price/Book		1.7x
Shares O/S (mm)	186.9	Mkt. Cap (mm)		\$6,367
Float O/S (mm)	185.5	Float Cap (mm)		\$6,318
Wkly Vol (000s)	2,329	Wkly \$ Vol (mm)		\$76.0
Net Debt (\$mm)	\$5,837	Next Rep. Date		10-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.70; 2012E: \$1.78

Changes	Annual EPS
	2011E \$1.63 to \$1.65

Q3/11 Results Slightly Greater Than Expected

Fortis reported Q3/11 EPS of \$0.30. After adjusting for the receipt of an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's investment in Belize Electricity Limited, which was expropriated by the Government of Belize on June 20, 2011, we believe that recurring EPS were \$0.24. Recurring EPS were slightly greater than our estimate of \$0.22 and the First Call Mean estimate of \$0.23 (range \$0.22–0.24). The difference between actual and expected EPS was largely due to stronger-than-anticipated earnings at Fortis Generation. Earnings from the company's other business segments were generally consistent with our estimates.

With respect to growth, we expect Fortis to continue to evaluate the potential acquisition of regulated natural gas or electric utilities in the U.S. Notwithstanding an acquisition, Fortis will continue to advance its capital expenditure program in order to drive organic growth. The company has maintained 2011E capital expenditure guidance of \$1.2 billion and five-year capital expenditure guidance of \$5.7 billion. The majority of this spending is expected to occur at the company's regulated utilities.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2013E EPS of \$1.78 (12.5%); 1.75x 2013E BVPS of \$21.53 (12.5%); and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26 (75%).

At current levels, we believe the company's shares are attractively valued. Our rating is Outperform.

Q3/11 Results

As set out in Table 1, on a comparable basis, net income increased by 8.5% in Q3/11 versus Q3/10. In order to present results on a comparable basis, Q3/11 GAAP income was adjusted to reverse an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's previous investment in Belize Electricity Limited. Q3/10 earnings were also adjusted for the reversal of a \$4 million expense originally recorded in Q4/09 related to the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane.

Table 1: Historical Q3 Income by Business Segment

	Q3/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q3/11 Adjusted Earnings (\$mm)	Q3/10 GAAP	Adj. (\$mm)	Q3/10 Adjusted Earnings (\$mm)	Variance Q3/11 Adj. vs. Q3/10 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Fortis BC Energy Companies	(3.0)	-	(3.0)	(5.0)	(4.0)	(9.0)	6.0	-66.7%
Regulated Electric Utilities - Canadian								
FortisAlberta	19.0	0.0	19.0	19.0	-	19.0	0.0	0.0%
FortisBC	10.0	-	10.0	11.0	-	11.0	(1.0)	-9.1%
Newfoundland Power	8.0	-	8.0	8.0	-	8.0	0.0	0.0%
Other Canadian	6.0	-	6.0	5.0	-	5.0	1.0	20.0%
	43.0	0.0	43.0	43.0	-	43.0	0.0	0.0%
Regulated Electric Utilities - Caribbean	6.0	-	6.0	8.0	-	8.0	(2.0)	-25.0%
Non-Regulated - Fortis Generation	8.0	-	8.0	9.0	-	9.0	(1.0)	-11.1%
Non-Regulated - Fortis Properties	9.0	-	9.0	9.0	-	9.0	0.0	0.0%
Corporate and Other	(5.0)	(13.5)	(18.5)	(19.0)	-	(19.0)	0.5	-2.6%
Net Earnings Applicable to Common Shares	58.0	(13.5)	44.5	45.0	(4.0)	41.0	(3.5)	8.5%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

Regulated Gas Utilities – FortisBC Energy Companies

Q3/11 net loss of \$3 million was lower than our estimate of a \$7.5 million loss and an adjusted net loss of \$9 million in Q3/10. We attribute the majority of the variance to seasonality, as timing differences resulted in a lower proportion of expenses recorded in Q3/11 compared to Q3/10.

Regulated Electric Utilities – FortisAlberta

Q3/11 net income of \$19 million was lower than our estimate of \$20.2 million and consistent with Q3/10 earnings of \$19 million.

Regulated Electric Utilities – FortisBC

Q3/11 net income of \$10 million was consistent with our estimate of \$10 million and slightly less than Q3/10 net income of \$11 million. The decrease in earnings was largely driven by lower capitalized AFUDC, due to fewer assets under construction during 2011, and higher effective corporate income taxes.

Regulated Electric Utilities – Newfoundland Power

Q3/11 net income \$8 million was consistent with our estimate of \$7.8 million and Q3/10 net income of \$8 million.

Regulated Electric Utilities – Other Canadian

Q3/11 net income of \$6 million was greater than our estimate of \$5.4 million and Q3/10 net income of \$5 million. The increase in earning was primarily due to a 3.8% rate increase at Algoma Power that became effective on December 1, 2010.

Regulated Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$6 million in Q3/11 versus our estimate of \$7.1 million and Q3/10 net income of \$8 million. The decrease in Q3/11 earnings reflects the lost contribution from Belize Electricity, which contributed approximately \$2 million to earnings during Q3/10.

Unregulated – Fortis Generation

Fortis Generation reported Q3/11 net income of \$8 million, which was greater than our estimate of \$4.6 million and slightly lower than Q3/10 net income of \$9 million. The difference between actual and expected results was due to the exclusion of earnings from BECOL in our estimates. In order to be conservative, we removed all earnings contributions from BECOL from our estimates after Q1/11, following the announcement on June 20 that the Government of Belize had expropriated Fortis's 70% interest in Belize Electricity Limited ("BEL"). As at October 31, BEL owed BECOL US\$8 million for overdue energy purchases, which represents about one-third of BECOL's annual sales to Belize electricity. Disclosure in the release suggests that the Government of Belize does not intend to expropriate BECOL, and that BECOL continues to deliver electricity to BEL and invoice BEL for deliveries.

Unregulated – Fortis Properties

Fortis Properties reported Q3/11 net income of \$9 million, which was lower than our estimate of \$10.2 million and consistent with Q3/10 net income of \$9 million. Occupancy at the real estate division increased to 94.2% at the end of the quarter versus 93.7% at the end of Q3/10. At the hospitality division, revenue per available room increased to \$94.83 during Q3/11 versus \$89.54 during Q3/10.

Regulatory Update

After a lull in 2010, we expect the end of 2011 to be relatively busy from a regulatory perspective. The Alberta Utilities Commission (AUC) is currently moving forward with a Generic Cost of Capital proceeding. The formal hearing began on June 20, 2011 and the AUC is expected to issue a cost of capital decision by the end of the year. The AUC is also exploring the implementation of Performance Based Regulation ("PBR"); however, we understand that a final decision on PBR is not expected until mid-2012. In addition to the broad regulatory initiatives outlined above, a number of Fortis's utilities have submitted rate or other filings in 2011:

- In November 2011, the FortisBC Energy utilities (formerly the Terasen companies) filed an application with the BCUC to amalgamate into one legal entity, effective January 1, 2013. In addition to BCUC approval, the amalgamation requires the consent of the Government of British Columbia;
- In May 2011, the FortisBC Energy utilities filed revenue requirements applications for 2012–2013. FortisBC Energy Inc. is seeking a return on estimated mid-year rate bases of

\$2,754 million in 2012E and \$2,811 million in 2013E, and FortisBC Energy Inc. Vancouver Island is seeking a return on estimated mid-year rate bases of \$788 million in 2012E and \$816 million in 2013E. A decision on the rate application is expected in late Q1/12;

- In June 2011, FortisBC Electric filed a Revenue Requirement Application and Integrated System Plan for 2012–2013, in which it is seeking a return on estimated mid-year net rate bases of \$1,145 million in 2012E, and \$1,212 million in 2013E. A decision on the rate application is expected in late 2011 or early 2012;
- In March 2011, FortisAlberta filed its 2012 and 2013 Distribution Tariff Application (“DTA”). The company requested approval of revenue requirements of \$410 million for 2012 and \$447 million for 2013, for rate increases of 8.2% and 6.9%, respectively. The DTA also proposes approximately \$776 million in gross capital expenditures over the two-year period. We understand that the AUC is only allowing FortisAlberta to settle the DTA through negotiation for 2012 rates in light of the ongoing discussions regarding PBR;
- Earlier in 2011, the interim Government of the Turks and Caicos Islands stated its intention to implement a carbon tax, which would have been applicable to Fortis Turks and Caicos, effective September 2011. To date, no carbon tax has been implemented. In the event that this tax is implemented and is not permitted to be passed onto Fortis Turks and Caicos’ customers, the potential impact to earnings would be approximately \$2–3 million on an annual basis.

Belize Electricity Update

Fortis has commissioned an independent valuation of its previous investment in Belize Electricity Limited and expects to submit for compensation to the Government of Belize during the fourth quarter of 2011. We also understand that the Government of Belize has commissioned a similar independent valuation of its own. In addition, on October 21, Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and on October 25, the Government of Belize amended the constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL.

At this time, it is unclear as to when this situation will be resolved. As at September 30, the Belize Electricity assets (recorded as a long-term other assets), including foreign exchange impacts, totalled \$120 million.

Estimates

We have updated our model to reflect Q3/11 results.

Table 2: Consolidated Summary

03-Nov-11

Current Price:

\$34.06

12-Month Target Price:

\$35.50

ROR:

7.6%

Michael McGowan

BMO Capital Markets

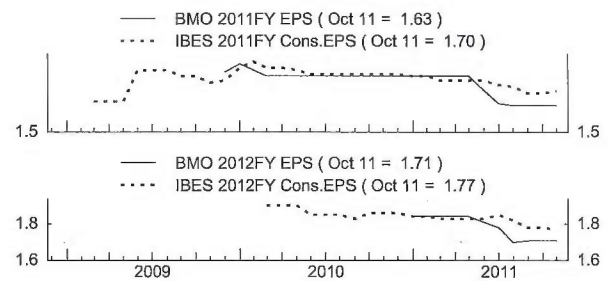
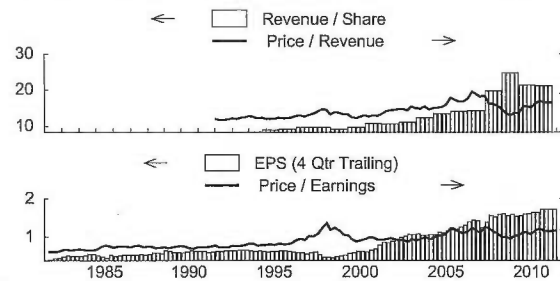
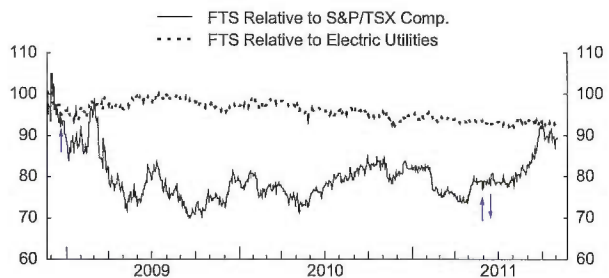
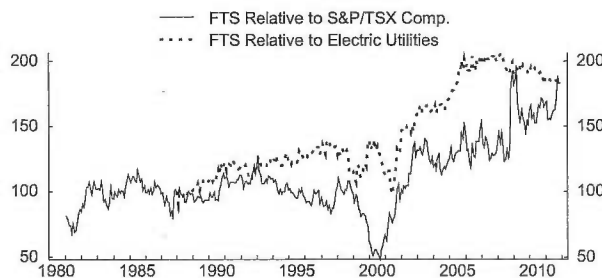
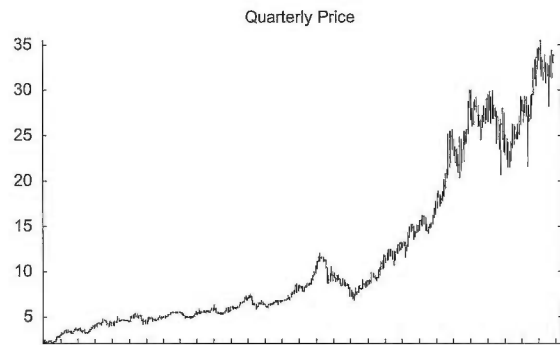
Recommendation:

Outperform

		Year Ending December 31											Recommendation:	Outperform
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.35	\$1.50	\$1.54	\$1.62	\$1.67	\$1.73	\$1.80	
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.65	\$1.71	\$1.78	
Segmented EPS														
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.19	
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.12	
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16	\$0.17	
	Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.08	\$0.04	\$0.04	
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.19	\$0.12	\$0.12	\$0.11	
	FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	\$0.45	
	FortisGC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.28	\$0.30	
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.76	\$0.80	
	Other/Corporate	(\$0.03)	(\$0.12)	(\$0.26)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.46)	(\$0.41)	(\$0.38)	(\$0.37)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22	\$1.25	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	69.6%	70.6%	69.8%	
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	180.9	187.0	191.2	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.04	\$20.55	\$21.53	
Market Valuation														
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	-	-	-	
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	\$26.57	-	-	-	
	Price: Current	-	-	-	-	-	-	-	-	-	\$34.06	-	-	
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	-	
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	-	
	P/E Ratio: Current	-	-	-	-	-	-	-	-	-	20.4	19.7	18.9	
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	-	
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	-	
	Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.7	1.7	1.6	
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	-	
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.6%	4.4%	-	-	-	
	Yield: Current	-	-	-	-	-	-	-	-	-	3.4%	3.6%	3.7%	
Balance Sheet (\$mm)														
	Debt (S-T)	161.6	142.5	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(11.3)	229.3	430.4	
	Debt (L-T)	926.5	1,005.9	1,991.6	2,133.8	2,494.5	4,578.0	4,840.0	5,227.0	5,585.0	5,799.0	6,345.7	6,348.8	
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0	162.0	
	Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0	
	Convertible Debentures	14.4	24.5	22.9	22.3	53.5	45.0	44.0	44.0	44.0	44.0	44.0	44.0	
	Shareholders' Equity	864.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,748.3	3,843.5	4,207.6	
		1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	6,691.7	9,391.7	9,902.7	10,407.0	10,699.1	11,541.4	12,109.8	
Balance Sheet (%)														
	Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	-0.1%	2.0%	3.6%	
	Debt (L-T)	53.0%	51.8%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%	52.4%	
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	1.3%	
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.5%	5.1%	7.1%	6.7%	8.8%	8.6%	7.9%	7.6%	
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	
	Shareholders' Equity	33.5%	31.5%	28.6%	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.2%	33.3%	34.7%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement														
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	301.4	323.4	345.0	
	Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	373.0	663.0	637.0	753.0	805.6	849.3	887.4	

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.84	11	0.40	5.6	63	5.53	1.3	12
1994	0.82	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	20	1.16	3.4	67	20.03	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	5.9		12.6			11.3		
10 Year:	8.3		9.5			11.1		
20 Year:	5.5		5.9			7.5		

* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 21-Nov-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: November 2, 2011

IMPORTANT DISCLOSURES

Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2013E EPS (12.5%); 1.75x 2013E BVPS (12.5%) and a target yield of 3.50% based on 2013E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (September 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections
 Top 15 Income Stock Selections

December 13, 2011
 Research Comment
 Toronto, Ontario

Michael McGowan, CA, CFA
 BMO Nesbitt Burns Inc.
 (416) 359-5807
 Michael.McGowan@bmo.com
 Assoc: Mark Laing, CA, CFA

Updating Model to Reflect 3.4% Dividend Increase; Outperform Rating Maintained

Event

On December 14, 2010, Fortis announced that it is increasing its annual dividend by 3.4% to \$1.20/share from \$1.16/share. The revised quarterly dividend of \$0.30/share will be payable on March 1 to shareholders of record as of February 15, 2012.

Impact

Neutral. The annual dividend of \$1.20/share is slightly lower than the FY2012E DPS forecast of \$1.22/share that we had set out in our model.

Forecasts

We have updated our estimates to reflect FY 2012E dividends of \$1.20. We have also trimmed our FY 2013E dividend estimate to \$1.24 from \$1.26.

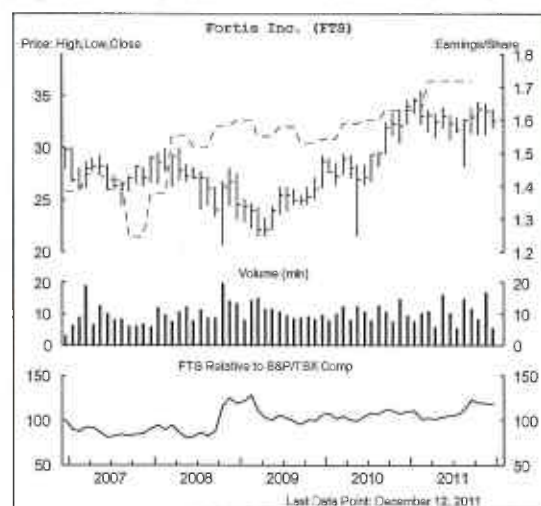
Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.78 (12.5%), 1.75x 2012E BVPS of \$21.57 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Price (12-Dec) \$32.59 52-Week High \$35.45
 Target Price \$35.50 52-Week Low \$28.24



(FY-Dec.)	2010A	2011E	2012E	2013E
EPS	\$1.59	\$1.65	\$1.71	\$1.78
P/E		19.8x	19.1x	18.3x
CFPS	\$4.50	\$4.45	\$4.54	\$4.64
P/CFPS		7.3x	7.2x	7.0x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,221	\$12,784	\$13,769	\$14,109
EBITDA (\$mm)	\$1,150.0	\$1,289.9	\$1,365.0	\$1,401.6
EV/EBITDA	10.6x	9.9x	10.1x	10.1x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.24a	\$0.45
2012E	\$0.69	\$0.33	\$0.24	\$0.47
Dividend	\$1.16	Yield		3.6%
Book Value	\$20.38	Price/Book		1.6x
Shares O/S (mm)	186.9	Mkt. Cap (mm)		\$6,092
Float O/S (mm)	185.5	Float Cap (mm)		\$6,045
Wkly Vol (000s)	2,404	Wkly \$ Vol (mm)		\$78.8
Net Debt (\$mm)	\$5,837	Next Rep. Date		10-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.71; 2012E: \$1.77; 2013E: \$1.85

Table 1: Consolidated Summary

13-Dec-11

Current Price:

\$32.56

12-Month Target Price:

\$35.50

ROR:

12.6%

Michael McGowan

BMO Capital Markets

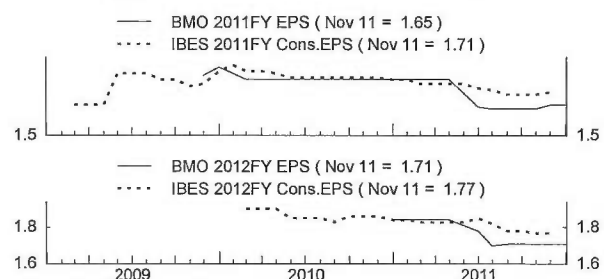
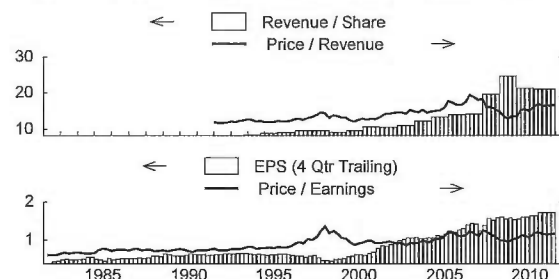
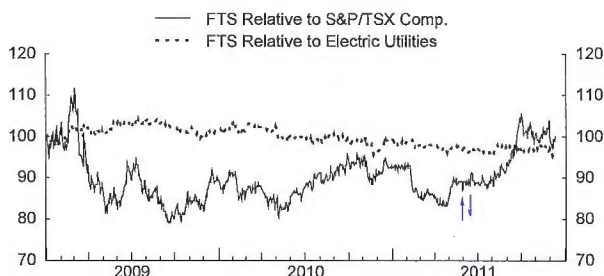
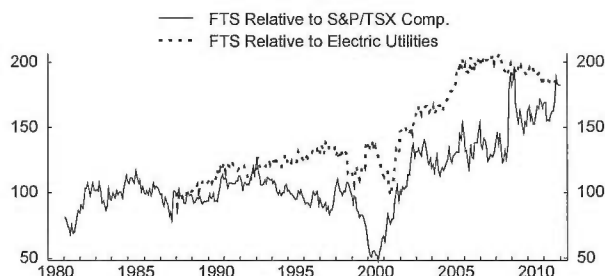
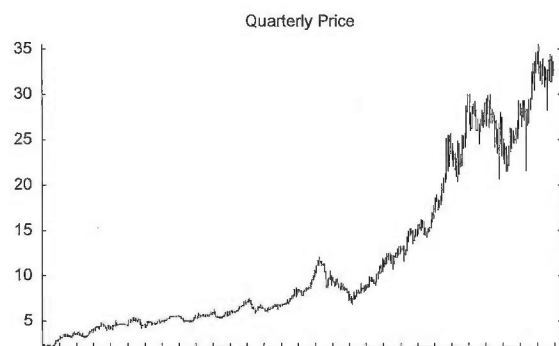
Recommendation:

Outperform

		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.08	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.62	\$1.57	\$1.73	\$1.80
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.59	\$1.55	\$1.71	\$1.78
Segmented EPS													
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.19
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.12
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16	\$0.17
	Fortis Generation	\$0.07	\$0.16	\$0.16	\$0.21	\$0.26	\$0.17	\$0.19	\$0.09	\$0.12	\$0.08	\$0.04	\$0.04
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12	\$0.11
	Fortis Alberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	\$0.45
	FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.28	\$0.30
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78	\$0.80
	Other Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.40)	(\$0.38)	(\$0.37)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.83	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	69.5%	69.4%	69.7%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	180.9	187.0	191.2
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$16.64	\$18.95	\$20.04	\$20.57	\$21.57
Market Valuation													
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	-	-	-
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	\$25.57	-	-	-
	Price: Current	-	-	-	-	-	-	-	-	-	\$32.56	-	-
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	-
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	-
	P/E Ratio: Current	-	-	-	-	-	-	-	-	-	19.5	18.8	18.0
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	-
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	-
	Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.6	1.6	1.5
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	-
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-	-
	Yield: Current	-	-	-	-	-	-	-	-	-	3.6%	3.7%	3.8%
Balance Sheet (\$mm)													
	Debt (S-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(11.8)	225.0	422.3
	Debt (L-T)	920.5	1,006.9	1,881.6	2,133.8	2,494.5	4,578.0	4,940.0	5,237.0	5,959.0	5,799.0	6,345.7	6,348.8
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0	162.0
	Preferred Shares	0.0	126.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0
	Convertible Debentures	14.4	24.5	22.9	22.3	63.3	46.0	44.0	44.0	44.0	44.0	44.0	44.0
	Shareholders' Equity	684.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,105.0	3,749.0	3,848.0	4,215.9
		1,745.9	1,950.4	3,492.7	3,808.8	4,581.1	8,691.7	9,391.7	9,902.7	10,407.0	10,559.3	11,541.7	12,110.0
Balance Sheet (%)													
	Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.8%	6.9%	6.5%	4.0%	-0.1%	1.9%	3.5%
	Debt (L-T)	53.0%	51.6%	53.9%	55.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%	52.4%
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	1.3%
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.8%	7.9%	7.6%
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
	Shareholders' Equity	33.5%	31.5%	28.6%	31.8%	27.8%	29.9%	32.4%	32.2%	31.8%	35.2%	33.3%	34.6%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement													
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	261.0	302.1	323.4	345.1
	Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	373.0	663.0	637.0	783.0	808.1	849.3	887.5

Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.75	2.6	55	12.19	2.4	11
2007	ND	21	0.84	2.9	61	16.69	1.7	nm
2008	ND	15	1.00	4.1	62	20.05	1.2	nm
2009	ND	19	1.04	3.6	68	18.65	1.5	nm
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	20.38	1.6	8
Average:		15		4.7	64		1.5	10.9
Growth(%):								
5 Year:	5.9		8.8			11.7		
10 Year:	8.3		9.5			11.3		
20 Year:	5.5		5.9			7.6		

* Current EPS is the 4 Quarter Trailing to Q3/2011.

FTS - Rating as of 31-Dec-08 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: December 12, 2011

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Distribution of Ratings (September 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starline Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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Ratings and Sector Key

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: **Outperform**
 Industry Rating: **Market Perform**

Member of: **Top 15 Large Cap Stock Selections**
Top 15 Income Stock Selections

Q4/11 Results in Line; Outperform Rating Maintained

Event

Fortis reported Q4/11 EPS of \$0.46 vs. our estimate of \$0.45 and the First Call Mean estimate of \$0.47 (range \$0.45-0.50). In general, the majority of the company's business segments appeared to perform well and earnings from the individual segments were generally consistent with our estimates.

Impact

Neutral. We expect that earnings and dividend growth will continue to be driven by rate base investment. Fortis's capital expenditure budget is \$1.3 billion in 2012 (up from \$1.2 billion in 2011) and \$5.5 billion during the next five years. The company also continues to evaluate the acquisition of U.S. gas or electric utilities. Overall, we believe that Q4 results represented a solid end to 2011.

Forecasts

There are no changes to our estimates.

Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.78 (12.5%), 1.75x 2012E BVPS of \$22.23 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

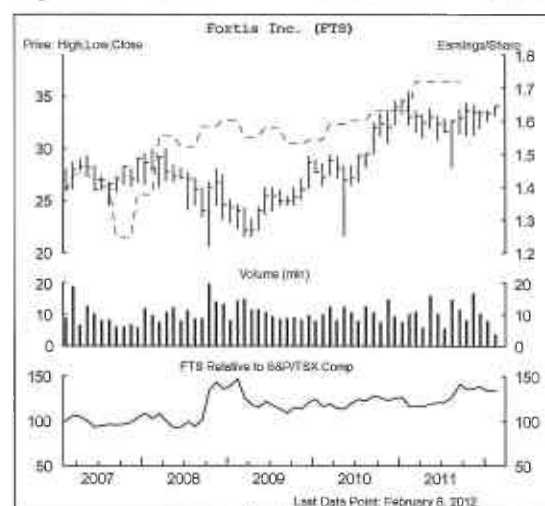
Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

February 9, 2012
 Research Comment
 Toronto, Ontario

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Price (8-Feb) \$34.08 52-Week High \$34.49
 Target Price \$35.50 52-Week Low \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.59	\$1.66	\$1.71	\$1.78
P/E			19.9x	19.1x
CFPS	\$4.22	\$4.38	\$4.54	\$4.64
P/CFPS			7.5x	7.3x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,221	\$12,821	\$14,043	\$14,386
EBITDA (\$mm)	\$1,150.0	\$1,289.9	\$1,365.0	\$1,401.6
EV/EBITDA	10.6x	9.9x	10.3x	10.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012E	\$0.69	\$0.33	\$0.24	\$0.47
Dividend	\$1.20	Yield		3.5%
Book Value	\$20.73	Price/Book		1.6x
Shares O/S (mm)	186.9	Mkt. Cap (mm)		\$6,371
Float O/S (mm)	185.5	Float Cap (mm)		\$6,322
Wkly Vol (000s)	2,383	Wkly \$ Vol (mm)		\$77.7
Net Debt (\$mm)	\$5,837	Next Rep. Date		02-May (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.70; 2012E: \$1.77; 2013E: \$1.80

Q4 Results in Line; Expect Continued Investment in Rate Base to Drive Earnings Growth

Fortis reported Q4/11 EPS of \$0.46 vs. our estimate of \$0.45 and the First Call Mean estimate of \$0.47 (range \$0.45-0.50). In general, the majority of the company's business segments appeared to perform well and earnings from the individual segments were generally consistent with our estimates.

With respect to growth initiatives, although the company was unsuccessful last year with its offer to acquire Central Vermont Public Service, Fortis will continue to evaluate the acquisition of gas and electric utilities in the U.S. Until the company is able to acquire a U.S.-based utility, it will focus on growing through additions to rate base. The company's 2012 capital budget has been set at \$1.3 billion (up from \$1.2 billion in 2011) and it continues to target total investment of \$5.5 billion during the next five years.

Overall, we viewed the Q4 results as a solid end to 2011. We are maintaining our \$35.50 price target, which is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.78 (12.5%), 1.75x 2012E BVPS of \$222.23 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

Q4/11 Results

Fortis reported Q4/11 GAAP net income of \$86 million, which was \$1.4 million greater than our estimate of \$84.6 million and \$1 million greater than Q4/10 GAAP net income of \$85 million. A comparison of Q4/11 and Q4/10 results by business segment is set out in Table 1.

Table 1: Historical Q4 Income by Business Segment

	Q4/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/11 Adjusted Earnings (\$mm)	Q4/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/10 Adjusted Earnings (\$mm)	Variance Q4/11 Adj. vs. Q4/10 Adj.	Variance %
Regulated Gas Utilities - Canadian								
Fortis BC Energy Companies	51.0	-	51.0	45.0	-	45.0	6.0	13.3%
Regulated Electric Utilities - Canadian								
FortisAlberta	17.0	-	17.0	17.0	-	17.0	0.0	0.0%
FortisBC	11.0	-	11.0	10.0	-	10.0	1.0	10.0%
Newfoundland Power	8.0	-	8.0	9.0	-	9.0	(1.0)	-11.1%
Other Canadian	4.0	-	4.0	5.0	-	5.0	(1.0)	-20.0%
	40.0	0.0	40.0	41.0	0.0	41.0	(1.0)	-2.4%
Regulated Electric Utilities - Caribbean	3.0	-	3.0	4.0	-	4.0	(1.0)	-25.0%
Non-Regulated - Fortis Generation	5.0	-	5.0	6.0	-	6.0	(1.0)	-16.7%
Non-Regulated - Fortis Properties	5.0	-	5.0	7.0	-	7.0	(2.0)	-28.6%
Corporate and Other	(18.0)	-	(18.0)	(18.0)	-	(18.0)	0.0	0.0%
Net Earnings Applicable to Common Shares	86.0	0.0	86.0	85.0	0.0	85.0	(1.0)	1.2%

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

Regulated Gas Utilities – FortisBC Energy Companies

Q4/11 net income of \$51 million was greater than our estimate of \$48.1 million and Q4/10 net income of \$45 million. We attribute the majority of the variance to seasonality, improved economic conditions in the forestry and mining sectors and increased residential consumption, which led to much higher sales volumes (43,809 GJ in Q4/11 vs. 38,586 GJ in Q4/10).

On an annual basis, adjusted net income increased by 10.3% to \$139 million in 2011 from \$126 million in 2010.

Regulated Electric Utilities – FortisAlberta

Q4/11 net income of \$17 million was slightly lower than our estimate of \$17.9 million and consistent with Q4/10 earnings of \$17 million.

On an annual basis, adjusted net income increased by 7.4% to \$73 million in 2011 from \$68 million in 2010. The increase to adjusted net income was primarily driven by rate base growth.

Regulated Electric Utilities – Newfoundland Power

Q4/11 net income of \$8 million was consistent with our estimate of \$7.9 million and slightly lower than Q4/10 net income of \$9 million.

On an annual basis, net income decreased by 2.9% to \$34 million in 2011 from \$35 million in 2010.

Regulated Electric Utilities – Other Canadian

Q4/11 net income of \$4 million was slightly less than our estimate of \$4.5 million and Q4/10 net income of \$5 million. The decrease in earnings was primarily due to a rate of return adjustment at Maritime Electric, which reduced Q4/11 revenue by approximately \$2 million as a result of higher-than-expected electricity sales during 2011.

On an annual basis, net income increased by 15.8% to \$22 million in 2011 from \$19 million in 2010.

Regulated Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$3 million in Q4/11 versus our estimate of \$4.2 million and Q4/10 net income of \$4 million. The decrease in earnings reflects higher operating expenses at Fortis Turks and Caicos, which were largely due to consulting fees associated with ongoing regulatory matters and inflationary cost increases.

On an annual basis, net income decreased by 13.0% to \$20 million in 2011 from \$23 million in 2010.

Unregulated – Fortis Generation

Fortis Generation reported net income of \$5 million, which was greater than our estimate of \$2.1 million and less than Q4/10 net income of \$6 million. The difference between actual and expected results was due to the exclusion of earnings from BECOL in our estimates. In order to be conservative, we removed all earnings contributions from BECOL from our estimates after Q1/11, following the announcement on June 20, 2011, that the Government of Belize had expropriated Fortis's 70% interest in Belize Electricity Limited ("BEL"). Disclosure in the release suggests that the Government of Belize does not intend to expropriate BECOL, and that BECOL continues to deliver electricity to BEL and invoice BEL for deliveries.

On an annual basis, net income decreased by 10.0% to \$18 million in 2011 from \$20 million in 2010.

Unregulated – Fortis Properties

Fortis Properties reported Q4/11 net income of \$5 million, which was lower than our estimate of \$7.9 million and Q4/10 net income of \$7 million. Decreased occupancy at the hospitality properties in Western Canada and higher corporate income taxes were responsible for the decline. Occupancy at the real estate division decreased to 93.2% at the end of the quarter versus 94.5% at the end of Q4/10. Revenue per available room increased to \$72.39 during Q4/11 versus \$70.76 during Q4/10.

On an annual basis, net income decreased by 11.5% to \$23 million in 2011 from \$26 million in 2010.

Other Items

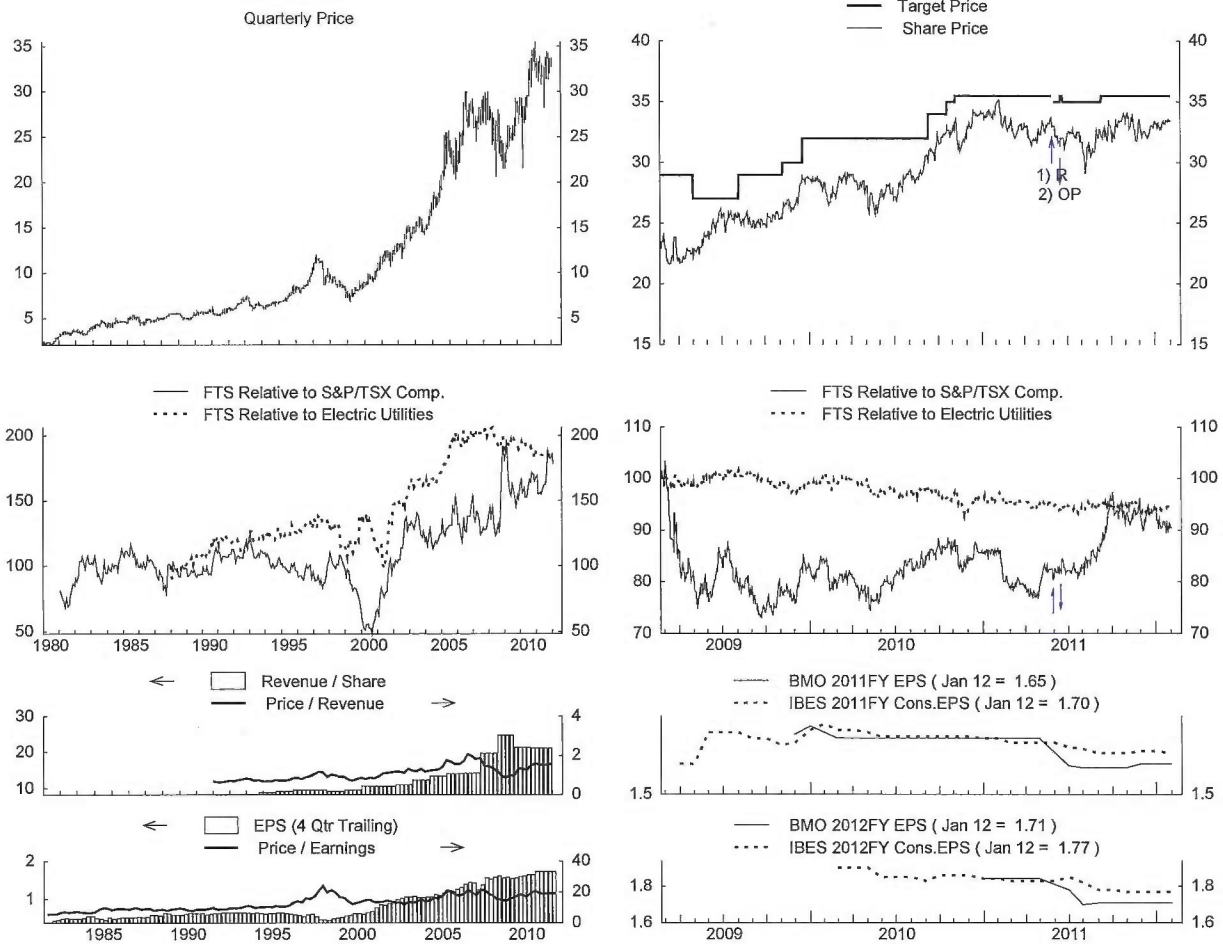
- Fortis continues to receive payments for electricity sales made by BECOL to BEL. As at December 31, 2011, BEL had an accounts receivable balance of US\$7.4 million, which is consistent with a receivable of US\$8 million that was outstanding at September 30, 2011.
- Little update was provided about the cost of capital review requested by the British Columbia Utilities Commission. The review is expected to occur in 2012, and will affect the FortisBC gas and electric utilities.

Table 2: Consolidated Summary

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Source: BMO Capital Markets

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	20.38	1.6	8
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	4.4		8.8			10.8		
10 Year:	7.4		9.5			10.5		
20 Year:	5.4		5.9			7.3		

* Current EPS is the 4 Quarter Trailing to Q3/2011.

FTS - Rating as of 20-Feb-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 1, 2012

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I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands, and Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$34.08
Target Price: \$35.50

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

February 9, 2012
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA, CFA

Q4/11 Results in Line

Impact

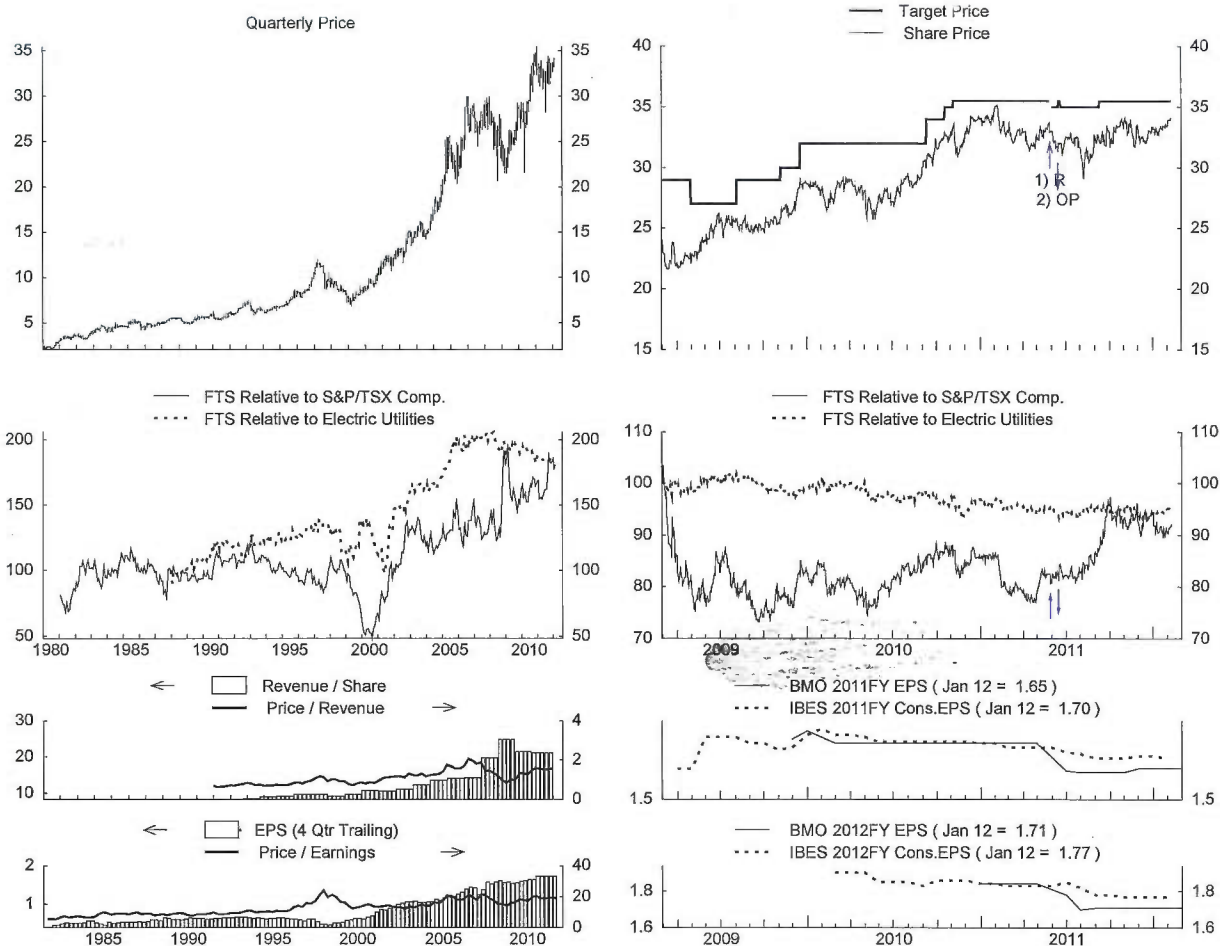
Neutral

Details & Analysis

Fortis reported Q4/11 EPS of \$0.46 vs. our estimate of \$0.45 and the First Call Mean estimate of \$0.47 (range \$0.45–0.50). In general, the majority of the company's business segments appeared to perform well and earnings from the individual segments were generally consistent with our estimates. Earnings and dividend growth in 2012 should be driven by the company's capital program. Fortis's capital expenditure budget is \$1.3 billion in 2012 (up from \$1.2 billion in 2011) and \$5.5 billion during the next five years. The company continues to evaluate expanding in the United States through the potential acquisition of a regulated gas or electric utility. In summary, the Q4/11 results appear to represent a solid end to 2011.

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2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	20.38	1.6	8
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	4.4		8.8			10.8		
10 Year:	7.4		9.5			10.5		
20 Year:	5.4		5.9			7.3		

* Current EPS is the 4 Quarter Trailing to Q3/2011.

FTS - Rating as of 27-Feb-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 8, 2012

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

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Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$32.85
Target Price: \$35.50

Member of: Top 15 Large Cap Stock Selections
Top 15 Income Stock Selections

February 21, 2012
Brief Research Note
Gas & Electric Utilities

Michael McGowan, CA, CFA
(416) 359-5807
Michael.McGowan@bmo.com
Assoc: Mark Laing, CA, CFA

Acquisition of CH Energy Group Proposed

Impact

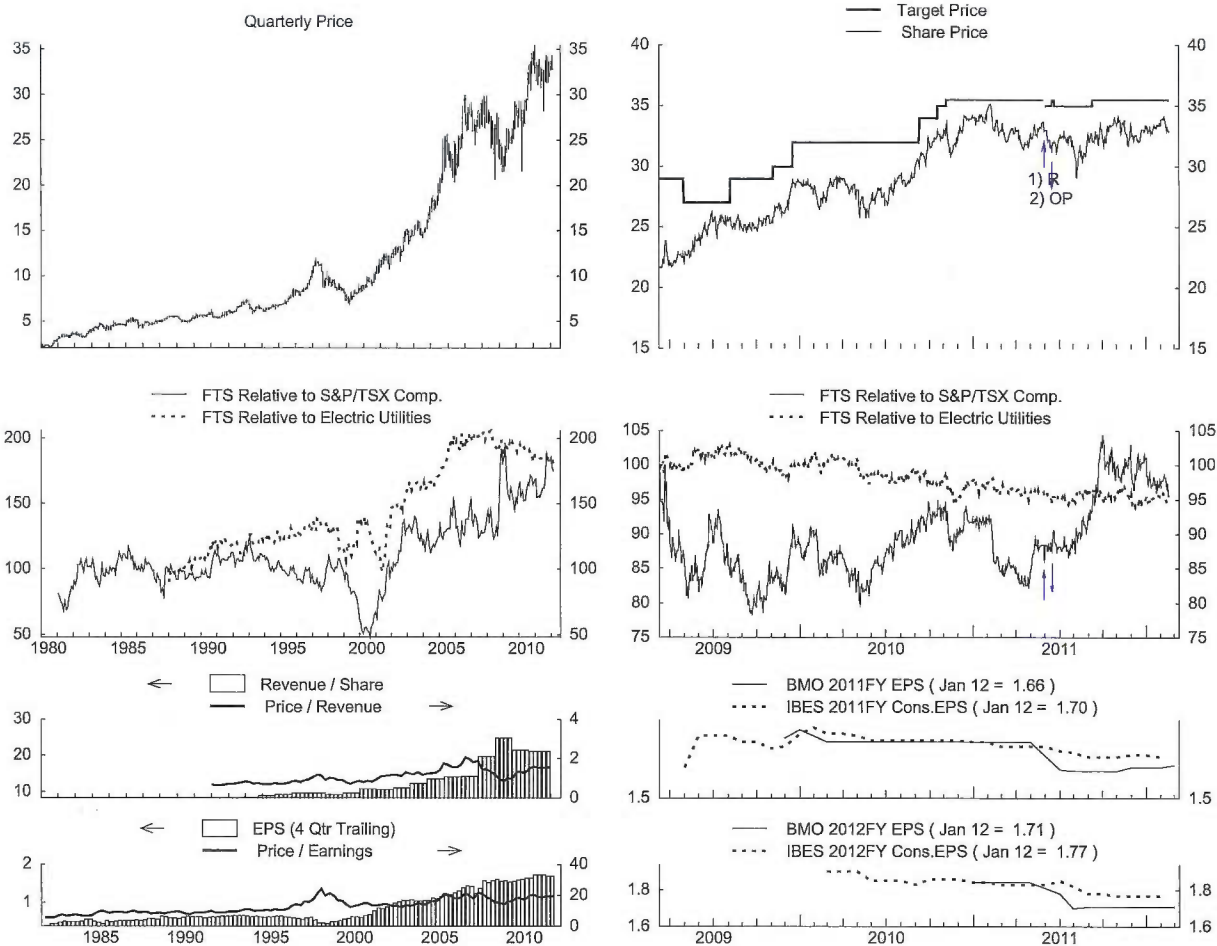
Potentially Positive

Details & Analysis

Fortis announced that it has entered into an agreement to acquire CH Energy Group Inc. for US\$65/share, which translates into a total purchase price of approximately US\$1.5 billion, including the assumption of approximately US\$500 million of debt. The purchase price represents a premium of approximately 10.5% over the most recent closing price of CH Energy Group's common shares, and values CH at approximately 20.2x 2012E EPS, based on estimates provided by Bloomberg. We believe the following points regarding the proposed acquisition are relevant: (1) Approximately 97% of CH Energy Group's earnings are derived from CH Hudson Gas and Electric Corporation, which is a regulated natural gas and electric utility located in New York State; (2) For the three-year period beginning on July 1, 2010, CH Hudson's rates have been established using a 10% ROE and a capital structure of 48% common equity; (3) We estimate that the acquisition could be approximately \$0.05/share accretive to Fortis' EPS once it closes; and (4) The transaction will initially be funded through the use of credit lines; however, we expect that Fortis could issue approximately C\$400 million of equity to permanently finance the transaction. Closing of the transaction is expected to occur within 12 months, and is subject to customary regulatory and shareholder approvals.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	19.03	1.8	9
Current*	1.69	20	1.16	3.5	69	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	4.1		8.8			11.2		
10 Year:	7.2		9.5			10.7		
20 Year:	5.3		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 10-Mar-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 17, 2012

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Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

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Fortis

(FTS-TSX)

Stock Rating: Not Rated
Industry Rating: Market Perform

February 21, 2012
Research Comment
Toronto, Ontario

BMO CM Research
BMO Nesbitt Burns Inc.
(416) 359-4002
Equity.Research@bmo.com
Assoc: Mark Laing, CA, CFA

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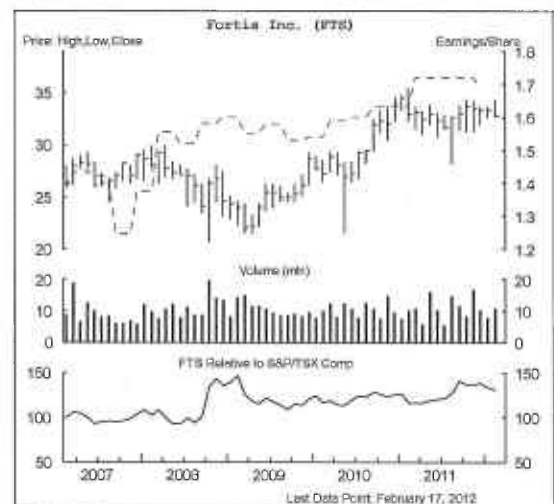
Event

We are discontinuing coverage of Fortis Inc. (FTS-TSX) due to the departure of a research analyst.

Recommendation

Shares of Fortis Inc. have been rated Outperform since February 11, 2007. Investors should not rely on BMO Capital Markets Research for an investment recommendation on Fortis Inc. until research coverage is resumed.

Price (21-Feb) \$32.38 52-Week High \$34.39
Target Price na 52-Week Low \$28.24



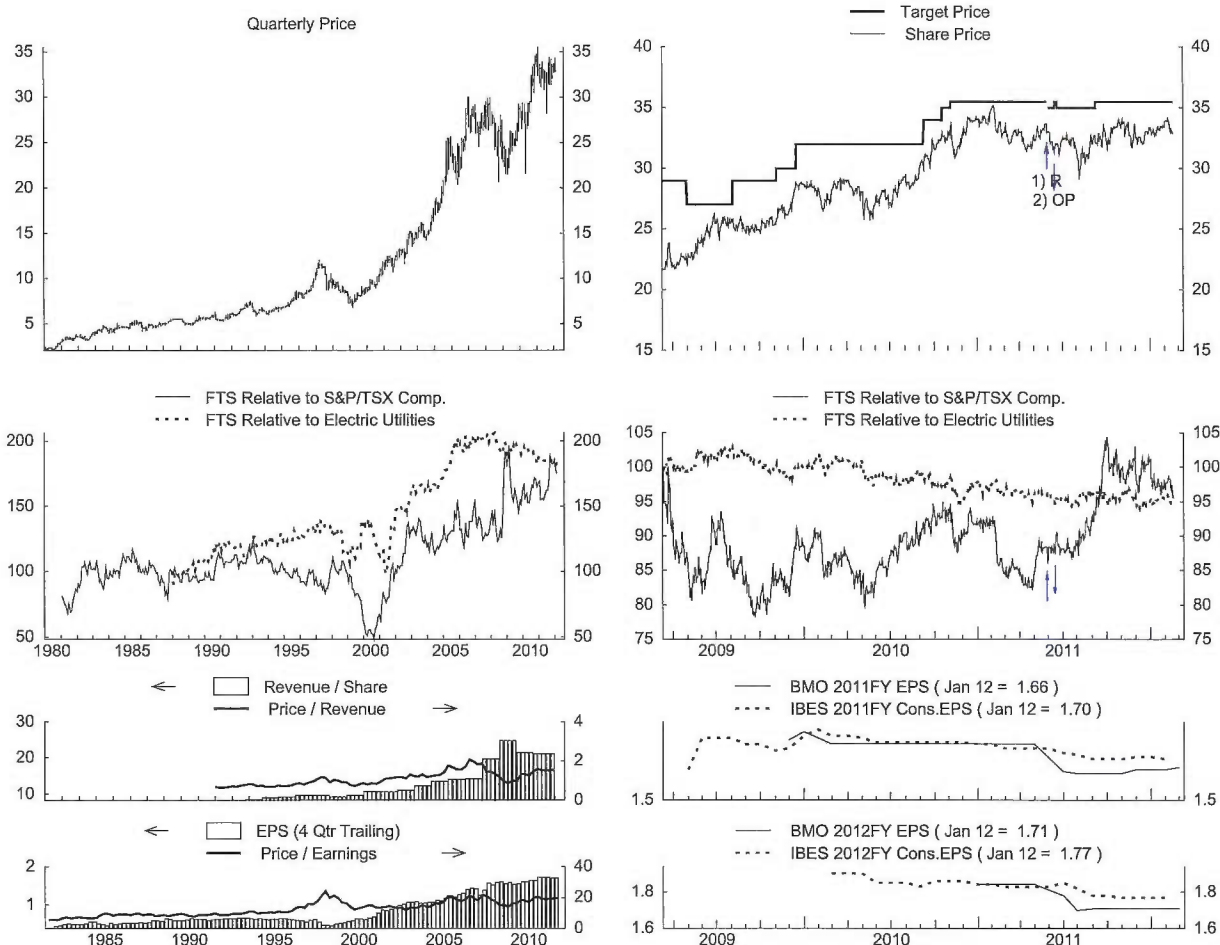
(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.59	\$1.66	na	na
P/E			na	na
CFPS	\$4.22	\$4.38	na	na
P/CFPS			na	na
Div.	\$1.12	\$1.16	na	na
EV (\$mm)	\$12,221	\$13,001	na	na
EBITDA (\$mm)	\$1,150.0	\$1,169.5	na	na
EV/EBITDA	10.6x	11.1x	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012E	na	na	na	na
Dividend	\$1.20	Yield		3.7%
Book Value	\$20.73	Price/Book		1.6x
Shares O/S (mm)	186.9	Mkt. Cap (mm)		\$6,053
Float O/S (mm)	185.5	Float Cap (mm)		\$6,006
Wkly Vol (000s)	2,453	Wkly \$ Vol (mm)		\$80.0
Net Debt (\$mm)	\$5,837	Next Rep. Date		02-May (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2012E: \$1.74; 2013E: \$1.80

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.84	11	0.40	5.6	63	5.53	1.3	12
1994	0.82	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	19.03	1.8	9
Current*	1.69	20	1.16	3.5	69	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	4.1		8.8			11.2		
10 Year:	7.2		9.5			10.7		
20 Year:	5.3		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 10-Mar-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 17, 2012

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Methodology and Risks to Price Target/Valuation

Methodology: na

Risks: na

Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

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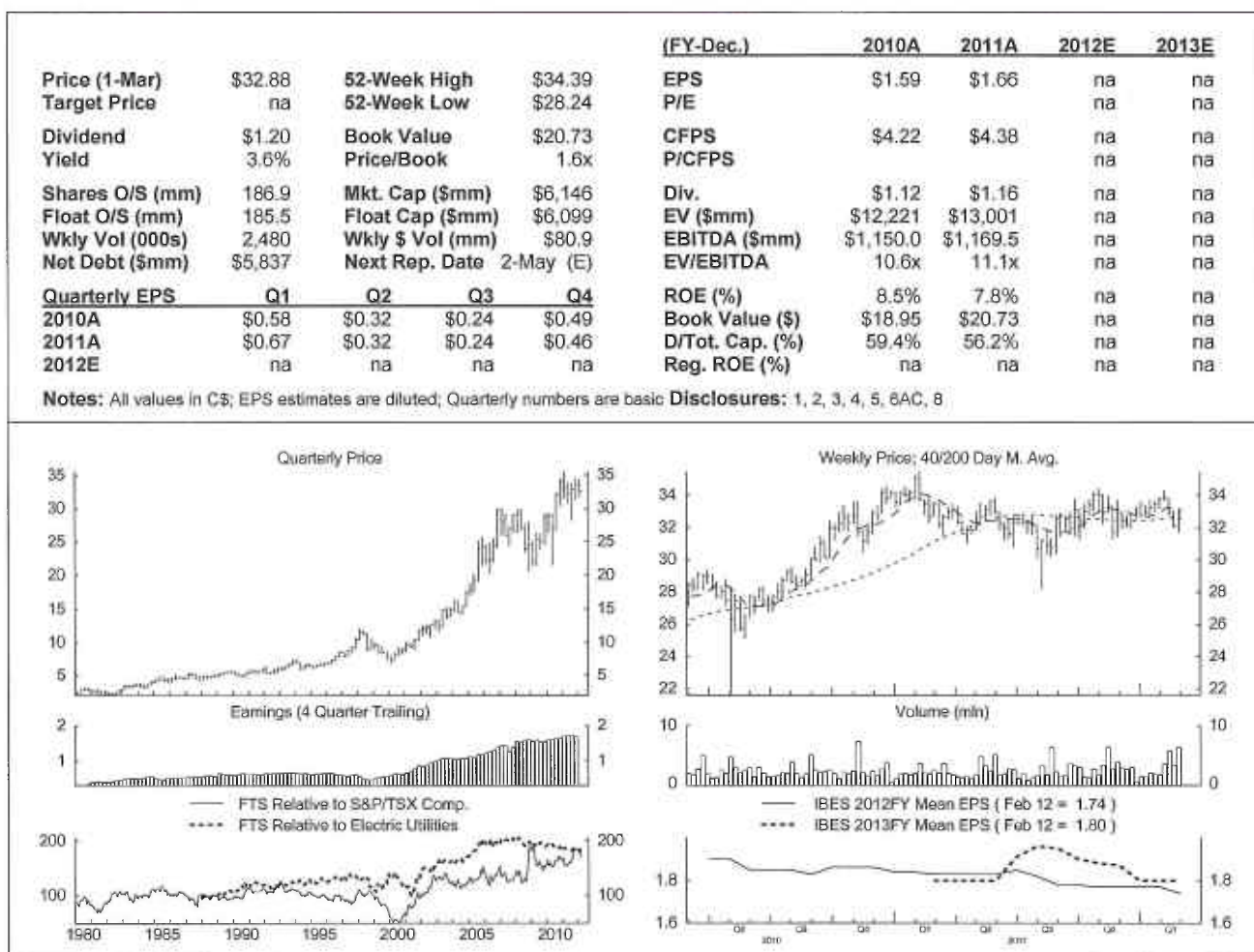
Fortis

(FTS-TSX)

Stock Rating: Not Rated
Industry Rating: Market Perform

March 1, 2012
 Research Fact Sheet
 Gas & Electric Utilities

BMO CM Research
 (416) 359-4002
 Equity.Research@bmo.com
 Assoc: Mark Laing, CA, CFA



Company Description – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks and Caicos (100%),

FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%, British Columbia). *Website:* fortisinc.com

Recent Results – Fortis reported Q4/11 EPS of \$0.46 versus the First Call Mean estimate of \$0.47 (range \$0.45–0.50) and Q4/10 EPS of \$0.49.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

Corporate Developments – On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group Inc. for US\$65/share, which translates into a total purchase price of approximately US\$1.5 billion, including the assumption of approximately US\$500 million of debt. The purchase price represents a premium of approximately 10.5% over the most recent closing price of CH Energy Group's common shares, and values CH at approximately 20.2x 2012E EPS, based on estimates provided by Bloomberg.

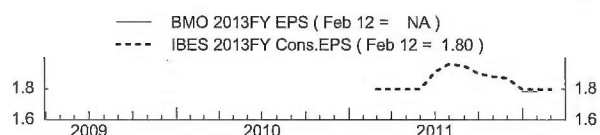
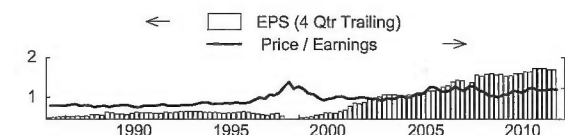
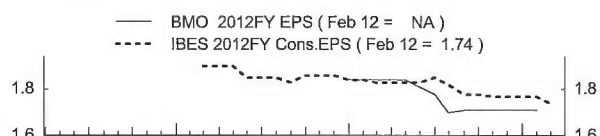
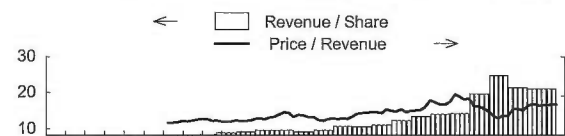
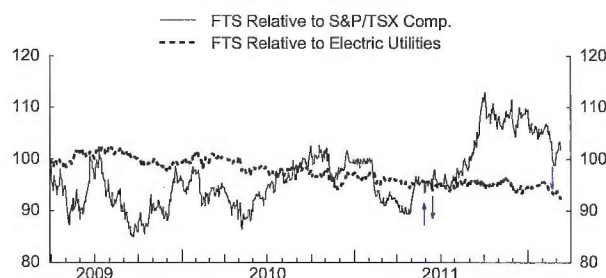
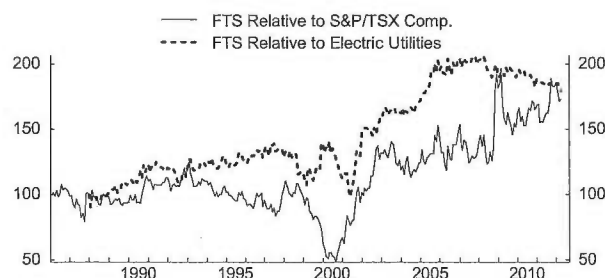
The company's 2012 capital budget has been set at \$1.3 billion and it continues to target total investment of \$5.5

billion during the next five years. Approximately 64% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 13% relates to Fortis' non-regulated businesses.

Fortis continues to receive payments for electricity sales made by Belize Electricity Company Limited ("BECOL") to Belize Electricity Limited ("BEL"). As at December 31, 2011, BECOL had an accounts receivable balance of US\$7.4 million, which is consistent with a receivable of US\$8 million that was outstanding at September 30, 2011.

Recommendation – Fortis is not rated. Member of Top 15 Income stock selections.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	19.03	1.8	9
Current*	1.69	19	1.20	3.7	71	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	4.1		9.6			11.2		
10 Year:	7.2		9.8			10.7		
20 Year:	5.3		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 30-Mar-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38

Last Daily Data Point: March 8, 2012

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

April 9, 2012
 Research Comment
 Toronto, Ontario

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Initiating Coverage at Outperform; Your All-Weather Stock

The Company

Fortis is Canada's largest and most diversified regulated distribution utility company, with over 2,000,000 natural gas and electricity customers across the country. The company also has a small portfolio of real estate holdings and interests in two Caribbean regulated electricity distribution companies. In addition, the company is developing the 335 MW Waneta Dam expansion, a \$900 million contracted hydro project (51% owned) that is expected to be commissioned by spring 2015.

Forecasts

We are introducing EPS (f.d) forecasts of \$1.74 in 2012 and \$1.81 in 2013.

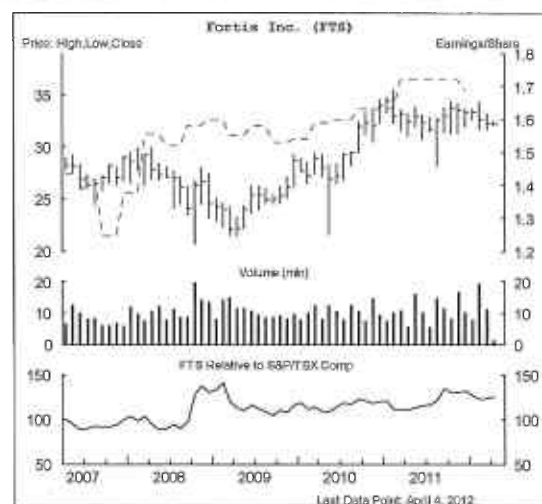
Valuation

Our target price of \$34.50 represents a 19x 2013E EPS, which is a premium to its peer group and toward the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of earnings are derived from regulated operations)

Recommendation

We are initiating coverage of Fortis with an Outperform rating. Fortis is hardly a market darling these days amid less robust earnings growth and uncertainty regarding its unregulated hydro assets in Belize. We have heard this song before, and while we recognize the market is waiting anxiously for a full resolution of these issues, we would argue that these issues are already priced in. In the meantime, we believe the market should return its attention to the company's sizable \$5.5 billion relatively low-risk organic growth initiatives through 2016, which should ultimately bear fruit. Aside from its organic growth execution scorecard, another key driver for Fortis' share price in the near term is the successful consummation of NY-based utility CH Energy, which still requires approval from CH Energy shareholders (likely summer 2012) and regulators (Q1/13). Please refer to our [report](#) for further details.

Price (5-Apr) \$32.11 52-Week High \$34.39
 Target Price \$34.50 52-Week Low \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.74	\$1.81
P/E			18.5x	17.7x
CFPS	\$4.25	\$4.38	\$4.46	\$4.43
P/CFPS			7.2x	7.3x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,520	\$12,558	\$13,391	\$15,855
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,291.8	\$1,490.5
EV/EBITDA	10.9x	10.7x	10.4x	10.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.69	\$0.34	\$0.25	\$0.48
Dividend	\$1.20	Yield		3.7%
Book Value	\$20.73	Price/Book		1.5x
Shares O/S (mm)	188.8	Mkt. Cap (mm)		\$6,062
Float O/S (mm)	188.8	Float Cap (mm)		\$6,062
Wkly Vol (000s)	2,573	Wkly \$ Vol (mm)		\$83.8
Net Debt (\$mm)	\$5,855	Next Rep. Date		02-May (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2012E: \$1.75; 2013E: \$1.82



Fortis Inc. (FTS)

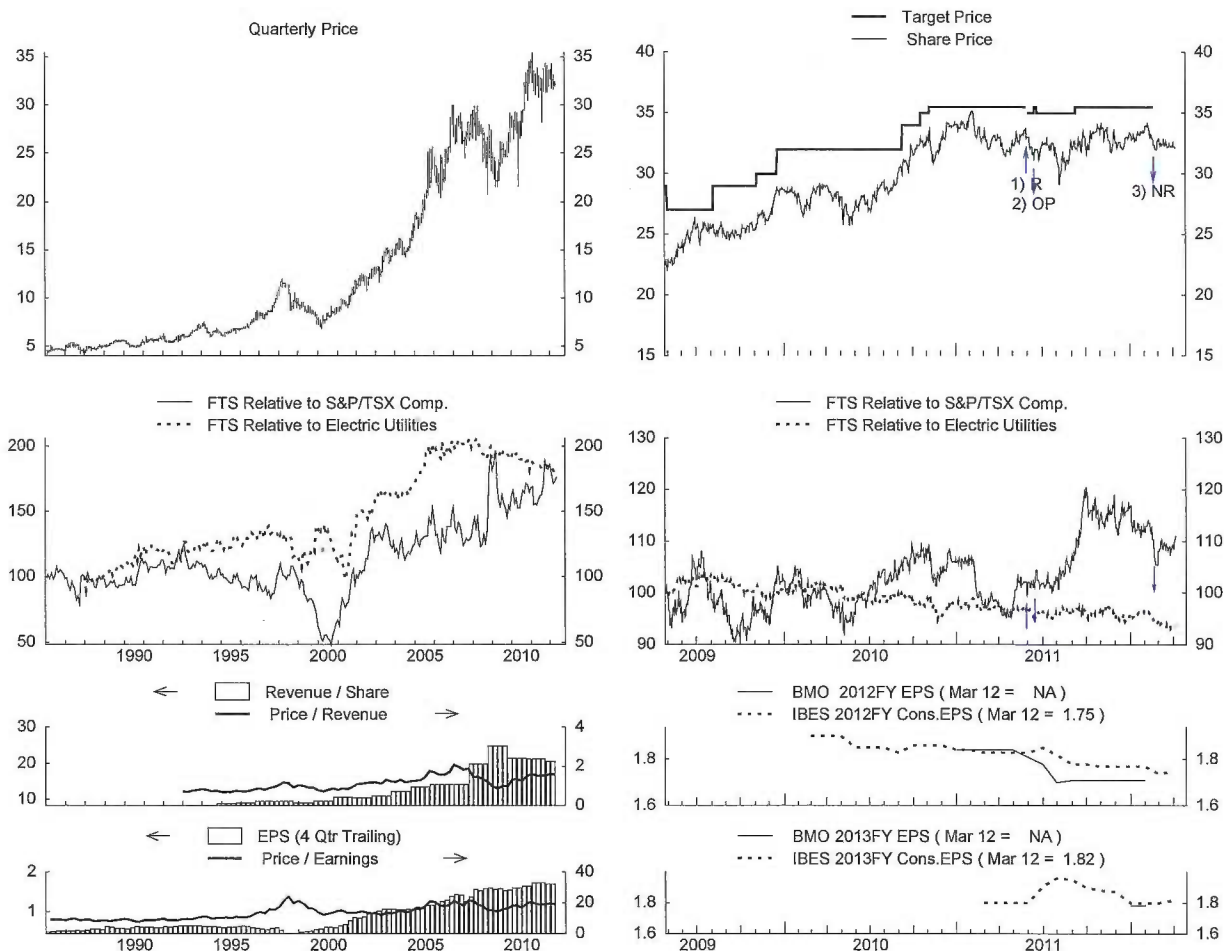
Outperform

12-Month Target Price: \$34.50
 Analyst: Ben Pham, CFA
 (416) 359-4061
 Current Price: \$32.11
 ROR: 11.2%

	Year Ending December 31										CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E		
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.76	\$1.83	4.8%	
Total Diluted Earnings Per Share	\$1.10	\$1.32	\$1.29	\$1.55	\$1.51	\$1.60	\$1.66	\$1.74	\$1.81	4.4%	
First Call Consensus								\$1.75	\$1.82		
Segmented EPS											
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.17		
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.10		
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14		
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09		
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.11	\$0.11		
FortisAlberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.43	\$0.44		
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.27	\$0.26		
Terasen Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.79	\$0.79		
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.22		
OtherCorporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.36)	(\$0.41)		
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%	
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	68.3%	67.7%		
Average Shares (mm)	101.6	103.6	137.6	157.4	170.2	172.9	181.6	187.9	206.5		
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.73	\$21.38	\$22.88		
Market Valuation											
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-		
Price: Low	\$17.00	\$20.35	\$24.50	\$20.70	\$21.52	\$25.67	\$32.67	-	-		
Price: Current	-	-	-	-	-	-	-	\$32.11	-		
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-		
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-		
P/E Ratio: Current	-	-	-	-	-	-	-	18.5	17.8		
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-		
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-		
EV/EBITDA: Current	-	-	-	-	-	-	-	10.5	10.4		
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.5%	3.3%	3.3%	-	-		
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-		
Yield: Current	-	-	-	-	-	-	-	3.7%	3.9%		
Balance Sheet (\$mm)											
Debt (S-T)	80.3	162.6	911.0	650.0	639.0	414.0	265.0	257.2	408.9		
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,100.0	7,156.1		
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0		
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,112.0		
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0		
Shareholders' Equity	1,213.4	1,275.7	2,699.7	3,045.7	3,198.7	3,305.0	3,877.0	4,038.2	4,724.3		
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.4	13,609.2		
Balance Sheet (%)											
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	2.2%	3.0%		
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.0%	53.0%	52.6%		
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%		
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.2%		
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%		
Shareholders' Equity	31.9%	27.6%	29.9%	32.4%	32.2%	31.8%	35.4%	35.1%	34.7%		
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Income Statement											
Total Revenue	1,422.2	1,450.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,744.0	4,560.4	10.6%	
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,166.5	1,291.8	1,490.5	12.9%	
EBIT	336.2	343.6	543.4	713.0	704.0	736.0	750.5	848.5	994.1	15.1%	
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	330.4	378.0	11.8%	
Cash Flow from Operations	229.2	316.3	490.0	622.0	678.0	734.0	795.0	937.9	914.4	7.2%	

Note: Priced as of market close on April 5, 2012.
 Source: BMO Capital Markets, Company Reports

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.80	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.6	8
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.69	19	1.20	3.7	71	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.3		9.6			11.2		
10 Year:	7.3		9.8			10.7		
20 Year:	5.1		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 27-Apr-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38

Last Daily Data Point: April 5, 2012

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I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is approximately 19x our 2013E EPS estimate.

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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Fortis

(FTS-TSX)

May 2, 2012Brief Research Note
Power & Utilities**Stock Rating:** Outperform
Stock Price: \$34.19
Target Price: \$34.50**Benjamin Pham, CFA**
(416) 359-4061
Ben.Pham@bmo.com**Member of:** Top 15 Income Stock Selections

Q1/12 Results Slightly Lower Than Expected

Impact

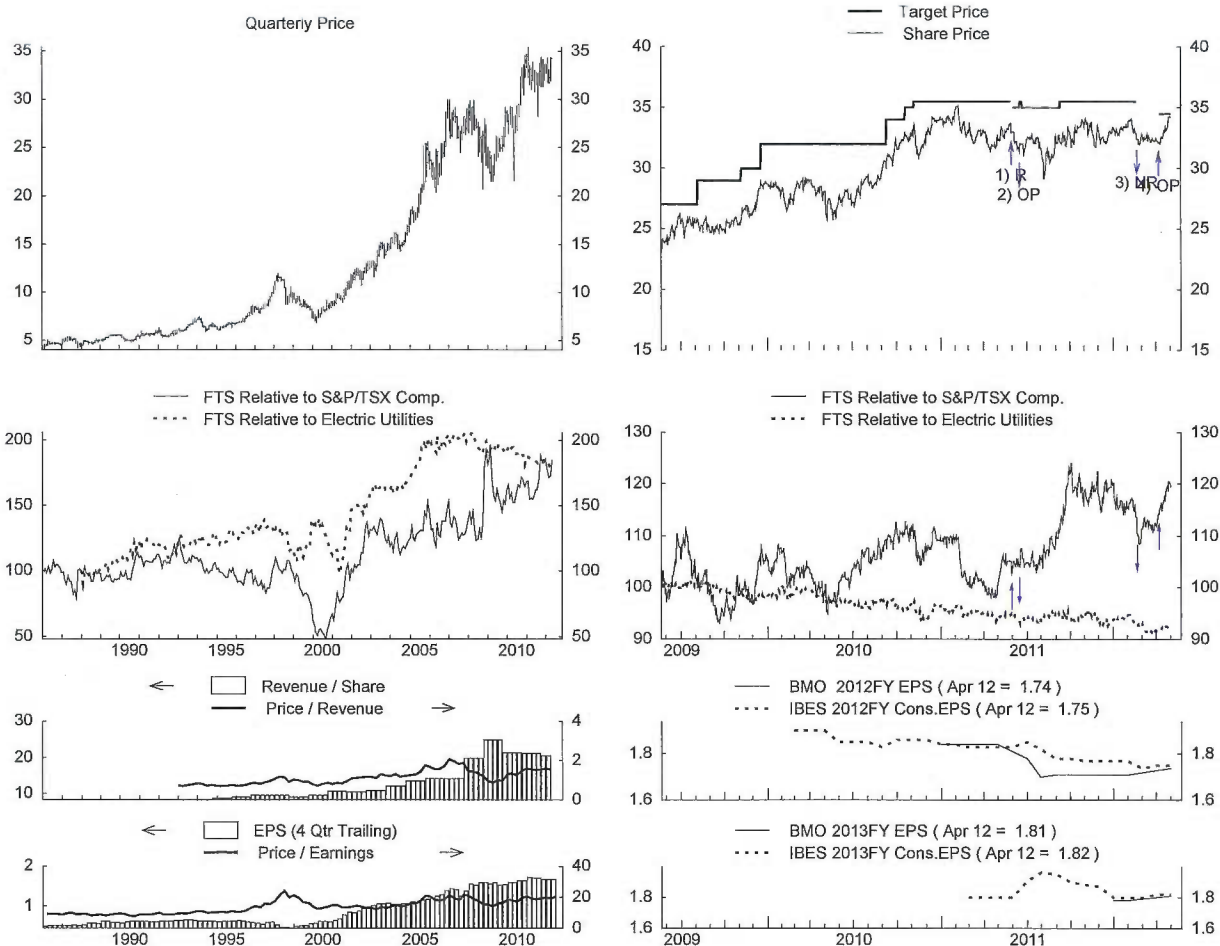
Neutral

Details & Analysis

Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus. The company reported headline earnings of \$0.64 and comparable earnings of \$0.66 after adjusting for one-time acquisition costs associated with the proposed CH Energy transaction. The variance vs. our estimate was largely due to lower-than expected earnings contribution from FortisAlberta and FortisBC. Key highlights: (1) the company reaffirmed capital expenditures of \$1.3 billion in 2012 and ~\$5.5 billion over the five-year period of 2012-2016. Notably, its 335 MW expansion of the Waneta Dam (50% Fortis) is on track for an expected in-service date of spring 2015; (2) regulatory filings were made recently with the New York State Public Service Commission (April 20) and the Federal Energy Regulatory Commission (April 23) in connection with its proposed acquisition of CH Energy Group. A CH Energy shareholder vote is expected in mid-2012, with closing expected at the end of Q1/13; and (3) the British Columbia Utilities Commission is currently moving forward with a Cost of Capital proceeding regarding the appropriate allowed ROE and deemed capital structure for utilities subject to its review, effective January 1, 2013. A return to an ROE automatic adjustment (effective for 2014) will also be examined. We estimate that a 50 bps change in allowed ROE at Fortis' B.C.-based utilities will impact its consolidated EPS by ~\$0.05.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.80	10	0.37	6.2	61	5.01	1.2	12
1992	0.84	10	0.38	6.2	60	5.28	1.2	12
1993	0.84	11	0.40	5.6	63	5.53	1.3	12
1994	0.82	10	0.42	6.5	68	5.82	1.1	11
1995	0.83	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	21	1.20	3.5	72	20.73	1.7	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.1		9.6			11.2		
10 Year:	7.2		9.8			10.7		
20 Year:	5.0		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 21-May-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: May 1, 2012

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Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Prior BMO Capital Markets Ratings Systems

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

May 3, 2012
Research Comment
Toronto, Ontario

Ben Pham, CFA
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Q1 – Onward and Upward

Event

Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus. The company reported headline earnings of \$0.64 and comparable earnings of \$0.66 after adjusting for one-time acquisition costs associated with the proposed CH Energy transaction. Comparable EPS were slightly lower than our estimate of \$0.69, but generally consistent with Street consensus of \$0.67 per share. The variance vs. our estimate was largely due to lower-than-expected earnings contribution from FortisAlberta, FortisBC Electric and Fortis Properties, partially offset by higher-than-expected results from Other Canadian and its gas utility.

Impact

Neutral.

Forecasts

We have updated our financial model to reflect Q1/12 results and revised assumptions. We are lowering our 2012 EPS estimate (f.d.) to \$1.71 from \$1.74 but increasing our 2013 estimate (f.d.) to \$1.84 from \$1.81.

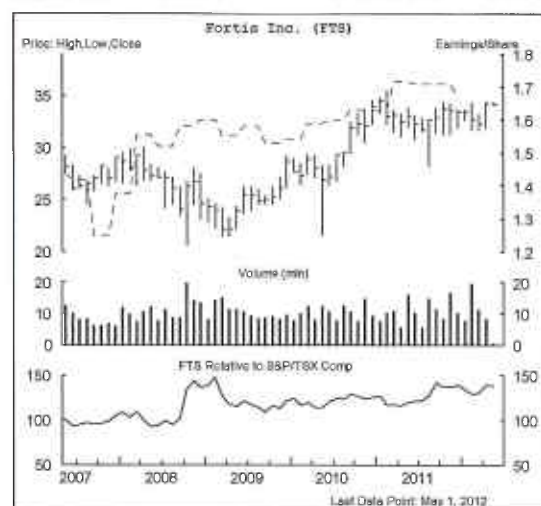
Valuation

We have raised our 12-month target price by \$1 to \$35.50. Our target price of \$35.50 represents 19.2x 2013E EPS (from 19.0x previously) our revised 2013 EPS forecast, which is a premium to its peer group and towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility and the secular reduction observed in 10-year government of Canada bond yields.

Recommendation

We continue to rate the shares of Fortis Outperform.

Price (2-May) \$34.55 52-Week High \$34.55
Target Price \$35.50 52-Week Low \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.71↓	\$1.84↑
P/E			20.2x	18.8x
CFPS	\$4.25	\$4.38	\$4.41↓	\$4.44↑
P/CFPS			7.8x	7.8x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,520	\$12,558	\$13,396	\$15,802
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,289.8	\$1,493.5
EV/EBITDA	10.9x	10.7x	10.4x	10.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66a	\$0.34	\$0.25	\$0.48
Dividend	\$1.20	Yield		3.5%
Book Value	\$20.61	Price/Book		1.7x
Shares O/S (mm)	189.3	Mkt. Cap (mm)		\$6,539
Float O/S (mm)	189.3	Float Cap (mm)		\$6,539
Wkly Vol (000s)	2,620	Wkly \$ Vol (mm)		\$85.5
Net Debt (\$mm)	\$5,867	Next Rep. Date		Jul (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2012E: \$1.75; 2013E: \$1.81

Changes

Annual EPS

2012E \$1.74 to \$1.71
2013E \$1.81 to \$1.84

Annual CFPS

2012E \$4.46 to \$4.41
2013E \$4.43 to \$4.44

Target

\$34.50 to \$35.50

Q1 – Onward and Upward

- **We are maintaining an Outperform rating on Fortis shares and increasing our 12-month target price by \$1 (~3%) to \$35.50 in connection with our revised estimate and target multiple.** Despite bottom-line results that fell shy of our expectations, Fortis' first-quarter results reinforced the positive earnings momentum that the company has put in place via ownership of several utility distribution businesses across Canada that possess strong growth prospects. In our view, Fortis is well positioned to grow its EPS to ~\$2.00 by 2015 while its significant exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds. We are maintaining our Outperform rating and increasing our 12-month target price by \$1 to \$35.50. Our target price of \$35.50 represents 19.2x 2013E EPS (from 19.0x previously) our revised 2013 EPS forecast, which is a premium to its peer group and towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the secular reduction observed in 10-year government of Canada bond yields.
- **Reaffirming capital spending guidance.** Against the backdrop of \$229 million of capital spending for the first quarter of 2012, the company reaffirmed its \$1.3 billion capital budget for 2012. The company's 2012–2016 capital spending outlook of \$5.5 billion is also unchanged with 64% expected to be incurred at the regulated electric utilities, 23% at regulated gas utilities and 13% at its non-regulated operations.
- **CH Energy:** Regulatory filings were made recently with the New York State Public Service Commission (April 20) and the Federal Energy Regulatory Commission (April 23) in connection with its proposed acquisition of CH Energy Group. A CH Energy shareholder vote is planned in mid-2012, with closing expected at the end of Q1/13. Our outlook continues to assume a \$500 million common equity issue in early 2013.
- **Waneta – on track:** Fortis's \$900 million Waneta dam expansion (51% interest) remains on track for start-up in spring 2015. The company has completed the excavation of the intake, powerhouse and power tunnels and has spent \$290 million since construction began in late 2010. Assuming that this project is financed with 35% equity and is capable of generating a 10.5% ROE, it could contribute up to \$16.9 million in incremental earnings when it is commissioned.
- **Regulatory update:** We expect 2012 to be relatively busy from a regulatory perspective. The British Columbia Utilities Commission (BCUC) is currently moving forward with a Cost of Capital proceeding regarding: (i) the appropriate allowed ROE and deemed capital structure for a benchmark low-risk utility, effective January 1, 2013; (ii) the determination of whether a return to an ROE automatic adjustment (effective for 2014) is warranted; (iii) a generic methodology on how to establish each utility's cost of capital in reference to the cost of capital for a benchmark low-risk utility; and (iv) a methodology to establish a deemed capital structure and deemed cost of capital. The BCUC also issued in April its decision on FortisBC Energy's 2012–2013 rate application. In addition to the above regulatory initiatives, a number of Fortis' utilities have submitted rate filings or are expecting rate decisions this year:

- In April 2012, the FortisBC Energy utilities re-filed their application with the BCUC to amalgamate into one legal entity. In late 2011, the utilities suspended their application in order to provide additional information to the BCUC, as requested. In addition to BCUC approval, the amalgamation requires the consent of the Government of British Columbia.
- In November 2011, FortisBC Electric filed an updated 2012–2013 Revenue Requirement Application, reflecting a return on estimated mid-year net rate base of \$1,146 million in 2012 and \$1,215 million in 2013. An oral hearing occurred in March 2012 and a decision on the rate application is expected in mid-2012.
- In April 2012, the Alberta Utilities Commission (AUC) approved FortisAlberta's negotiated settlement for 2012 distribution revenue requirements, reflecting a forecast mid-year rate base of \$2,025 million. The AUC continues to explore the implementation of Performance Based Regulation. A hearing commenced in April 2012 and a decision is expected in 2012.
- In March 2012, Newfoundland Power filed a Cost of Capital Application with the PUB to discontinue the use of the current ROE adjustment mechanism and to approve a reasonable rate of return on average rate base for 2012. A public hearing on the application is currently scheduled for June 2012.
- Maritime Electric plans to file an application with the Regulatory & Appeals Commission in fall 2012 for 2013 rates and allowed ROE.
- **Liquidity and resources:** At quarter-end, the company had \$110 million of cash and consolidated credit facilities of roughly \$2.2 billion, of which \$2.0 billion was available, including \$769 million unused under its \$800 million corporate committed revolving credit facility. Moreover, Fortis has requested an increase in the amount available for borrowing under its corporate credit facility to \$1 billion from \$800 million, which will enhance its liquidity position. Fortis expects the increase to be available in May 2012.
- **Revised estimates:** We have updated our financial model to reflect Q1/12 results and revised assumptions. We are lowering our 2012 EPS estimate (f.d.) to \$1.71 from \$1.74 but increasing our 2013 estimate (f.d.) to \$1.84 from \$1.81 (reflecting a lower run-rate for corporate costs).
- **Valuation:** We are maintaining an Outperform rating on Fortis shares and increasing our target price by \$1 (~3%) to \$35.50. At current prices, we believe that Fortis shares are reasonably valued, trading at a P/E multiple of 18.7x our 2013 estimate, which is a premium to its peer group and towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the secular reduction observed in 10-year government of Canada bond yields.

Exhibit 1: FTS – P/E, Share Price and Target P/E



Source: Thomson One, Bloomberg

- First-quarter results:** Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus. The company reported headline earnings of \$0.64 and comparable earnings of \$0.66 after adjusting for one-time acquisition costs associated with the proposed CH Energy transaction. Comparable EPS were slightly lower than our estimate of \$0.69, but generally consistent with Street consensus of \$0.67 per share. The variance vs. our estimate was largely due to lower-than expected earnings contribution from FortisAlberta, FortisBC Electric and Fortis Properties, partially offset by higher-than-expected results from Other Canadian and its gas utility. (Table 1). Our annual estimates are set out in Table 2.

Table 1: Earnings by Business Segment

	Q1/12 (\$mm)	Q1/12E (\$mm)	Q1/11 (\$mm)
Regulated Gas Utilities - Canadian			
Fortis BC Energy Companies	82.0	79.8	75.0
Regulated Electric Utilities - Canadian			
FortisAlberta	21.0	23.2	21.0
FortisBC	16.0	20.5	19.0
Newfoundland Power	7.0	7.1	6.0
Other Canadian	7.0	5.8	6.0
	51.0	56.7	52.0
Regulated Electric Utilities - Caribbean	3.0	3.6	4.0
Non-Regulated - Fortis Generation	5.0	4.9	3.0
Non-Regulated - Fortis Properties	1.0	2.6	1.0
Corporate and Other ⁽¹⁾	(17.0)	(17.4)	(19.0)
Net Earnings Applicable to Common Shares	125.0	130.1	116.0
Average Shares	189.0	187.9	175.0
Adjusted EPS (basic)	\$0.66	\$0.69	\$0.66

Note: (1) Q1/12 Corporate costs exclude \$4 million of acquisition-related expenses associated with CH Energy transaction

Source: BMO Capital Markets, Company Reports

Table 2: Consolidated Summary Sheet

BMO  Capital Markets

Outperform

12-Month Target Price: \$35.50

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$34.55

ROR: 6.2%

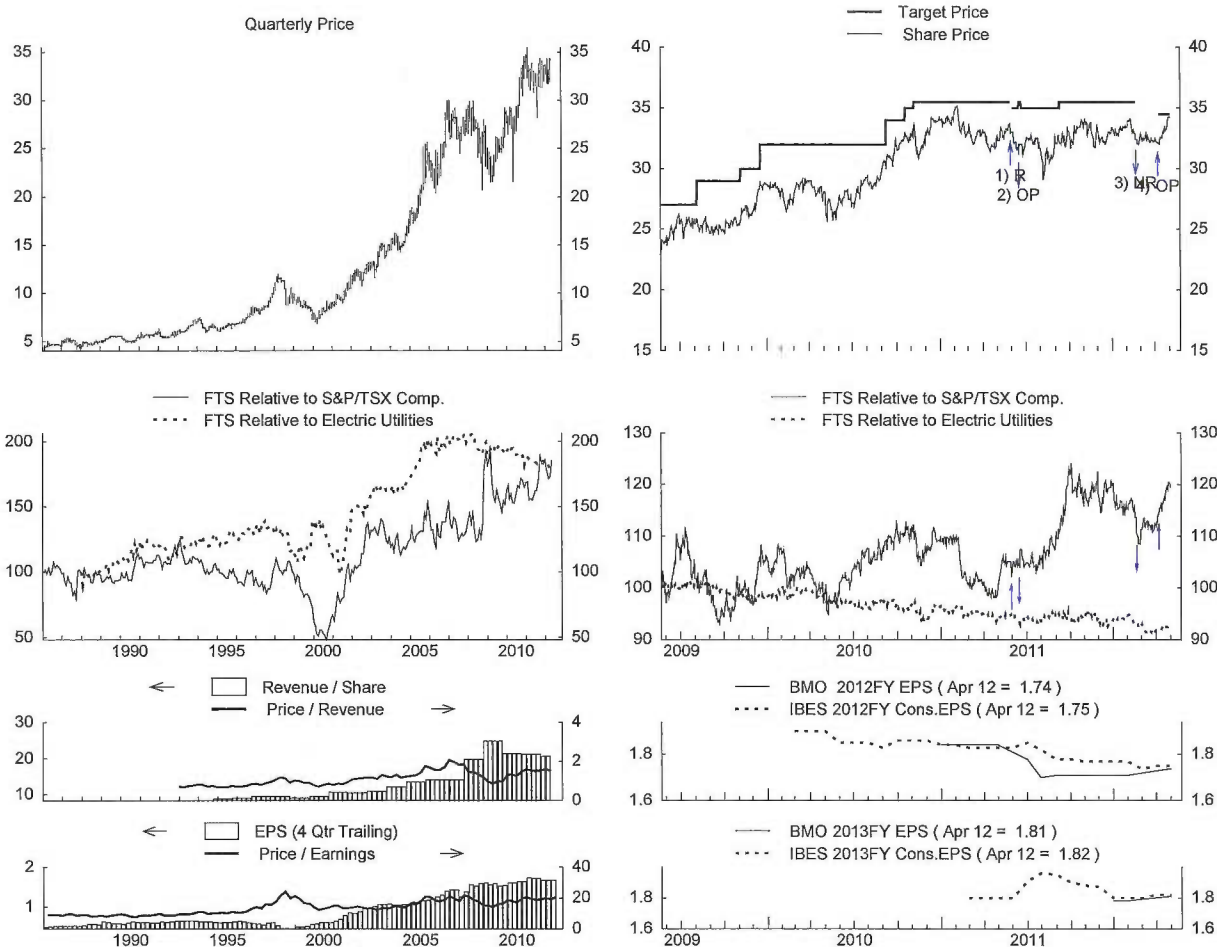
Fortis Inc. (FTS)

	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.73	\$1.86	5.7%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.58	\$1.51	\$1.60	\$1.66	\$1.71	\$1.84	5.4%
First Call Consensus								\$1.76	\$1.82	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.17	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.13	\$0.13	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	
Fortis Alberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.42	\$0.43	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.24	\$0.25	
Tenison Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.79	\$0.74	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.34)	(\$0.39)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	69.3%	66.6%	
Average Shares (mm)	101.8	103.6	137.5	167.4	170.2	172.9	181.5	189.7	208.3	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.16	\$22.70	
Market Valuation										
Price: High	\$35.84	\$30.00	\$30.00	\$29.94	\$26.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.52	\$25.57	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.55	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	19.2	14.3	18.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	20.2	18.7	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.9	10.8	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.5%	3.6%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	260.5	454.4	
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,505.0	5,679.0	6,100.0	7,105.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,112.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,211.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	4,034.9	4,728.8	
	3,808.5	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.4	13,809.2	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	2.3%	3.3%	
Debt (L-T)	56.0%	54.4%	52.7%	51.6%	52.9%	53.5%	51.9%	52.0%	52.2%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.6%	8.3%	7.9%	8.2%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.5%	32.4%	32.2%	31.8%	35.4%	35.0%	34.7%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,744.0	4,569.4	10.5%
EBITDA	466.9	521.1	816.4	1,051.0	1,053.0	1,150.0	1,169.5	1,289.8	1,493.5	13.0%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	846.5	997.1	15.3%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	328.7	387.6	13.2%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	835.2	923.9	7.2%

Note: Priced as of market close on May 2, 2012.

Source: BMO Capital Markets, Company Reports

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	9
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	21	1.20	3.5	72	20.73	1.7	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.1		9.6			11.2		
10 Year:	7.2		9.8			10.7		
20 Year:	5.0		5.9			7.4		

* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 21-May-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
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Last Daily Data Point: May 1, 2012

IMPORTANT DISCLOSURES**Analyst's Certification**

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Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is approximately 19.2x our 2013E EPS estimate.

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

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***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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Fortis

(FTS-TSX)

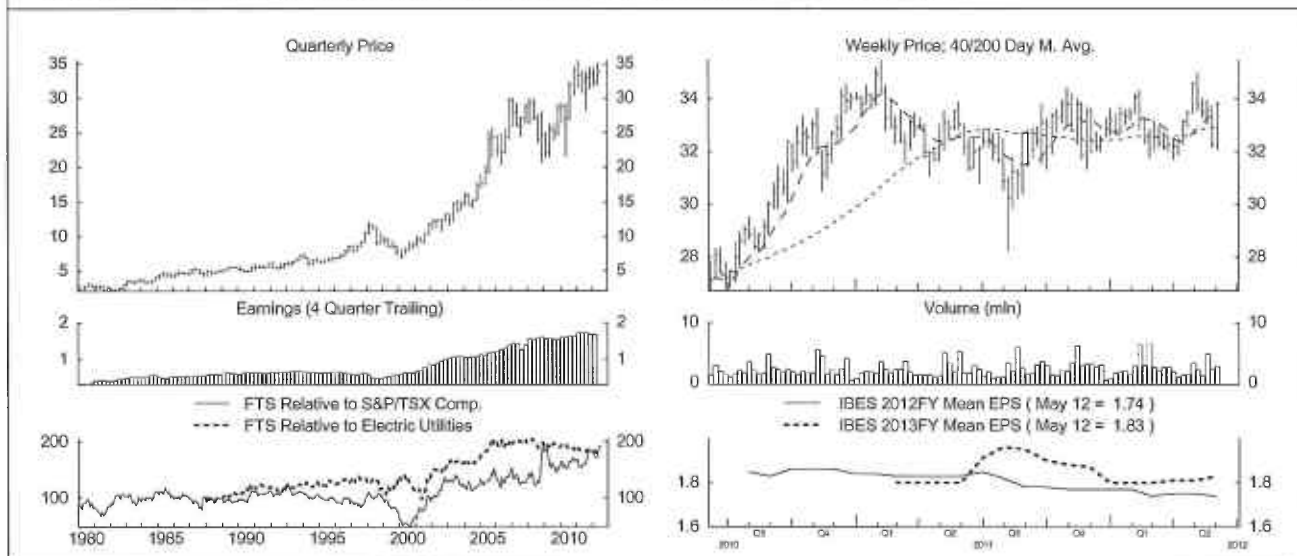
Stock Rating: Outperform
Industry Rating: Market Perform

June 6, 2012
 Research Fact Sheet
 Power & Utilities

Ben Pham, CFA
 (416) 359-4061
 Ben.Pham@bmo.com
 Assoc: Adam Johnson, CA

				(FY-Dec.)	2010A	2011A	2012E	2013E	
Price (6-Jun)	\$33.79	52-Week High	\$34.98	EPS	\$1.60	\$1.66	\$1.71	\$1.82	
Target Price	\$35.00	52-Week Low	\$28.24	P/E			19.8x	18.6x	
Dividend	\$1.20	Book Value	\$20.61	CFPS	\$4.25	\$4.38	\$4.41	\$4.39	
Yield	3.6%	Price/Book	1.6x	P/CFPS			7.7x	7.7x	
Shares O/S (mm)	189.3	Mkt. Cap (\$mm)	\$6,396	Div.	\$1.12	\$1.16	\$1.20	\$1.24	
Float O/S (mm)	189.3	Float Cap (\$mm)	\$6,396	EV (\$mm)	\$12,187	\$12,996	\$13,893	\$15,929	
Wkly Vol (000s)	2,533	Wkly \$ Vol (mm)	\$82.7	EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,290.1	\$1,495.4	
Net Debt (\$mm)	\$5,867	Next Rep. Date	Jul (E)	EV/EBITDA	10.6x	11.1x	10.8x	10.7x	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	8.5%	7.8%	8.1%	8.1%
2010A	\$0.58	\$0.32	\$0.24	\$0.49	Book Value (\$)	\$18.95	\$20.53	\$21.16	\$22.82
2011A	\$0.67	\$0.32	\$0.24	\$0.45	D/Tot. Cap. (%)	57.9%	54.3%	55.2%	54.5%
2012E	\$0.66 a	\$0.34	\$0.25	\$0.48	Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8



Company Description – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks and Caicos (100%),

FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%, British Columbia). *Website:* fortisinc.com

Recent Results – Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus (adjusted EPS of \$0.66 vs. our estimate of \$0.69 and consensus of \$0.67).

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Corporate Developments – Regulatory filings were made with the New York State Public Service Commission (April 20) and the Federal Energy Regulatory Commission (April 23) regarding the company's previously announced proposed acquisition of CH Energy Group, an energy delivery company whose main business is an electric and natural gas transmission and distribution utility in New York's Mid-Hudson Valley region. Pending regulatory approval and a shareholder vote in June 2012, the transaction is expected to close in Q1/13.

On May 23, S&P affirmed Fortis's A- credit rating and revised its outlook on the company to Stable from CreditWatch with negative implications. S&P's outlook assumes that Fortis will finance the CH Energy Group acquisition with at least \$600 million in common shares and \$250 million in preferred shares. Management has confirmed that it will finance the transaction in conformance with S&P's assumptions in order to keep its A- credit rating

intact, but noted that a portion of the proceeds will also be used to finance the company's 51% interest in the Waneta Dam hydro project, which is currently under development and is expected to be commissioned in spring 2015.

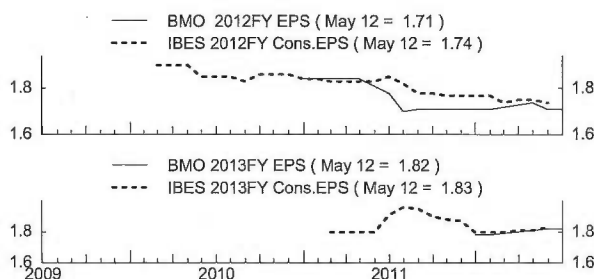
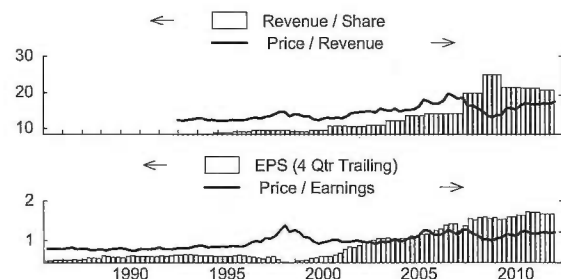
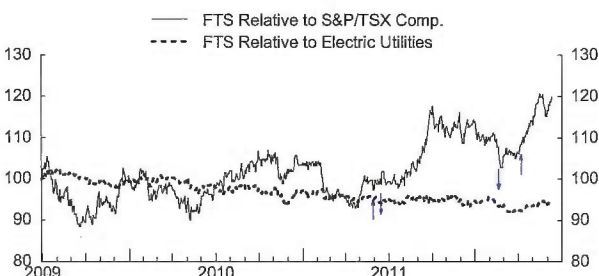
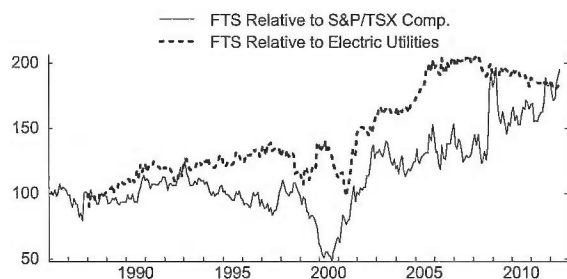
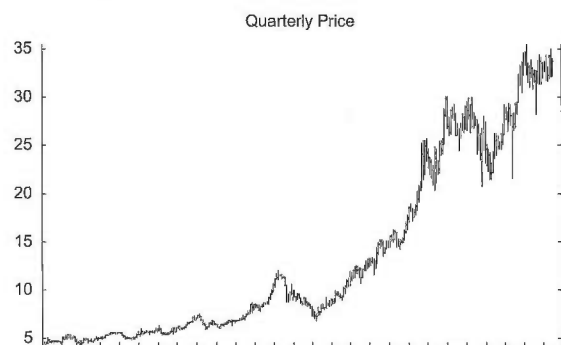
The company reaffirmed its 2012 capital budget at \$1.3 billion and it continues to target total investment of \$5.5 billion during the next five years. Approximately 64% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 13% relates to Fortis' non-regulated businesses.

Forecasts – We are forecasting EPS (f.d.) of \$1.71 and \$1.82 for 2012 and 2013, respectively.

Valuation – Our target price of \$35 is based 19.2x 2013E EPS.

Recommendation – At current levels, we believe the shares of Fortis are attractively valued. Our rating is Outperform.

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
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1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.80	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
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5 Year:	3.0		7.4			11.1		
10 Year:	7.1		9.4			10.6		
20 Year:	5.0		6.1			7.3		

* Current EPS is the 4 Quarter Trailing to Q1/2012.

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Last Daily Data Point: June 8, 2012

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Distribution of Ratings (March 31, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

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A member of BMO  Financial Group

Fortis

(FTS-TSX)

Stock Rating: Outperform
Stock Price: \$32.58
Target Price: \$35.00

Member of: Top 15 Income Stock Selections

June 19, 2012
Brief Research Note
Power & Utilities

Ben Pham, CFA
(416) 359-4061
Ben.Pham@bmo.com
Assoc: Adam Johnson, CA

CH Energy Shareholders Approve Acquisition

Impact

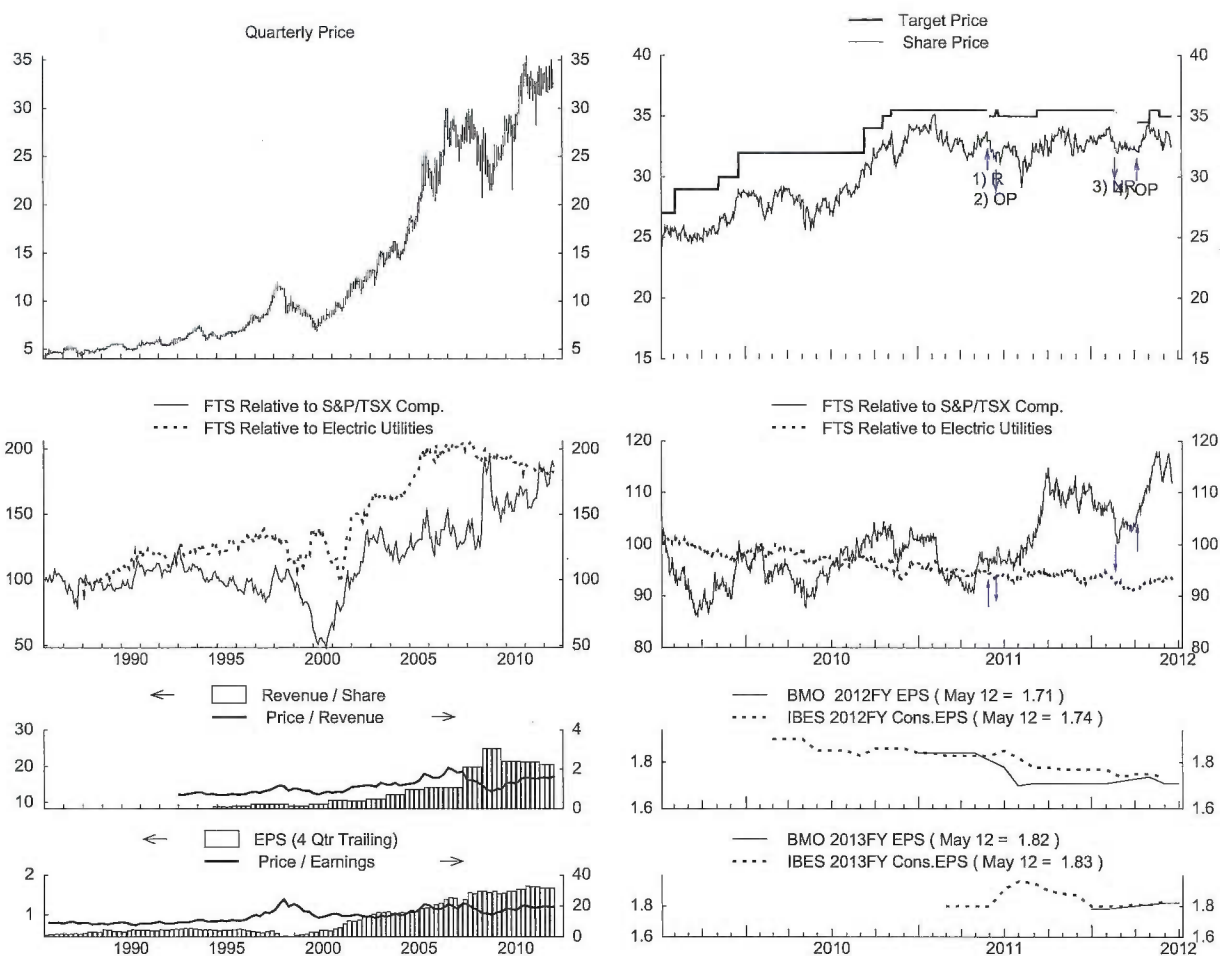
Neutral

Details & Analysis

Fortis has announced that the shareholders of CH Energy Group have voted in favour of the merger agreement under which Fortis will acquire 100% of CH Energy for US\$65.00 per share, for an aggregate purchase consideration of ~US\$1.5 billion (including assumed debt of US\$500 million). The transaction remains subject to regulatory approvals from the New York State Public Service Commission and the Federal Energy Regulatory Commission. (Fortis previously submitted filings to launch the regulatory review process with these bodies in April.) Shareholder approval was in line with expectations and we continue to assume new common equity in the amount of \$600 million in order to complete the transaction, which, pending approvals and closing conditions, is expected to close by the end of Q1/13.

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Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.84	11	0.40	5.6	63	5.53	1.3	12
1994	0.92	10	0.42	6.5	68	5.82	1.1	11
1995	0.83	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	20	1.20	3.6	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.0		7.4			11.1		
10 Year:	7.1		9.4			10.6		
20 Year:	5.0		6.1			7.3		

* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 8-Jul-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: June 18, 2012

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I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Price Target/Valuation

Methodology: Our target price is approximately 19.2x our 2013E EPS estimate.

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

June 29, 2012
 Research Comment
 Toronto, Ontario

Ben Pham, CFA
 BMO Nesbitt Burns Inc.
 (416) 359-4061
 Ben.Pham@bmo.com
 Assoc: Adam Johnson, CA

Coverage Resumed With Outperform Rating

Event

We are resuming coverage of FTS with an Outperform rating after coming off restriction after closing of its \$601 million subscription receipts offering. The offering of 18.5 million subscription receipts (9.8% to share count) will be used, subsequent to receipt of all required approvals (expected by the end of Q1/13), to finance a portion of the previously announced acquisition of CH Energy Group for US\$1.5 billion. The offering was largely expected, although we had assumed a Q1/13 time frame. While the offering is a bit sooner than expected, and thus leading to dilution to our 2012 outlook, this removes the equity overhang that we believe has largely placed a damper on recent stock price performance, and has returned FTS closer to breakeven YTD. We believe FTS remains well positioned to grow its EPS to \$2.00 by 2015 while its ~90% exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds.

Impact

Neutral.

Forecasts

Our 2012 EPS (fd) is tweaked down two pennies owing to differences in expected timing, while our 2013E EPS (fd) increases to \$1.83 from \$1.82.

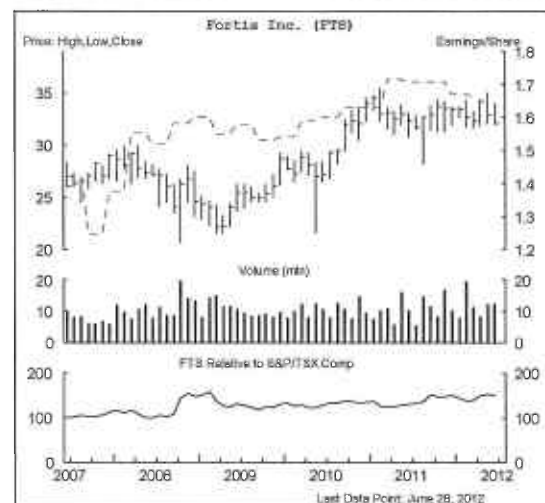
Valuation

Our target price of \$35 is unchanged and represents 19.2x our 2013E EPS.

Recommendation

With the recent stock price weakness coupled with a sizable unchanged \$5.5 billion organic growth program through 2016, our bias on the stock remains positive. We are maintaining our Outperform rating with over 12% total return potential.

Price (28-Jun) \$32.09
Target Price \$35.00
52-Week High \$34.98
52-Week Low \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.69↓	\$1.83↑
P/E			19.0x	17.5x
CFPS	\$4.25	\$4.38	\$4.26↓	\$4.41↑
P/CFPS			7.5x	7.3x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,187	\$12,996	\$13,302	\$15,563
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,290.1	\$1,495.4
EV/EBITDA	10.6x	11.1x	10.3x	10.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66a	\$0.34	\$0.25	\$0.48
Dividend	\$1.20	Yield		3.7%
Book Value	\$20.61	Price/Book		1.6x
Shares O/S (mm)	189.3	Mkt. Cap (mm)		\$6,074
Float O/S (mm)	189.3	Float Cap (mm)		\$6,074
Wkly Vol (000s)	2,591	Wkly \$ Vol (mm)		\$84.8
Net Debt (\$mm)	\$5,867	Next Rep. Date		Jul (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2012E: \$1.73; 2013E: \$1.84

Changes

Annual EPS	Annual CFPS
2012E \$1.71 to \$1.69	2012E \$4.41 to \$4.26
2013E \$1.82 to \$1.83	2013E \$4.39 to \$4.41

Table 1: Consolidated Summary Sheet



Fortis Inc. (FTS)

Outperform

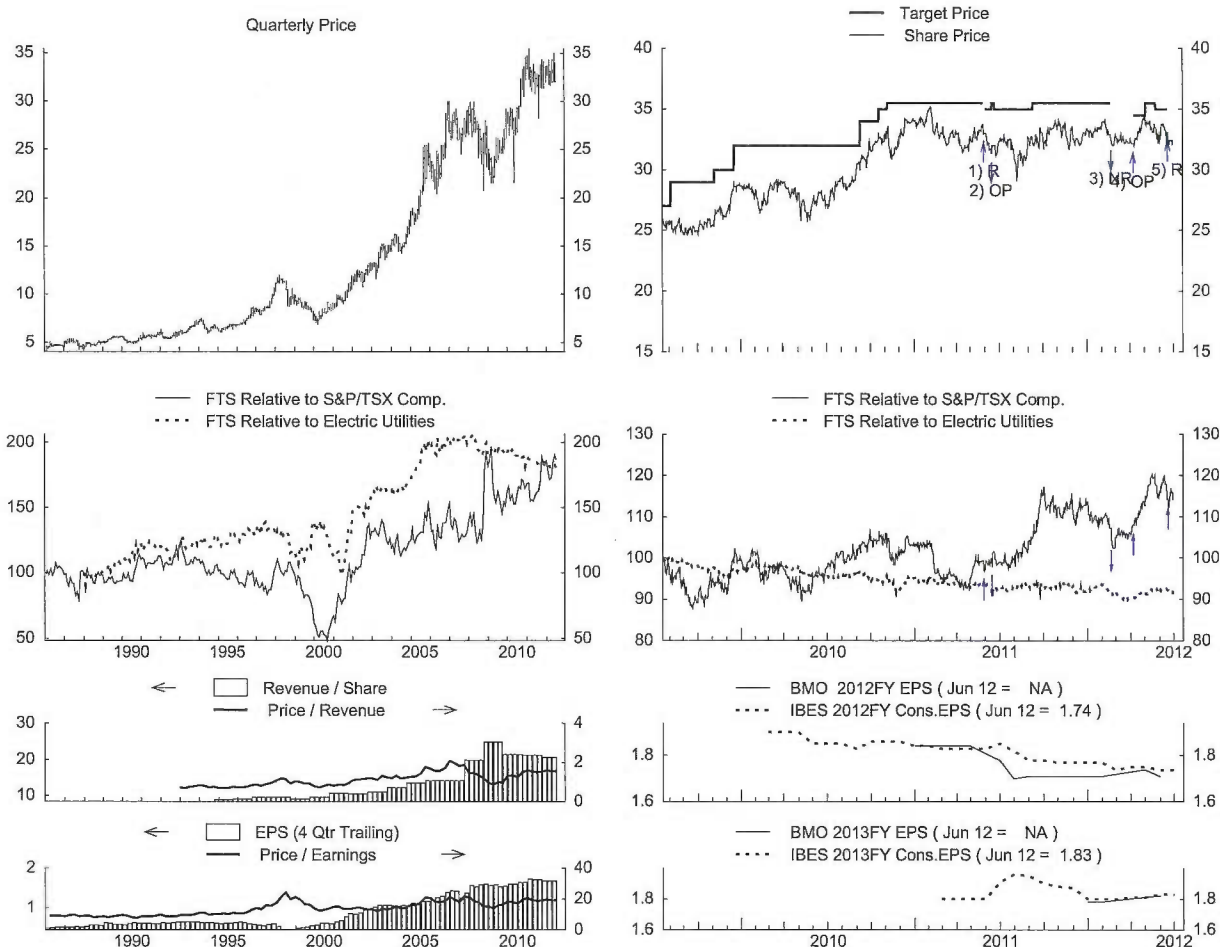
12-Month Target Price: \$35.00
 Analyst: Ben Pham, CFA
 (416) 359-4061
 Current Price: \$32.28
 ROR: 12.1%

	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.63	\$1.67	\$1.71	\$1.85	5.4%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.83	5.1%
First Call Consensus Segmented EPS								\$1.71	\$1.83	
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.17	\$0.17	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.13	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.09	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.09	\$0.11	
Fortis Alberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.40	\$0.43	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.23	\$0.25	
Torison Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.75	\$0.73	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.22	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.25)	(\$0.35)	
Dividends	\$0.51	\$0.67	\$0.62	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	50.2%	64.2%	67.6%	68.9%	69.6%	70.3%	67.0%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	191.6	199.0	210.2	
Net Book Value	\$11.76	\$12.26	\$15.72	\$18.00	\$18.64	\$18.98	\$20.53	\$22.18	\$22.89	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.16	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.82	\$25.87	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$32.28	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.1	17.6	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.3	10.4	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.5%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.7%	3.8%	
Balance Sheet (\$mm)										
Debt (S-T)	60.3	182.5	911.0	650.0	639.0	614.0	265.0	(343.1)	451.0	
Debt (L-T)	2,133.6	2,494.5	4,575.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	6,996.1	
Minority Interest	39.5	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,162.0	
Convertible Debentures	22.3	63.5	45.0	46.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,600.7	3,055.7	3,199.7	3,305.0	3,877.0	4,639.0	4,832.7	
	3,808.8	4,586.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.9	13,609.8	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	-3.0%	3.3%	
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	51.1%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.5%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.9%	32.6%	32.2%	31.8%	35.4%	40.3%	35.5%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,480.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,779.5	4,596.9	11.0%
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,200.1	1,495.4	13.1%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	845.1	997.1	15.3%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	339.9	389.1	13.4%
Cash Flow from Operations	329.2	316.3	490.0	622.0	676.0	734.0	795.0	846.9	927.6	8.0%

Note: Priced intraday on June 29, 2012

Source: BMO Capital Markets, Company Reports

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	8
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	20	1.20	3.6	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.0		7.4			11.1		
10 Year:	7.1		9.4			10.6		
20 Year:	5.0		6.1			7.3		

* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 20-Jul-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08

Last Daily Data Point: June 28, 2012

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Methodology: Our target price is approximately 19.2x our 2013E EPS estimate.

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (March 31, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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Fortis

(FTS-TSX)

Stock Rating: Outperform
Industry Rating: Market Perform

Member of: Top 15 Income Stock Selections

August 1, 2012
 Research Comment
 Toronto, Ontario

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Q2 – It's Business as Usual at FTS

Event

Fortis' second-quarter performance was solid as usual (Q2/12 EPS of \$0.33 vs. BMO Research at \$0.34 and consensus of \$0.33), reflective of stronger-than-expected results at FortisAlberta, which offset higher-than-expected corporate costs. Earnings from the majority of the company's other business segments were generally in line with our estimates. One of the things we like the most about FTS is its longer-term earnings visibility. Indeed, the company reaffirmed its capex guidance of \$1.3 billion for 2012 and \$5.5 billion spending from 2012–2016. Against that backdrop, Fortis is well positioned to grow its EPS to ~\$2.00 by 2015E while its significant exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds.

Impact

Neutral.

Forecasts

We have updated our financial model to reflect Q2/12 results. Our 2012E EPS estimate (f.d.) of \$1.69 and 2013E EPS estimate (f.d.) of \$1.83 is unchanged.

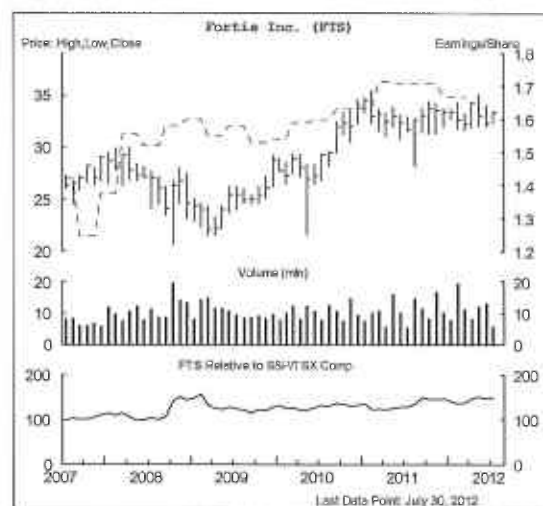
Valuation

We are maintaining our target price of \$35.50, which represents 19.4x our 2013E EPS forecast.

Recommendation

We continue to rate the shares of Fortis Outperform.

Price (31-Jul) \$33.54 **52-Week High** \$34.98
Target Price \$35.50 **52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.69	\$1.83
P/E			19.8x	18.3x
CFPS	\$4.25	\$4.38	\$4.26	\$4.41
P/CFPS			7.9x	7.6x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,187	\$12,996	\$13,551	\$15,826
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,289.9	\$1,489.8
EV/EBITDA	10.6x	11.1x	10.5x	10.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66a	\$0.33a	\$0.26↑	\$0.46↓
Dividend	\$1.20	Yield		3.6%
Book Value	\$20.67	Price/Book		1.6x
Shares O/S (mm)	190.0	Mkt. Cap (mm)		\$6,373
Float O/S (mm)	190.0	Float Cap (mm)		\$6,373
Wkly Vol (000s)	2,606	Wkly \$ Vol (mm)		\$85.3
Net Debt (\$mm)	\$5,818	Next Rep. Date		Nov (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2012E: \$1.73; 2013E: \$1.82

Changes

Quarterly EPS
 Q3/12E \$0.25 to \$0.26
 Q4/12E \$0.48 to \$0.46

Q2 – It's Business As Usual at FTS

- **We are maintaining an Outperform rating and 12-month target price of \$35.50 on Fortis shares.** Fortis' second-quarter performance was solid as usual, reflective of stronger-than-expected results at FortisAlberta, which offset higher-than-expected corporate costs. Earnings from the majority of the company's other business segments were generally in line with our estimates. One of the things we like the most about FTS is its longer-term earnings visibility. Indeed, the company reaffirmed its capex guidance of \$1.3 billion for 2012 and \$5.5 billion spending from 2012–2016. Against that backdrop, Fortis is well positioned to grow its EPS to ~\$2.00 by 2015E while its significant exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds. We are maintaining our Outperform rating and \$35.50 target price. Our target price of \$35.50 represents 19.4x our 2013E EPS forecast.
- **No changes to \$5.5 billion capital expenditure program.** Consolidated capital expenditures totalled ~\$282 million in Q2/12 (~\$511 million for the first half of 2012). The company's full-year outlook for capital spending remains unchanged (\$1.3 billion) as is its estimate of ~\$5.5 billion in total capital spending between 2012 and 2016. Over this five-year period, Fortis plans to deploy ~65% of the total capital spending to regulated activities (driven by FortisAlberta and FortisBC Electric), ~21% to regulated gas utilities and ~14% to non-regulated operations.
- **CH Energy acquisition on track for end of Q1/13 close:** Several key advancements in the proposed CH Energy acquisition took place during the quarter. The transaction received approval from CH Energy's shareholders (June 19) and regulatory approval from both the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States in July. Fortis issued ~\$600 million in subscription receipts at the end of June in order to finance the required equity component of the transaction price; the completion of this offering alleviates any concern related to an equity overhang and should ensure the preservation of the company's A-rated balance sheet. Approval for the CH Energy acquisition still needs to be obtained from the New York State Public Service Commission, which is currently reviewing the application filed on April 23. The company maintains its expectation that the transaction will close by the end of Q1/13.
- **Waneta expansion:** Construction activities continued for the \$900 million Waneta dam expansion, a project in which Fortis holds a 51% interest. A total of \$345 million has been spent to date since construction began in late 2010. The company has reported that the project is still on track for completion on budget and on time, with a target in-service date of spring 2015.
- **Key regulatory updates:**
 - The company expects that the British Columbia Utilities Commission (BCUC) will reach a decision on the 2012/2013 Revenue Requirements Application (RRA) filed by FortisBC Electric during Q3/12. The RRA, updated in November 2011, calls for rate increases of 1.5% and 6.5% in 2012 and 2013, respectively.

- The preliminary timetable for the Generic Cost of Capital review by the BCUC calls for evidence proceedings through to early December 2012; if necessary, an oral hearing will commence on December 12, 2012. As set out the final scoping document released by the BCUC in April, the commission will review several issues with respect to the determination of an appropriate cost of capital for regulated utilities. The outcome of these proceedings remains uncertain and could have a material impact on the future earnings of the FortisBC Energy Companies as well as FortisBC Electric.
- The AUC continued its assessment of the potential implementation of performance-based regulation (PBR) for Alberta-based distribution utilities beginning in 2013. A hearing took place during April and May 2012, and in July 2012 FortisAlberta submitted its final argument with respect to how PBR should be implemented. A final decision from the AUC is expected in Q4/12.
- In July 2012, the AUC issued a decision that reaffirmed FortisAlberta as the primary electricity distributor within its service territory, in response to an application from the Central Alberta Rural Electrification Association (CAREA) requesting service rights to new customers in certain areas where FortisAlberta and CAREA territories overlap.
- After filing a Cost of Capital Application with the Board of Commissioners of Public Utilities of Newfoundland (PUB) in March 2012, Newfoundland Power was awarded an increase in its allowed ROE from 8.38% (2011) to 8.80% (2012). Effective July 1, the PUB approved an overall average increase in electricity rates for Newfoundland Power's customers of 6.6%. Newfoundland Power will be filing a general rate application for 2013 with the PUB during Q3/12.
- Maritime Electric intends to file an application for 2013 customer rates and allowed return with the Island Regulatory and Appeals Commission in fall 2012.
- **Possible small tuck-in acquisition in B.C.:** FortisBC Electric has entered into preliminary discussions with the City of Kelowna, British Columbia to purchase its electricity distribution assets (15,000 customers), to which FortisBC has provided electricity and has operated and maintained since 2000. Subject to negotiation of definitive agreements and municipal and regulatory approvals, the transaction is expected to close by the end of Q1/13. For more details, please see a [press release](#) issued by the City of Kelowna on July 19.
- **Liquidity and resources:** Available liquidity improved from the first quarter after Fortis secured a limit increase on its corporate credit facility from \$800 million to \$1 billion in May 2012. As of June 30, the company had \$231 million of cash and consolidated credit facilities of roughly \$2.5 billion, of which ~\$2.0 billion was available.
- **No change to our estimates:** We have updated our financial model to reflect Q2/12 results. Our 2012 EPS estimate (f.d.) of \$1.69 and 2013 EPS estimate (f.d.) of \$1.83 is unchanged.
- **Valuation:** We are maintaining an Outperform rating and 12-month target price of \$35.50 on Fortis shares. At current prices, we believe that Fortis shares are reasonably valued,

trading at a P/E multiple of 18.4x our 2013 estimate, which is towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the secular reduction observed in 10-year government of Canada bond yields.

Exhibit 1: FTS – P/E, Share Price and Target P/E



Source: Thomson One, Bloomberg

Exhibit 2: Upcoming Events/Catalysts

Q3/12	Expected regulatory approval of FortisBC Electric's 2012/13 Rates
Q3/12	Expected filing of 2013 general rate application for Newfoundland Power
Q4/12	Expected decision on performance-based regulation in Alberta
Nov. 1, 2012	Q3/12 Results
Fall 2012	Expected filing of Maritime Electric's 2013 rate application
End of 2012/Early 2013	Expected decision on BCUC Cost of Capital Proceeding
Late 2012/Early 2013	Expected New York Commission approval of CH Energy transaction
End of Q1/13	Expected closing of CH Energy transaction
End of Q1/13	Expected closing of Kelowna distribution asset acquisition
2H/2013	Expected completion of Newfoundland office building
Spring 2015	Expected commissioning of Waneta hydro facility

Source: BMO Capital Markets

- **Second-quarter results:** Fortis reported Q2/12 EPS of \$0.33, generally in line with our estimate of \$0.34 and square on with Street consensus of \$0.33. Earnings from the majority of the company's business segments were generally in line with our estimates, with stronger-than-expected results at FortisAlberta offsetting higher-than-expected corporate costs. Quarterly earnings variances for each business segment are set out in Exhibit 3, while our annual estimates are set out in Exhibit 4.

Exhibit 3: Earnings by Business Segment – Q2/12

	Q2/12 (\$mm)	Q2/12E (\$mm)	Q2/11 (\$mm)
Regulated Gas Utilities - Canadian			
Fortis BC Energy Companies	13.0	16.5	15.0
Regulated Electric Utilities - Canadian			
FortisAlberta	26.0	18.7	17.0
FortisBC	9.0	9.1	9.0
Newfoundland Power	12.0	10.9	11.0
Other Canadian	5.0	5.9	6.0
	52.0	44.6	43.0
Regulated Electric Utilities - Caribbean	6.0	5.9	7.0
Non-Regulated - Fortis Generation	5.0	3.2	2.0
Non-Regulated - Fortis Properties	8.0	7.4	7.0
Corporate and Other⁽¹⁾	(22.0)	(12.7)	(18.0)
Net Earnings Applicable to Common Shares	62.0	64.8	56.0
Average Shares	189.6	189.0	177.1
Adjusted EPS (basic)	\$0.33	\$0.34	\$0.32

Notes:

(1) Includes approximately \$4.0 million in transaction costs relating to CH Energy acquisition.

Source: BMO Capital Markets, Company Reports

Exhibit 4: Consolidated Summary Sheet

BMO  Capital Markets

Outperform

12-Month Target Price: \$35.50

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$33.54

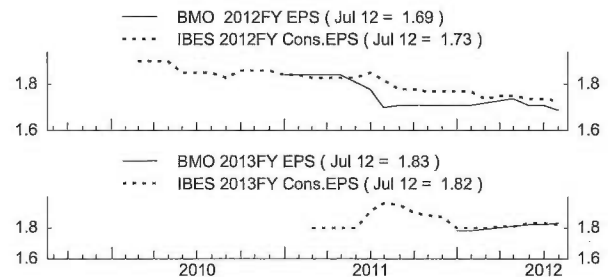
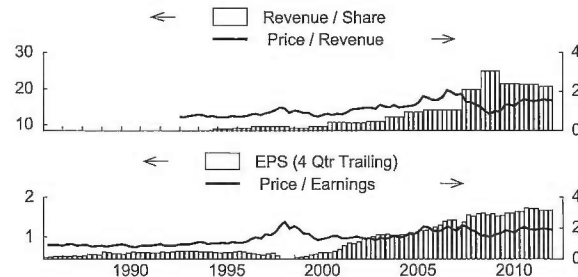
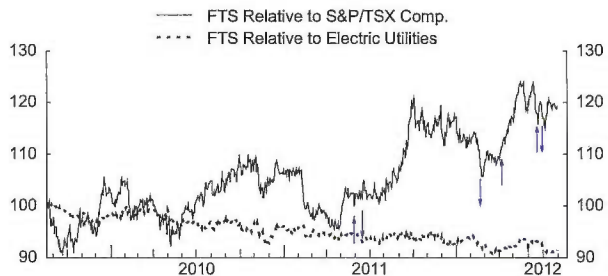
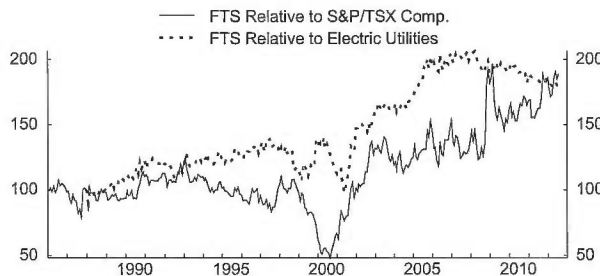
ROR: 9.4%

Fortis Inc. (FTS)

Year Ending December 31										CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.71	\$1.84	5.2%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.60	\$1.65	\$1.69	\$1.83	4.9%
First Call Consensus								\$1.73	\$1.82	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.18	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.13	\$0.12	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.11	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	
FortisAlberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.46	\$0.44	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.25	\$0.26	
Tenison Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.77	\$0.74	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.41)	(\$0.43)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	70.3%	67.3%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	181.6	189.7	205.9	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.15	\$22.84	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$33.54	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.8	18.4	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	6.7	10.4	11.5	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.7	10.5	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.0%	3.3%	3.3%	-	-	
Yield: Low Price	3.0%	3.3%	3.3%	5.0%	4.6%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.7%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	265.9	464.5	
Debt (L-T)	2,193.8	2,494.5	4,578.0	4,840.0	5,237.0	5,505.0	5,679.0	5,100.0	5,956.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,162.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,500.7	3,045.7	3,192.7	3,305.0	3,877.0	4,039.1	4,819.2	
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.9	13,509.8	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.6%	6.9%	6.5%	4.0%	2.4%	2.3%	3.4%	
Debt (L-T)	55.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.2%	53.0%	51.1%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.5%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	22.9%	32.4%	32.2%	31.8%	35.4%	35.0%	35.4%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,654.0	3,731.5	3,780.6	4,591.7	10.9%
EBITDA	495.9	\$21.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,289.9	1,489.8	12.9%
EBIT	338.2	343.6	543.4	713.0	704.0	739.0	750.5	844.9	991.6	14.9%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	323.8	379.6	12.0%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	830.8	918.1	7.5%

Note: Priced as of market close on July 31, 2012.
Source: BMO Capital Markets, Company Reports

Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.78	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	19	1.20	3.7	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.2		7.4			11.1		
10 Year:	6.7		9.4			10.6		
20 Year:	5.1		6.1			7.3		

* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 19-Aug-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Daily Data Point: July 30, 2012

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Methodology: Our target price is approximately 19.4x our 2013E EPS estimate.

Risks: Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

Distribution of Ratings (June 30, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

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(S) = speculative investment;

NR = No rating at this time;

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Fortis Inc.

FTS : TSX : C\$22.96

HOLD

Target: C\$26.00

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COMPANY STATISTICS:

52-week Range: \$17.25-25.64
Avg. Daily Vol. (000): 152.7
Market Capitalization (M): \$2,366.4
Shares Out. (M) basic: 103.1
Current Dividend/Share: \$0.64
Current Dividend Yield: 2.8%

EARNINGS SUMMARY:

FYE Dec	2004A	2005E	2006E
EPS:	\$1.09	\$1.16	\$1.20
P/E:	21.0x	19.8x	19.1x
CFPS:	\$2.59	\$2.72	\$2.82
P/CF:	8.9x	8.4x	8.1x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified electric utility holding company with assets of \$2 billion and annual revenue of over \$715 million. The company has holdings in 7 electric distribution utilities located in Newfoundland and Labrador, PEI, Ontario, Alberta, BC, Belize and the Cayman Islands. It also owns two subsidiaries engaged solely in electricity generation in NY and Belize. Fortis also has real estate and hotel operations in Atlantic Canada.

All amounts in C\$ unless otherwise noted.

Energy – Pipeline and Power Utilities

CONTINUES TO MEET EXPECTATIONS

Event

Fortis reported fourth quarter earnings in line with expectations.

Impact

Neutral.

Valuation

We rate the stock a HOLD with a target price of C\$26.00. Our target price is derived from a combination of valuation metrics, which include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers. Our target price partially incorporates the impact of a previously announced increased dividend tax credit.

Summary

Fortis reported fourth quarter recurring earnings of \$0.26 versus \$0.26 last year and in line with the \$0.27 consensus estimate. For the full year, recurring earnings were \$1.16 versus \$1.09. Final reported earnings were \$0.22 versus \$0.22 in the fourth quarter and \$1.33 versus \$1.07 for the full year. Non-recurring items in the fourth quarter include: a \$3 million negative adjustment at FortisAlberta due to the May 24 implementation of a Negotiated Rate Settlement; \$1.1 million writedown of the Rankine assets at Fortis Generation; a \$0.4 million insurance gain associated with the Dolgeville plant at Fortis Generation; and a \$0.8 million restructuring charge related to the purchase of FortisAlberta and FortisBC. We note that the \$3 million adjustment at FortisAlberta stems from the second quarter and is not non-recurring on a full-year basis. Earnings benefited from increased electricity prices in Ontario and Upper New York but were offset by reduced earnings at FortisBC due to higher operating, depreciation and interest expenses. For a more detailed breakout of the fourth quarter and full year results, please refer to Figures 1 and 2.

Outlook

Generally, all of the business divisions continue to operate well. The addition of FortisAlberta and FortisBC utility assets last year continue to contribute strongly to earnings. With about \$315 million of capital additions to rate base in 2006 and expected continued growth for the next several years, these operations should help provide stable and low-risk earnings growth. Other projects that add to earnings growth potential in 2006 include the 50 MW generating station on Prince Edward Island (February 2006 in-service date), the acquisition of three western Canadian hotels (purchased in February 2005) and new generation from the Chalillo dam in Belize (commissioned late 2005). In the shorter-term, the positive impact of this growth will be partly offset by lower allowed returns in some of the regulated operations due to the approximate 65 basis point decline in long-term interest rates over the past year. We are maintaining our 2006 EPS estimate of \$1.20.

Noteworthy

Electricity prices

- Ontario
 - Q4: \$71.46/MWh versus \$50.80/MWh
 - Full year: \$68.49/MWh versus \$49.95/MWh
- Upper New York
 - Q4: US\$70.94/MWh versus US\$46.75/MWh

2006 Capital Budget

- Total of \$450 million
 - \$420 million for regulated utilities
 - ~\$315 million on FortisAlberta and FortisBC
 - ~\$105 million on other regulated assets
 - \$30 million capex for non-regulated assets

Regulatory

- Newfoundland Power
 - 2006 allowed ROE unchanged from 2005 at 9.24%
 - Maritime Electric
 - Filed for 1.6% rate increase effective July 1, 2006
 - FortisAlberta
 - 2006 allowed ROE of 8.93% versus 9.5% in 2005
 - FortisBC 2006 Rate Case
 - Filed for 5.9% increase to 2006 rates on November 24, 2005
 - BCUC will review in Feb 2006, negotiations or hearing scheduled after
 - Includes a PBR mechanism for revenue requirements in 2007-2009
 - 8.69% ROE in 2006 versus 9.43% in 2005 on deemed equity of 40% equity
-

Figure 1: Fortis Inc. fourth quarter earnings breakout

Millions of dollars (except per share data)	Fourth Quarter Earnings			
	2004	2005	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Newfoundland Power	\$3.3	\$2.9	(12.1%)	Lower ROE, reduced electricity sales and early retirement costs partly offset by reduced power purchase rates and opex.
Maritime Electric	\$1.8	\$1.7	(5.6%)	New 50 MW plant expected to be in-service in Feb/06.
FortisOntario	\$0.9	\$0.2	(77.8%)	Includes \$0.8 mln of early retirement costs from program implemented in Q4/05.
FortisAlberta	\$7.5	\$7.2	(4.0%)	Higher opex, depreciation and finance charges.
FortisBC	\$7.9	\$5.7	(27.9%)	
Total Canadian Earnings	\$21.4	\$17.7	(17.3%)	
Regulated Utilities - Caribbean				
Belize Electricity	\$1.6	\$2.0	25.0%	11% increase in electricity rates.
Caribbean Utilities - equity income	\$2.4	\$2.8	16.7%	Includes US\$1.8 mln business interruption insurance and US\$1.1 mln from Cost Recovery Surcharge effective August 31, 2005.
Total Caribbean Earnings	\$4.0	\$4.8	20.0%	
Non-Regulated				
Fortis Generation	\$4.7	\$9.2	95.7%	Higher wholesale prices in Ontario and US Northeast and 4% increased electricity sales.
Fortis Properties	\$2.8	\$2.9	3.6%	
Total Non-Regulated Earnings	\$7.5	\$12.1		
Corporate and Consolidated Adjustments	(\$8.1)	(\$7.8)	(3.7%)	
Recurring Earnings	\$24.8	\$26.8	8.0%	
Non-recurring items	(\$3.6)	(\$4.5)		
Reported Net Earnings	\$21.2	\$22.3	5.1%	\$3 mln negative adjustment to FortisAlberta's implementation of a Negotiated Rate Settlement, \$1.1 mln writedown and \$0.4 mln insurance gain at Fortis Generation and \$0.8 mln restructuring charge.
EPS:				
Recurring	\$0.26	\$0.26	(0.0%)	
Non-recurring items	(\$0.04)	(\$0.04)		
Reported	\$0.22	\$0.22		Slightly lower than 27¢ consensus.
Cash Flow Per Share	\$0.77	\$0.69	(10.1%)	
Average Shares Outstanding (mln)*	95.5	103.1	8.0%	

Regulated				
Earnings	\$25.4	\$22.5	(11.5%)	
% of total (before corporate)	77%	65%	n.m.	
Non-Regulated				
Earnings	\$7.5	\$12.1	61.3%	Higher electricity prices.
% of total (before corporate)	23%	35%	53.5%	

* Adjusted for stock split

Source: Canaccord Adams

8 February 2006

Figure 2: Fortis Inc. 2005 full year earnings breakout

Full Year Earnings			
Millions of dollars (except per share data)	2004	2005	Change
Regulated Utilities - Canadian			
Newfoundland Power	\$31.1	\$29.3	(5.9%)
Maritime Electric	\$8.2	\$9.1	11.2%
FortisOntario	\$4.2	\$2.7	(35.7%)
FortisAlberta	\$18.6	\$27.1	46.0%
FortisBC	\$14.0	\$24.6	75.6%
Total Canadian Earnings	\$76.1	\$92.8	22.0%
Regulated Utilities - Caribbean			
Belize Electricity	\$7.2	\$8.0	11.1%
Caribbean Utilities - equity income	\$9.0	\$10.3	14.4%
Total Caribbean Earnings	\$16.2	\$18.3	13.0%
Non-Regulated			
Fortis Generation	\$12.8	\$21.7	69.8%
Fortis Properties	\$11.8	\$14.1	19.5%
Total Non-Regulated Earnings	\$24.6	\$35.8	
Corporate and Consolidated Adjustments	(\$24.2)	(\$28.6)	18.2%
Recurring Earnings	\$92.7	\$118.3	27.7%
Non-recurring items	(\$1.8)	\$18.8	
Reported Net Earnings	\$90.9	\$137.1	50.9%
EPS:			
Recurring	\$1.09	\$1.16	6.3%
Non-recurring items	(\$0.02)	\$0.18	
Reported	\$1.07	\$1.35	
Cash Flow Per Share	\$2.59	\$2.87	10.8%
Average Shares Outstanding (mln)	84.7	101.8	20.1%
Regulated			
Earnings	\$92.3	\$111.1	20.4%
% of total (before corporate)	79%	76%	n.m.
Non-Regulated			
Earnings	\$24.6	\$35.8	45.7%
% of total (before corporate)	21%	24%	15.9%

* Adjusted for stock split

Source: Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected six to 12-month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

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(as of 3 January 2006)

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	#	%		%
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Speculative Buy	58	12%		40%
Hold	145	30%		19%
Sell	29	5%		14%
	490	100%		

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Canaccord Adams Research Disclosures as of 8 February 2006

Company	Disclosure
Fortis Inc.	7

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Fortis Inc.

FTS : TSX : C\$21.42

BUY ↑

Target: C\$26.00

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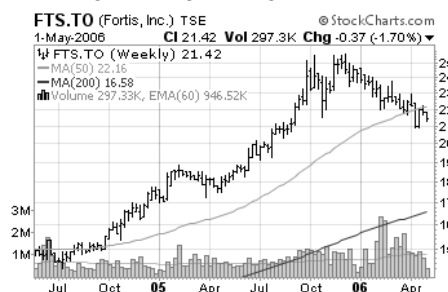
COMPANY STATISTICS:

52-week Range: \$17.82-25.64
Avg. Daily Vol. (000): 152.7
Market Capitalization (M): \$2,214.5
Shares Out. (M) basic: 103.4
Current Dividend/Share: \$0.64
Current Dividend Yield: 3.0%

EARNINGS SUMMARY:

FYE Dec	2005A	2006E	2007E
EPS:	\$1.16	\$1.25	\$1.30
P/E:	18.5x	17.1x	16.5x
CFPS:	\$2.87	\$2.85	\$2.95
P/CF:	7.5x	7.5x	7.3x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified electric utility holding company with assets of \$2 billion and annual revenue of over \$715 million. The company has holdings in 7 electric distribution utilities located in Newfoundland and Labrador, PEI, Ontario, Alberta, BC, Belize and the Cayman Islands. It also owns two subsidiaries engaged solely in electricity generation in NY and Belize. Fortis also has real estate and hotel operations in Atlantic Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

FIRST QUARTER MEETS EXPECTATIONS

Event

Fortis reported first quarter earnings that were in line with expectations.

Impact

Neutral.

Valuation

We are maintaining our C\$26.00 target on the shares of Fortis but raising our rating from Hold to BUY due to recent share price weakness. Our target price is derived from a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis reported first quarter recurring earnings of \$0.35 versus \$0.32 last year, in line with the \$0.36 consensus estimate. Final reported earnings were \$0.35 versus \$0.40 as last year's first quarter included a \$7.9 million (\$0.08 per share) settlement from Ontario Power Generation. All the regulated utility operations delivered results that were consistent with our estimates. We note that the \$2.3 million reduced contribution from Newfoundland Power is mostly due to an accounting change in revenue recognition to an accrual basis and will reverse in the second half of the year. In the non-regulated division, higher production from improved rainfall in upper New York and in Belize and the operation of the 50 MW Chalillo dam and hydro plant in Belize was partly offset by lower realized spot prices in Ontario. For a more detailed breakout of the first quarter results, please refer to Figure 1.

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Outlook

Fortis is off to a good start to meet our EPS estimate of \$1.25 for 2006. All of its business divisions appear to be operating well. The recently added utility operations of FortisAlberta and FortisBC continue to deliver strong earnings with capital additions increasing rate base and fuelling growth. In 2006, capital additions to these two utilities are expected to be about \$315 million, with over \$450 million of total company capital expenditures in to be spent in 2006. Fortis expects total utility assets to grow at 6% annually over the next five years. Earnings improvements in 2006 should also be helped by the 50 MW generating station on Prince Edward Island that went into service in February 2006 and new generation from the Chalillo dam in Belize that was commissioned in late 2005. Growth in these areas should more than offset reductions in allowed regulated returns due to declines in long-term interest rates over the past year. We are increasing our rating from Hold to BUY due to recent share price weakness.

Noteworthy

- Newfoundland Power changed revenue recognition policy to accrual basis
 - Reduces Q1 and Q2 earnings and increases Q3 and Q4 earnings
 - No impact on full year basis
 - Regulatory
 - Maritime Electric
 - Filed for 1.6% rate increase effective July 1, 2006
 - Filed for approval of Wind Power Purchase Arrangement with the Government of PEI
 - FortisAlberta
 - Filed 2006/2007 Application
 - Decision expected in Fall 2006
 - FortisBC
 - Current ROE mechanism adjusted by BCUC
 - 2006 ROE increased to 9.2% from 8.69% after regulatory review
 - Company currently negotiating settlement for 2006 rates
-

Figure 1: Fortis Inc. first quarter earnings breakdown

Millions of dollars (except per share data)	First Quarter Earnings			
	2005	2006	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Newfoundland Power	\$13.0	\$10.7	(17.7%)	Revenue recognition changed to accrual basis on Jan 1/06 reduced earnings by \$2.0 mln - will be recovered in 3Q and 4Q.
Maritime Electric	\$2.1	\$2.1	0.0%	50 MW gas turbine commissioned in Q1 offset by lower than expected energy cost curtailments.
FortisOntario	\$1.1	\$1.0	(9.1%)	
FortisAlberta	\$7.8	\$9.5	21.8%	1.9% increased electricity sales, 2.1% higher rates than in Q1/05 and lower effective tax rate.
FortisBC	\$8.9	\$11.8	32.6%	Higher investment base, lower opex partly offset by higher depreciation and interest costs.
Total Canadian Earnings	\$32.9	\$35.1	6.7%	
Regulated Utilities - Caribbean				
Belize Electricity	\$1.0	\$1.5	50.0%	Increased rates, electricity volume growth partly offset by \$0.1 mln FX loss (\$0.2 mln gain in Q1/05).
Caribbean Utilities - equity income	\$2.5	\$1.6	(36.0%)	
Total Caribbean Earnings	\$3.5	\$3.1	(11.4%)	Higher fuel expense (to be recovered on a lag basis). Up \$0.5 mln excluding fuel.
Non-Regulated				
Fortis Generation	\$2.1	\$5.4	157.1%	Higher production and lower interest costs partly offset by lower average Ontario electricity price.
Fortis Properties	\$1.5	\$1.5	0.0%	
Total Non-Regulated Earnings	\$3.6	\$6.9		Higher operating earnings offset by increased amortization and financing costs.
Corporate and Consolidated Adjustments	(\$8.7)	(\$8.5)	(2.3%)	
Recurring Earnings	\$31.3	\$36.6	16.9%	
Non-recurring items	\$7.9	\$0.0		
Reported Net Earnings	\$39.2	\$36.6	(6.6%)	
EPS:				
Recurring	\$0.32	\$0.35	11.0%	In-line with the \$0.36 consensus estimate.
Non-recurring items	\$0.08	\$0.00		
Reported	\$0.40	\$0.35		4 for 1 stock split effective Oct. 12/05 - prior period shares adjusted for comparison purposes.
Cash Flow Per Share	\$0.73	\$0.77	6.1%	
Average Shares Outstanding (mln)	98.0	103.3	5.4%	
Regulated				
Earnings	\$36.4	\$38.2	4.9%	
% of total	116%	104%	n.m.	
Non-Regulated				
Earnings	\$3.6	\$6.9	91.7%	Increased production boosts results.
% of total	12%	19%	63.9%	
Corporate				
Earnings	(\$8.7)	(\$8.5)		
% of total	(27.8%)	(23.2%)		

Source: Canaccord Adams, Company reports

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

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Price Chart:*

	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 April 2006)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	287	54.9%	36.6%
Speculative Buy	55	10.5%	49.1%
Hold	163	31.2%	23.3%
Sell	18	3.4%	27.8%
	523	100.0%	

**Canaccord Adams
Ratings System:**

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	7

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Fortis Inc.

FTS : TSX : C\$22.65

BUY**Target: C\$26.00****Bob Hastings** 1.604.643.0177

bob.hastings@canaccordadams.com

Juan Plessis 1.604.643.0181

juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range: \$19.26-25.64
 Avg. Daily Vol. (000): 152.7
 Market Capitalization (M): \$2,341.6
 Shares Out. (M) basic: 103.4
 Current Dividend/Share: \$0.64
 Current Dividend Yield: 2.8%

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
EPS:	\$1.09	\$1.16	\$1.30	\$1.40
P/E:	20.7x	19.5x	17.4x	16.2x
CFPS:	\$2.59	\$2.87	\$2.85	\$3.00
P/CF:	8.8x	7.9x	7.9x	7.6x

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified electric utility holding company with assets of \$2 billion and annual revenue of over \$715 million. The company has holdings in 7 electric distribution utilities located in Newfoundland and Labrador, PEI, Ontario, Alberta, BC, Belize and the Cayman Islands. It also owns two subsidiaries engaged solely in electricity generation in NY and Belize. Fortis also has real estate and hotel operations in Atlantic Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities**CONTINUES TRACK RECORD OF SOLID RESULTS****Event**

Fortis announced second quarter results that were right in line with our expectations and a couple of cents above the consensus estimate.

However, non-regulated operations are looking more solid for the year and we are revising our estimates upward.

Impact

Modestly positive

Valuation

We are maintaining our \$26.00 target and BUY rating on the shares of Fortis. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis reported second quarter recurring earnings of \$0.34 versus \$0.29 last year, in line with our \$0.35 estimate and the \$0.33 consensus estimate. Net reported earnings were \$0.37 versus \$0.37. For the first half of the year, recurring EPS was \$0.70 versus \$0.61 for the same period last year. The regulated utility operations continue to deliver earnings consistent with our expectations and similar to last year. Note that a change in accounting for revenue recognition reduced the contribution from Newfoundland Power by \$3.2 million in the quarter, which will reverse in the second half of the year. In the non-regulated division, drastically increased rainfall and the operation of the Chalillo dam in Belize as well as improved hydrology in Upper New York State boosted earnings by 2.5 million (up 78% from Q2/05). Earnings were

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partly offset by lower realized spot prices in Ontario. For a more detailed breakout of the second quarter results, please refer to Figure 1.

Outlook

We are increasing our 2006 and 2007 estimates to \$1.30 and \$1.40 from \$1.25 and \$1.30, respectively. The company's business divisions appear to be operating well as FortisAlberta and FortisBC utility operations continue to deliver strong earnings, with significant capital additions adding to rate base and driving earnings growth. In 2006 and 2007 capital expenditures at Fortis BC and FortisAlberta are expected to be about \$400 million. Total capital additions for the company in 2006 are expected to be \$450 million with \$425 million to be invested in utility operations. Earnings growth in 2006 and 2007 will also be driven by the addition of a 50 MW generating station on Prince Edward Island (February 2006 in-service date), new generation from the Chalillo dam in Belize (commissioned late 2005) and the addition of expanded operations at Fortis Properties.

Noteworthy Items

- FortisBC is doing so well that it had to adjust earnings \$1.5 million downwards as it appears it would exceed its maximum allowed return
 - Increased interest in Belize Electricity through the purchase of share rights from other investors
 - Now owns 70.1% versus 68.5%
 - Newfoundland Power changed revenue recognition policy to accrual basis
 - As anticipated, reduces 1H earnings and increases 2H earnings
 - No impact on full year basis
 - Earnings positively impacted by non-cash gain on unrealized foreign exchange
 - \$1.6 million after-tax or 1.5¢ per share
 - Second quarter earnings growth mainly due to non-regulated side and reduced corporate expense.
-

Figure 1: Fortis Inc. second quarter financial details

	Second Quarter Earnings			
Millions of dollars (except per share data)	2005	2006	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Newfoundland Power	\$10.1	\$8.0	(20.8%)	Accounting change for revenue recognition reduces earnings by \$3.2 mln; will be recovered in 2H.
Maritime Electric	\$2.3	\$2.2	(4.3%)	
FortisOntario	\$0.9	\$0.5	(44.4%)	Electricity sales growth of 4% and lower tax rate.
FortisAlberta	\$7.7	\$12.0	55.2%	
FortisBC	\$5.4	\$4.2	(23.1%)	Higher energy supply costs, amortization and financing costs partly offset by 5.9% rate increase.
Total Canadian Earnings	\$26.4	\$26.8	1.5%	
Regulated Utilities - Caribbean				
Belize Electricity	\$1.9	\$2.3	21.1%	11% increase in rates partly offset by \$0.2 mln impact of strong C\$.
Caribbean Utilities - equity income	\$2.0	\$2.1	5.0%	Generating capacity now at 2% below pre-Hurricane Ivan levels.
Total Caribbean Earnings	\$3.9	\$4.4	12.8%	
Non-Regulated				
Fortis Generation	\$3.2	\$5.7	78.1%	Higher hydro production in Belize partly offset by lower Ontario price (\$45.32/MWh vs \$60.24/MWh)
Fortis Properties	\$4.8	\$5.0	4.2%	Expanded operations, slightly higher occupancy rates and lower REVPAR.
Total Non-Regulated Earnings	\$8.0	\$10.7		Includes \$1.6 mln non-realized FX gain.
Corporate and Consolidated Adjustments	(\$8.2)	(\$6.9)	15.9%	Includes \$1.6 mln gain on sale of property, \$2 mln positive tax adjustment, \$0.7 mln insurance recovery and \$1.4 mln negative charge at utility operations.
Recurring Earnings	\$30.1	\$35.0	16.3%	
Non-recurring items	\$8.1	\$2.9		
Reported Net Earnings	\$38.2	\$37.9	(0.8%)	
EPS:				
Recurring	\$0.29	\$0.34	15.7%	In-line with our 35¢ estimate and the 33¢ consensus estimate.
Non-recurring items	\$0.08	\$0.03		4 for 1 stock split effective Oct. 12/05 - prior period shares adjusted for comparison purposes.
Reported	\$0.37	\$0.37		
Cash Flow Per Share	\$0.90	\$0.68	(24.2%)	
Average Shares Outstanding (mln)	102.9	103.4	0.5%	
Regulated				
Earnings	\$30.3	\$31.2	3.0%	
% of total	101%	89%	n.m.	
Non-Regulated				
Earnings	\$8.0	\$10.7	33.8%	12.4% increase in production; most of increase due to heavy rain in Belize.
% of total	27%	31%	15.0%	
Corporate				
Earnings	(\$8.2)	(\$6.9)		
% of total	(27.2%)	(19.7%)		

Source: Canaccord Adams

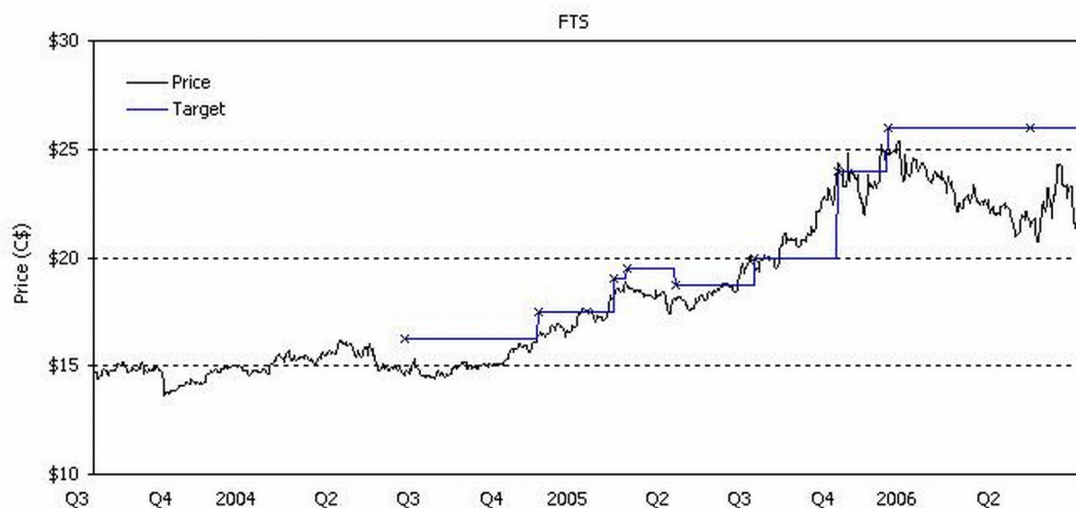
Investment Risk

Some of the specific risk factors that pertain to the projected six to 12-month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

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Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 5 July 2006)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	290	55.7%		41.4%
Speculative Buy	59	11.3%		52.5%
Hold	150	28.8%		30.0%
Sell	22	4.2%		18.2%
	521	100.0%		

Canaccord Adams Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
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Fortis Inc.

FTS : TSX : C\$23.76

BUY

Target: C\$26.00

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Juan Plessis 1.604.643.0181
juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range: \$20.36-25.64
Avg. Daily Vol. (000): 152.7
Market Capitalization (M): \$2,461.6
Shares Out. (M) basic: 103.6
Current Dividend/Share: \$0.64
Current Dividend Yield: 2.7%

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
EPS:	1.09	1.16	1.32	1.45
P/E:	21.7x	20.5x	18.0x	16.4x
CFPS:	2.59	2.87	2.85	3.00
P/CF:	9.2x	8.3x	8.3x	7.9x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified electric utility holding company with assets of \$2 billion and annual revenue of over \$715 million. The company has holdings in 7 electric distribution utilities located in Newfoundland and Labrador, PEI, Ontario, Alberta, BC, Belize and the Cayman Islands. It also owns two subsidiaries engaged solely in electricity generation in NY and Belize. Fortis also has real estate and hotel operations in Atlantic Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

BUYS TURKS AND CAICOS UTILITIES

Event

Fortis announced that it has purchased two electric utilities in Turks and Caicos for US\$90 million.

Impact

Positive.

Valuation

We are maintaining our \$26.00 target and BUY rating on the shares of Fortis. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that it has purchased all the outstanding shares of P.P.C. Limited and Atlantic Equipment and Power (Turks and Caicos) Limited from T.C. Energy Holdings Inc., which serve about 80% of the electricity customers on the islands. The price of the purchase was US\$90 million which includes about \$20 million of assumed debt and Fortis expects to finance the acquisition longer-term with about 60% debt. The acquired utilities hold an exclusive 50-year license (expires 2037) that earn a return of 17.5% on their regulated asset base which currently stands at US\$50 million. This accretive acquisition is in a geographic area where Fortis has significant expertise and an area that has posted around 15% annual demand growth. We believe the acquisition will add around \$0.05 per share on an annual basis and we are raising our 2006 EPS estimate by \$0.02 to \$1.32 and 2007 EPS estimate to \$1.45 to reflect the expected earnings contribution.

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Investment Risks

Some of the specific risk factors that pertain to the projected six to 12-month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

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Price

Chart:*



	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings (as of 1 August 2006)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	291	56.3%		41.2%
Speculative Buy	61	11.8%		60.7%
Hold	144	27.9%		31.3%
Sell	21	4.1%		19.0%
	517	100.0%		

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
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listed above.

Fortis Inc.

FTS : TSX : C\$24.47

BUY**Target: C\$28.00 ↑****Bob Hastings**

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Juan Plessis

1.604.643.0181

juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range:	\$20.36-25.64
Avg. Daily Vol. (000):	152.7
Market Capitalization (M):	\$2,535.2
Shares Out. (M) basic:	103.6
Current Dividend/Share:	\$0.64
Current Dividend Yield:	2.6%

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
EPS:	\$1.09	\$1.16	\$1.32	\$1.45
P/E:	22.4x	21.1x	18.5x	16.9x
CFPS:	\$2.59	\$2.87	\$2.85	\$3.00
P/CF:	9.5x	8.5x	8.6x	8.2x

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified electric utility holding company with assets of \$2 billion and annual revenue of over \$715 million. The company has holdings in 7 electric distribution utilities located in Newfoundland and Labrador, PEI, Ontario, Alberta, BC, Belize and the Cayman Islands. It also owns two subsidiaries engaged solely in electricity generation in NY and Belize. Fortis also has real estate and hotel operations in Atlantic Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities**19% DIVIDEND INCREASE****Event**

Fortis announced a 19% increase to its dividend.

Impact

Positive

Valuation

We are maintaining our BUY rating on the shares of Fortis but raising our target to C\$28.00 from C\$26.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that it has raised its annual dividend to \$0.76 per share, up 18.75% from \$0.64 per share to provide a yield of 3.1% and a payout ratio of 58%. Fortis has a history of raising its dividend annually and while the market was likely anticipating an increase, the magnitude is a pleasant surprise. We had expected the company to raise its payout ratio more gradually over the next five years but this dividend increase accelerates the payout ratio profile and adds to the value of the stock. In addition, with recent federal and provincial promises of dividend taxation reductions, dividends are becoming more attractive relative to interest income.

The company continues to grow its asset base and earnings while maintaining its low risk, conservative growth profile. Fortis derives about 75% of its earnings from regulated utility assets and the stock offers investors an 18% total return over the next year. The dividend is payable on December 1, 2006 and the record date is November 3, 2006.

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

An analyst has visited the issuer's head office in St. John's, Newfoundland and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

APPENDIX: IMPORTANT DISCLOSURES**Analyst Certification:**

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Price Chart:*

	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 September 2006)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	290	57.9%		45.2%
Speculative Buy	52	10.4%		59.6%
Hold	143	28.5%		29.4%
Sell	16	3.2%		18.8%
	501	100.0%		

**Canaccord Adams
Ratings System:**

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Adams Research Disclosures as of 28 September 2006

Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$24.30

BUY

Target: C\$28.00

Bob Hastings 1.604.643.0177

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Juan Plessis 1.604.643.0181

juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range:	\$20.36-25.64
Avg. Daily Vol. (000):	152.7
Market Capitalization (M):	\$2,517.6
Shares Out. (M) basic:	103.6
Current Dividend/Share:	\$0.76
Current Dividend Yield:	3.1%

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
EPS:	\$1.09	\$1.16	\$1.32	\$1.45
P/E:	22.2x	20.9x	18.4x	16.8x
CFPS:	\$2.59	\$2.87	\$2.85	\$3.00
P/CF:	9.4x	8.5x	8.5x	8.1x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified electric utility holding company with assets of \$2 billion and annual revenue of over \$715 million. The company has holdings in 7 electric distribution utilities located in Newfoundland and Labrador, PEI, Ontario, Alberta, BC, Belize and the Cayman Islands. It also owns two subsidiaries engaged solely in electricity generation in NY and Belize. Fortis also has real estate and hotel operations in Atlantic Canada.

All amounts in C\$ unless otherwise noted.

Energy – Pipeline and Power Utilities

EXPANDS HOTEL OPERATIONS

Event

Fortis announced that it has expanded its hotel operations in Western Canada with the acquisition of four hotels in Alberta and British Columbia.

Impact

Neutral to modestly positive.

Valuation

We are maintaining our BUY rating and target price of US\$28.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that it has purchased four branded hotels in Alberta and British Columbia from Lodge Motel Ltd. for a total purchase price of \$51.6 million including \$16 million of assumed debt. The purchase strengthens the company's properties division, adding 454 rooms to the 650 rooms owned in western Canada and brings the number of hotel properties owned and operated by Fortis to 18. Two of the four hotels (one in Kelowna and one in Lethbridge) purchased have expansion opportunities which could be developed at a later date. The company expects to originally finance the purchase with short-term debt and will eventually refinance with about 65% longer-term debt and 35% equity. While only a bite-sized acquisition for the company, it is expected to generate about \$5 million of EBIT and slightly more than a penny to annual earnings. The transaction is expected to close at the end of the month.

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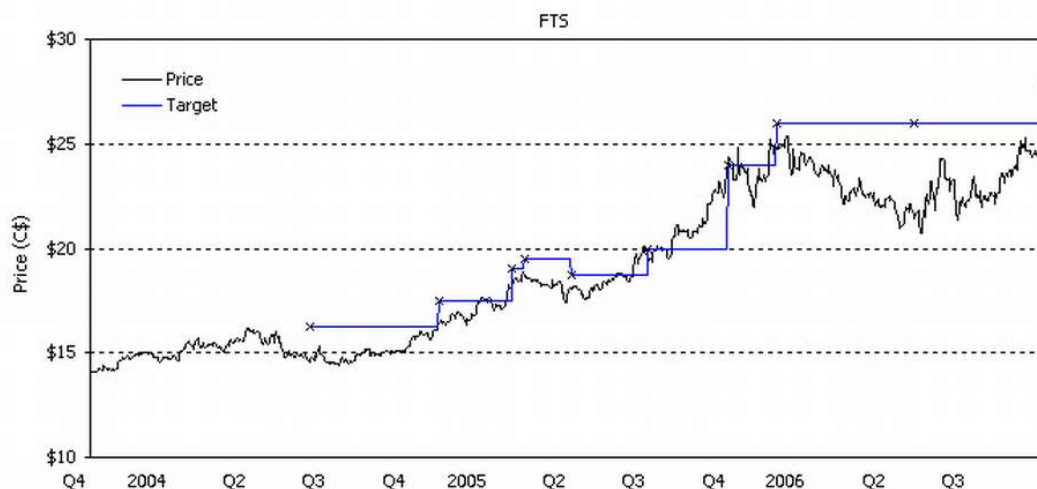
Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

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Price Chart:*

	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock
Ratings
(as of 2 October
2006)

Rating	Coverage Universe		IB Clients
	#	%	
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Speculative Buy	53	10.1%	60.4%
Hold	146	27.9%	34.2%
Sell	19	3.6%	10.5%
	524	100.0%	

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$25.52

BUY**Target: C\$28.00****Bob Hastings** 1.604.643.0177

bob.hastings@canaccordadams.com

Juan Plessis 1.604.643.0181

juan.plessis@canaccordadams.com

Energy -- Pipeline and Power Utilities**GREAT QUARTER****EARNINGS SUMMARY:**

FYE Dec	2005A	2006E	2007E
EPS:	\$1.16	\$1.35	\$1.50
P/E:	22.0x	18.9x	17.0x
CFPS:	\$2.87	\$3.00	\$3.20
P/CF:	8.9x	8.5x	8.0x

Outlook

Fortis's quarterly results have outpaced our earnings expectations, compelling us to once again raise our earnings estimates for 2006 and 2007. Specifically, we are increasing our 2006 EPS estimate to \$1.35 from \$1.32 and our 2007 EPS estimate to \$1.50 from \$1.45. Fortis's business segments continue to operate well and are well positioned to deliver solid earnings growth. For 2006, the company expects to invest \$475 million (up from \$450 million from previous guidance) in its regulated operations with about \$340 million to be spent in FortisBC and FortisAlberta. Over the next five years, growth will be fuelled by more than \$2 billion of capital projects expected to be spent in the company's regulated utilities. Earnings growth in 2007 will also be driven by smaller-sized acquisitions (such as the recent \$97 million purchase of two Turks and Caicos utilities for \$75.4 million excluding debt assumption and the \$52 million purchase of four hotels in Alberta and BC).

Valuation

We are maintaining our BUY rating and target price of US\$28.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Earnings summary

Fortis reported third quarter recurring earnings of \$0.37 versus \$0.32 last year, significantly above our \$0.32 expectation and the \$0.31 consensus estimate. With the exception of Newfoundland Power, all the regulated operations delivered increased earnings, delivering \$6.5 million (\$0.06 per share) more than the same period last year. This was mainly due to improved performance at FortisAlberta, which benefited from increased deductions for tax purposes, with improved normalized earnings by \$5 million (about \$0.05 per share). In addition, the inclusion of one month's contribution from the Turks and Caicos utilities contributed modestly to earnings (less than \$0.01 per share). Earnings from Newfoundland Power were \$0.8 million lower than in 2005 as energy-supply costs climbed. The non-regulated generation assets also delivered superior results with incremental electricity sales contribution from the Chalillo Dam (in service late 2005), lower financing costs and a lower effective tax rate. Fortis Properties posted strong results (\$6.3 million versus \$4.9 million) mainly as a result of the contribution from property expansions and a lower effective tax rate. For the first nine months of the year, Fortis

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posted recurring EPS of \$1.05 versus \$0.93 for the same period last year. For more details on the third quarter results, please refer to Figure 1.

Noteworthy items

- June 2006 share offering of Belize Electricity raises \$37 million and lowers financing costs.
 - Effective tax rate drops to 14.2% from 33.4%;
 - Mainly due to increased capitalized interest.
 - Dolgeville facility (included in non-regulated generation operations) flooded again and was down for most of the third quarter;
 - Returned to service in late Q3, minor impact.
 - New properties at Fortis Properties
 - Expansion of Holiday Inn, Sarnia;
 - Expansion of Holiday Inn, Kitchener-Waterloo;
 - Expansion of Blue Cross Centre, New Brunswick;
 - October 19, 2006 purchase of four branded hotels in Alberta and BC.
 - Earnings positively impacted by non-cash gain on unrealized foreign exchange;
 - About \$2.3 million after-tax or 2¢ per share.
-

Figure 1: Fortis Inc. third quarter earnings by division

Millions of dollars (except per share data)	Third Quarter Earnings			
	2005	2006	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Newfoundland Power	\$3.4	\$2.6	(23.5%)	\$1.4 mln higher energy supply costs partly offset by \$0.6 mln recognition of unbilled revenue accrual.
Maritime Electric	\$3.0	\$3.1	3.3%	
FortisOntario	\$0.5	\$1.6	220.0%	Increased distribution rates and lower opex.
FortisAlberta	\$7.3	\$12.3	68.5%	
FortisBC	\$4.6	\$5.7	23.9%	Rapidly expanding operations; 2006 capex \$230 mln about 20% above previously approved amount of \$191 mln.
Total Canadian Earnings	\$18.8	\$25.3	34.6%	
Regulated Utilities - Caribbean				
Belize Electricity	\$3.2	\$3.8	18.8%	Mainly due to lower financing charges as funds from recent equity issue used to repay debt and earn interest.
Caribbean Utilities - equity income	\$3.0	\$3.2	6.7%	
Turks and Caicos utilities	-	\$0.7	n.m.	Purchased August 28th.
Total Caribbean Earnings	\$6.2	\$7.7	24.2%	
Non-Regulated				
Fortis Generation	\$7.1	\$7.8	9.2%	Higher production in Belize, lower effective tax rate and reduced financing costs partly offset by higher opex and lower Ontario electricity prices.
Fortis Properties	\$4.9	\$6.3	28.6%	
Total Non-Regulated Earnings	\$12.0	\$14.1	17.1%	
Corporate and Consolidated Adjustments	(\$3.9)	(\$8.3)	(112.8%)	\$3.5 mln lower FX gains.
Recurring Earnings	\$33.1	\$38.8	17.1%	
Non-recurring items	\$4.3	\$0.0	n.m.	
Reported Net Earnings	\$37.4	\$38.8	3.7%	
EPS:				Beats the 31¢ consensus and our 32¢ estimate.
Recurring	\$0.32	\$0.37	16.4%	
Non-recurring items	\$0.04	\$0.00	n.m.	
Reported	\$0.36	\$0.37	3.1%	4 for 1 stock split effective Oct. 12/05 - prior period shares adjusted for comparison purposes.
Cash Flow Per Share	\$0.67	\$0.77	14.3%	
Average Shares Outstanding (mln)	103.0	103.6	(0.6%)	
Regulated				
Earnings	\$25.0	\$33.0	32.0%	
% of total	67.5%	85.1%	17.6 bps	
Non-Regulated				
Earnings	\$12.0	\$14.1	17.1%	Chalillo Dam added generation capacity; Fortis Properties expansions.
% of total	32.5%	36%	3.8 bps	
Corporate				
Earnings	(\$3.9)	(\$8.3)	(112.8%)	
% of total	(11.8%)	(21.4%)	9.6 bps	

Source: Canaccord Adams

Investment risks

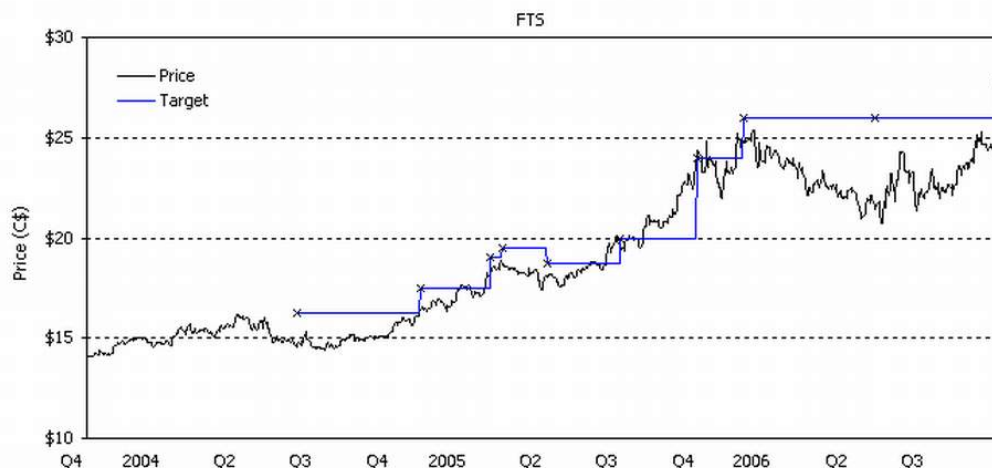
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Fortis Inc.

FTS : TSX : C\$25.52

BUY**Target: C\$28.00****Bob Hastings** 1.604.643.0177

bob.hastings@canaccordadams.com

Juan Plessis 1.604.643.0181

juan.plessis@canaccordadams.com

Energy -- Pipeline and Power Utilities**RAISES STAKE IN CARIBBEAN UTILITIES****Event**

Fortis announced that it has purchased an additional 16% of Caribbean Utilities Company Ltd. for US\$49 million, giving it a controlling interest at 54%.

Impact

Modestly positive.

Valuation

We are maintaining our BUY rating and target price of C\$28.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that it has acquired another 4.1 million shares or 16% of Caribbean Utilities Company Ltd. for US\$11.89 per share for an aggregate price of \$49 million. The shares were purchased from International Power Holdings Ltd. and four other parties associated with International Power Holdings. We expect the purchase to be accretive and add about \$0.02-0.03 to annual earnings per share. With a majority ownership of Caribbean Utilities, Fortis will now consolidate the earnings into its financial statements. The company will finance the acquisition mainly with today's announcement of a 5.5%, US\$40 million debenture issue. With the recent investments in the Caribbean and its property division combined with the rapid growth of its western utility operations, we expect the company will require an equity issue sometime in 2007.

The company continues to invest in geographic and operational areas where it has extensive knowledge and experience, allowing it to provide stable and lower risk growth for investors. In addition, Fortis could look for investments in regulated Canadian gas distribution assets, particularly if existing owners wanted to sell.

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could

adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

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Price Chart:*

	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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(as of 2 October 2006)

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	#	%	%
Buy	306	58.4%	41.8%
Speculative Buy	53	10.1%	60.4%
Hold	146	27.9%	34.2%
Sell	19	3.6%	10.5%
	524	100.0%	

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$26.80

BUY

Target: C\$28.00

Bob Hastings 1.604.643.0177
bob.hastings@canaccordadams.com
Juan Plessis 1.604.643.0181
juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range: \$20.36-27.50
Avg. Daily Vol. (000): 152.7
Market Capitalization (M): \$2,781.8
Shares Out. (M) basic: 103.8
Current Dividend/Share: \$0.76
Current Dividend Yield: 2.8%

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
EPS:	\$1.09	\$1.16	\$1.35	\$1.50
P/E:	24.5x	23.1x	19.9x	17.9x
CFPS:	\$2.59	\$2.87	\$3.00	\$3.30
P/CF:	10.4x	9.3x	8.9x	8.1x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, Upper New York State, Belize, Turks and Caicos Islands, Grand Cayman, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada. All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

NEWFOUNDLAND POWER'S 2007 ROE DECLINES – NO SURPRISE

Event

Fortis's 100%-owned Newfoundland Power announced that its return on equity will decline in 2007, reducing its earnings contribution by \$2.5 million or \$0.02 per share.

Impact

Neutral.

Valuation

We are maintaining our BUY rating and target price of \$28.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that Newfoundland Power (100%-owned by Fortis) will have its rate of return on common equity decline to 8.60% in 2007 from 9.24% in 2006 and result in an approximate \$2.5 million reduction in profit. The reduction in ROE is the result of an automatic adjustment mechanism, established in 1998, which determines a return for the utility based on changes in long-term bond yields. Given the significant decline in long-term bond yields over the past year, we had previously incorporated a lower allowed ROE for Newfoundland Power into our analysis. Consequently, this announcement comes as no surprise and does not change our 2007 EPS estimate of \$1.50. With the significant growth the company has experienced over the past few years, the proportion of income generated from Newfoundland Power has declined to about 20% in 2007 from 40% in 2003 so changes to Newfoundland Power's rates are not as significant.

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

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Price Chart:*

	Date	Analyst	Rating	Target Price
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9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 31 October 2006)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	303	57.2%	43.2%
Speculative Buy	64	12.1%	54.7%
Hold	142	26.8%	36.6%
Sell	21	4.0%	9.5%
	530	100.0%	

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
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Fortis Inc.

FTS : TSX : C\$28.05

BUY

Target: C\$32.00 ↑

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Juan Plessis 1.604.643.0181
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COMPANY STATISTICS:

52-week Range: \$20.36-28.58
Avg. Daily Vol. (000): 152.7
Market Capitalization (M): \$2,911.6
Shares Out. (M) basic: 103.8
Current Dividend/Share: \$0.76
Current Dividend Yield: 2.7%

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
EPS:	\$1.09	\$1.16	\$1.35	\$1.50
P/E:	25.7x	24.2x	20.8x	18.7x
CFPS:	\$2.59	\$2.87	\$3.00	\$3.30
P/CF:	10.8x	9.8x	9.4x	8.5x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, Upper New York State, Belize, Turks and Caicos Islands, Grand Cayman, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

RAISING TARGET PRICE

Event

We are revising our target prices upwards for utility and pipeline companies to reflect continuing low interest rates, higher fund flows into dividend paying stocks (as opposed to trusts), and higher expected earnings and net asset values as new projects get closer to completion. Specifically, we are raising our target price on the shares of Fortis Inc. to C\$32.00 from C\$28.00.

Valuation

We are maintaining our BUY rating on the shares of Fortis Inc. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds

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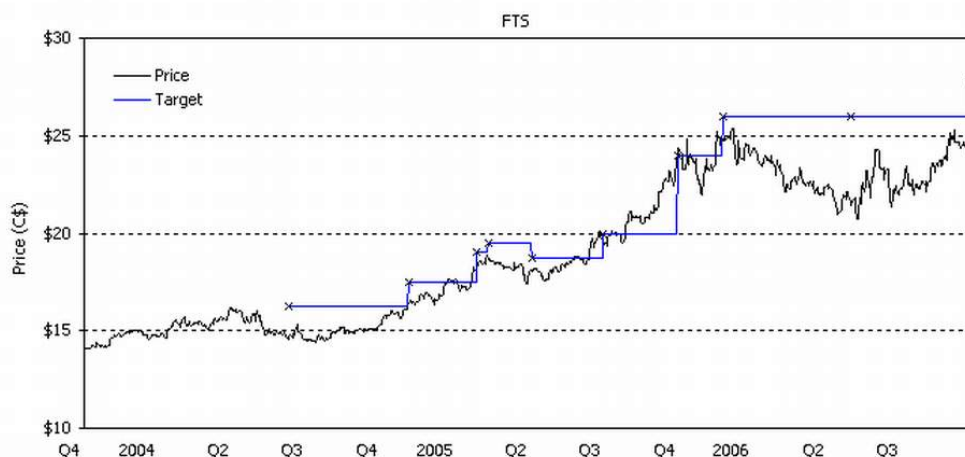
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investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

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Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 31 October 2006)

Rating	Coverage Universe		IB Clients
	#	%	%
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Speculative Buy	64	12.1%	54.7%
Hold	142	26.8%	36.6%
Sell	21	4.0%	9.5%
	530	100.0%	

**Canaccord Adams
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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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Company	Disclosure
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Fortis Inc.

FTS : TSX : C\$28.05

BUY

Target: C\$32.00

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Christy Taylor 1.604.643.7034
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COMPANY STATISTICS:

52-week Range: \$20.36-30.00
Avg. Daily Vol. (000): 258.9
Market Capitalization (M): \$2,911.6
Shares Out. (M) basic: 103.8
Current Dividend/Share: \$0.84
Current Dividend Yield: 3.0%

EARNINGS SUMMARY:

FYE Dec	2005A	2006A	2007A	2008E
EPS:	\$1.16	\$1.39	\$1.50	\$1.65
P/E:	24.2x	20.2x	18.7x	17.0x
CFPS:	\$2.87	\$2.89	\$3.27	\$3.40
P/CF:	9.8x	9.7x	8.6x	8.2x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, Upper New York State, Belize, Turks and Caicos Islands, Grand Cayman, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

ANOTHER QUARTER ABOVE EXPECTATIONS

Event

Fortis released fourth quarter recurring EPS of \$0.32 per share, once again beating expectations. In addition, the company announced a 10.5% increase to its quarterly dividend.

Impact

Neutral.

Valuation

We are maintaining our BUY rating on the shares of Fortis Inc. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis reported fourth quarter recurring earnings of \$0.32 versus \$0.26 last year, a few cents above our \$0.29 estimate and the \$0.27 consensus estimate. The company raised its quarterly dividend by 10.5% to \$0.21 from \$0.19. The increased dividend is payable on June 1, 2007 to shareholders of record on May 4, 2007. We are re-iterating our BUY rating and \$32.00 target price on the shares of Fortis. We are maintaining our 2007 EPS estimate of \$1.50 and are introducing our 2008 EPS estimate of \$1.65. Fortis's continues to deliver quarterly results in excess of expectations.

The Quarter

Generally, the regulated operations were as expected, with the improvement coming from Fortis Generation. The company's regulated utilities delivered earnings 53% above the same period last year, due primarily to a change in accounting at Newfoundland Power that effectively re-allocates earnings between quarters (up \$0.06 per share)

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and from the August 28 addition of utilities in Turks and Caicos (adding 0.03 per share). With the exception of FortisBC (down \$0.1 million) and Caribbean Utilities (flat), all utility operations posted improved quarter over quarter earnings.

Earnings from the non-regulated generation assets were down from Q4/05 as lower wholesale prices in Ontario muted performance. This was partly mitigated with incremental electricity sales contribution from the Chalillo Dam (in service late 2005), lower financing costs and a lower effective tax rate. The contribution from Fortis Properties was also lower (down \$0.1 million) as the addition and expansion of properties were offset by increased financing and amortization expenses. For the full year, Fortis posted recurring EPS of \$1.39 versus \$1.16 for the same period last year. For more details on the fourth quarter and full year results, please refer to Figures 1 and 2.

Outlook

Fortis's business segments continue to operate well and are well positioned to deliver solid earnings growth. For 2007, the company expects to invest \$610 million into its regulated operations of which about \$400 million is expected to be spent in FortisBC and FortisAlberta: over the next two years, the rate base for FortisBC and FortisAlberta is expected to grow by about 30%. Over the next five years, earnings growth will be helped by more than \$2.6 billion of capital projects expected to be spent in the company's regulated utilities. Earnings growth in 2007 will also be driven by smaller-sized acquisitions including the \$97 million purchase of two Turks and Caicos utilities in late August 2006, the \$52 million purchase of four hotels in Alberta and BC in November 2006 and the \$56 million purchase of an additional 16% interest in Caribbean Utilities in November 2006.

Noteworthy Items

- Raises dividend by 10.5%
 - Now \$0.84 annually versus \$0.76
 - Future capex plans
 - \$610 million for regulated operations
 - 33% for continued and enhanced performance, reliability and safety of generation, transmission and distribution assets
 - 46% to meet customer growth
 - 21% related to facilities, equipment, vehicles and IT systems
 - ~65% of 2007 capex for Fortis BC and Fortis Alberta
 - Over \$2.6 billion expected to be spent in 2007 - 2011
 - Accounting for Caribbean Utilities' earnings will change to the consolidation method from the equity method
 - Due to ownership increasing above 50% in November 2006
 - Turks and Caicos acquisition adds \$0.03 to 2006 EPS
-

Figure 1: Fourth quarter financial details

Millions of dollars (except per share data)	Fourth Quarter Earnings			
	2005	2006	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Changed method for billing revenue; \$1.6 mln recognition of deferral for unbilled revenue.
Newfoundland Power	\$2.9	\$8.8	203.4%	
Maritime Electric	\$1.7	\$2.4	41.2%	
FortisOntario	\$0.2	\$1.0	400.0%	Higher distribution rates effective May 1, 2006.
FortisAlberta	\$7.2	\$8.3	15.3%	
FortisBC	\$5.7	\$5.6	(1.4%)	Higher rate base.
Total Canadian Earnings	\$17.7	\$26.1	47.6%	
	\$22.5	\$34.5		Lower financing charges and increase electrical sales.
Regulated Utilities - Caribbean				Additional 16% acquired Nov. 7/06 but accounted for on a lag basis with quarter ended Oct. 31.
Belize Electricity	\$2.0	\$2.8	40.0%	
Caribbean Utilities - equity income	\$2.8	\$2.8	0.0%	
Turks and Caicos utilities	-	\$2.8	n.m.	Purchased Aug 28/06.
Total Caribbean Earnings	\$4.8	\$8.4	75.0%	
Non-Regulated				Lower Ontario wholesale prices.
Fortis Generation	\$9.2	\$6.8	(26.1%)	
Fortis Properties	\$2.9	\$2.8	(3.4%)	
Total Non-Regulated Earnings	\$12.1	\$9.6	(20.7%)	
				Higher preference dividends, increased debt levels and lower income tax recovery.
Corporate and Consolidated Adjustments	(\$7.8)	(\$11.0)	(41.0%)	
Recurring Earnings	\$26.8	\$33.1	23.6%	
Non-recurring items	(\$4.5)	\$0.8	n.m.	
Reported Net Earnings	\$22.3	\$33.9	52.0%	
EPS:				Above our 29¢ estimate.
Recurring	\$0.26	\$0.32	22.6%	
Non-recurring items	(\$0.04)	\$0.01	n.m.	
Reported	\$0.22	\$0.33	50.8%	
Cash Flow Per Share	\$0.69	\$0.78	12.0%	
Average Shares Outstanding (mln)	103.1	104.0	(0.8%)	
Regulated				Added Turks and Caicos utilities and changed method for billing revenue at Newfoundland Power (shifts earnings between quarters).
Earnings	\$22.5	\$34.5	53.4%	
% of total	84.0%	104.2%	20.3 bps	
Non-Regulated				
Earnings	\$12.1	\$9.6	(20.7%)	
% of total	45.1%	29.0%	(16.2 bps)	
Corporate				
Earnings	(\$7.8)	(\$11.0)	(41.0%)	
% of total	(29.1%)	(33.2%)	(4.1 bps)	

Source: Canaccord Adams

Figure 2: Full year financial details

Millions of dollars (except per share data)	Full Year Earnings			
	2005	2006	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Newfoundland Power	\$29.3	\$30.1	2.7%	64 bp reduction in ROE for 2007.
Maritime Electric	\$9.1	\$9.8	7.7%	3.35% increase in 2006 rates and higher electricity sales.
FortisOntario	\$2.7	\$4.0	48.1%	2007 ROE lower at 8.77% vs 9.20% in 2006; expect to be more than offset by rapid rate base growth \$255 mln in 2007/8.
FortisAlberta	\$27.1	\$42.1	55.2%	ROE for 2007 42 bps lower than in 2006; expect to be more than offset by growth.
FortisBC	\$24.6	\$27.4	11.3%	
Total Canadian Earnings	\$92.8	\$113.3	22.1%	11% increase in rates effective July/05, sales growth, and lower financing charges, partly offset by weaker US dollar.
Regulated Utilities - Caribbean				
Belize Electricity	\$8.0	\$10.4	30.0%	Will change from equity to consolidated method of accounting effective Q1/07.
Caribbean Utilities - equity income	\$10.3	\$9.7	(5.8%)	
Turks and Caicos utilities	-	3.5	n.m.	
Total Caribbean Earnings	\$18.3	\$23.6	29.0%	Ontario wholesale prices (\$46.38/MWh vs. \$68.49/MWh), lower contracted price in Belize offset by higher production.
Non-Regulated				
Fortis Generation	\$21.7	\$25.7	18.2%	Growth in hotel operations and lower corporate taxes.
Fortis Properties	\$14.1	\$15.6	10.6%	
Total Non-Regulated Earnings	\$35.8	\$41.3		
Corporate and Consolidated Adjustments	(\$28.6)	(\$34.7)	21.3%	Includes \$1.6 mln gain on sale of property, \$2 mln positive tax adjustment, \$0.7 mln insurance recovery, \$1.4 mln negative charge at utility operations and \$0.8 mln accrued insurance recovery.
Recurring Earnings	\$118.3	\$143.5	21.3%	
Non-recurring items	\$18.8	\$3.7	n.m.	
Reported Net Earnings	\$137.1	\$147.2	7.4%	
EPS:				
Recurring	\$1.16	\$1.39	19.1%	Above our \$1.35 estimate and the \$1.31 consensus estimate.
Non-recurring items	\$0.18	\$0.04		
Reported	\$1.35	\$1.42		
Cash Flow Per Share	\$2.87	\$2.89	0.8%	
Average Shares Outstanding (mln)	101.8	103.6	1.8%	
Regulated				
Earnings	\$111.1	\$136.9	23.2%	
% of total	94%	95%	1.5 bps	
Non-Regulated				
Earnings	\$35.8	\$41.3	15.2%	
% of total	30%	29%	(1.5 bps)	
Corporate				
Earnings	(\$28.6)	(\$34.7)	(21.3%)	
% of total	(24.2%)	(24.2%)	(0.0 bps)	

Source: Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis Inc. are as follows: 1) Price movement in electricity rates and commodities used for electricity generation could impact profitability; 2) International operations have currency rate exposure and liquidity risks associated with those currencies; 3) Credit risk of contract counterparties; 4) Debt refinancing at higher interest rates could impact the income of the company; 5) Equipment failure or extreme weather conditions could adversely affect operating facilities; 6) Change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; 7) Change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; 8) The inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; 9) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; 11) If the announced increase to the dividend tax credit is not passed into law, it would have a material impact on our target price.

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Site Visit: An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 1 February 2007)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	293	55.7%	42.3%
Speculative Buy	68	12.9%	69.1%
Hold	142	27.0%	29.6%
Sell	23	4.4%	13.0%
	526	100.0%	

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier: **SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Adams Research Disclosures as of 9 February 2007

Company	Disclosure
Fortis Inc.	1A, 2, 7
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Fortis Inc.

FTS : TSX : C\$28.05

BUY

Target: C\$32.00

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COMPANY STATISTICS:

52-week Range:	\$20.36-30.00
Avg. Daily Vol. (000):	258.9
Market Capitalization (M):	\$2,911.6
Shares Out. (M) basic:	103.8
Current Dividend/Share:	\$0.84
Current Dividend Yield:	3.0%

EARNINGS SUMMARY:

FYE Dec	2005A	2006E	2007E	2008E
EPS:	\$1.16	\$1.39	\$1.50	\$1.75
P/E:	24.2x	20.2x	18.7x	16.0x
CFPS:	\$3.02	\$2.86	\$3.30	\$3.75
P/CF:	9.3x	9.8x	8.5x	7.5x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, Upper New York State, Belize, Turks and Caicos Islands, Grand Cayman, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

GENERATES STRONG RESULTS FROM ALL DIVISIONS

Event

Fortis announced normalized first quarter earnings per share of \$0.40, a few cents above the consensus estimate and in line with our expectations.

Impact

Neutral.

Valuation

We are maintaining our BUY rating on the shares of Fortis. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

On February 26, Fortis announced the purchase of the regulated natural gas distribution franchise assets of Terasen Gas and Terasen Gas (Vancouver Island) from Kinder Morgan Inc. The \$3.7 billion purchase included approximately \$2.3 billion of assumed debt. Also on February 26, Fortis announced the \$1.15 billion offering of subscription receipts to finance the acquisition. While the purchase has not yet closed, it is expected to be completed this quarter. We expect the addition of Terasen Gas to add about \$0.05-0.10 to Fortis's annual EPS once completed. However, we expect that the seasonality or timing of the earnings contribution will negatively impact 2007 earnings. Terasen Gas has the majority of earnings occurring in the first quarter, with losses in the second and third quarter, and followed by an earnings contribution in the fourth quarter. Consequently, given that Fortis will miss the strongest earnings quarter and has non-seasonal acquisition financing costs, 2007 earnings will be negatively impacted but 2008 will be positively impacted. Until the acquisition is completed, we are not revising our 2007 or 2008 EPS estimates.

Canaccord Adams is the global capital markets group of Canaccord Capital Inc. (CCI : TSX|AIM)

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Fortis's earnings growth will be driven primarily from regulated assets: through utility acquisitions and significant capital spending that increases rate bases and returns. For 2007, the company expects to invest \$631 million into its regulated operations, of which \$134 million was spent in the first quarter. Over the next five years, the company expects to invest an impressive \$2.8 billion of capital projects on existing regulated electric utilities and a further \$1.0 billion on Terasen's regulated gas distribution assets. Earnings growth in 2007 will also be helped by the contribution from smaller acquisitions, such as: the \$97 million purchase of two Turks and Caicos utilities in late August 2006; the \$56 million purchase of an additional 16% interest in Caribbean Utilities in November 2006; and the \$52 million purchase of four hotels in Alberta and BC in November 2006.

Earnings summary

Fortis reported first quarter recurring earnings of \$0.40 versus \$0.35 last year, a few cents above the \$0.37 consensus estimate. Fortis's regulated operations appear to be running well, with earnings up 16% to \$44.5 million versus \$38.2 million last year. Significant improvements came from (1) Belize Electricity as greater electricity sales and reduced financial expenses boosted earnings by \$1.2 million; and (2) FortisAlberta, from strong customer growth. In addition, the purchase of utilities in Turks and Caicos in August 2006 contributed \$1.8 million and the increased ownership in Caribbean Utilities from 38% to 54% produced a modest \$0.4 million improvement. Earnings from non-regulated operations were also higher, generating \$9.1 million versus \$6.9 million in the first quarter of 2006. The increase stemmed primarily from improved hydrology in Belize and higher spot electricity pricing in Ontario and New York (\$1.9 million) and a \$0.4 million increase at Fortis Properties from the November 2006 addition of four Western Canada hotels. Offsetting part of the improved performance was the dilutive effect of a 5.17 million share issue in January 2007 and higher corporate interest expenses from debt incurred to partly fund growth. For more details on the first quarter results, please refer to Figure 1.

Noteworthy Items

- Terasen Gas
 - Acquisition expected to close in the second quarter
 - Expect acquisition to be accretive to full-year EPS
 - But modestly negative to 2007 EPS due to seasonality of earnings
 - Capital expenditure program
 - Electric utilities
 - 2007E capex now at \$631 million, up from \$610 million
 - About \$420 million at FortisAlberta and FortisBC
 - 2007-2011E capex now at \$2.8 billion, up from \$2.6 billion
 - Gas distribution utility
 - 2007-2011E capex expected to be about \$1.0 billion
 - Common equity issues
 - 5.17 million shares issued for \$150 million on January 18, 2006
 - 44.275 million subscription receipts issued for 1.15 billion
 - Included in fully diluted shares outstanding even though they are not issued unless the Terasen purchase is closed and even though Terasen's earnings are not included
-

Figure 1: First quarter financial details

Millions of dollars (except per share data)	First Quarter Earnings			
	2006	2007	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				64bp decline in ROE partly offset by 1.8% increase in electricity sales and lower effective tax rate.
Newfoundland Power	\$10.7	\$10.5	(1.9%)	3.35% increase in rates and higher sales partly offset by increased financing costs.
Maritime Electric	\$2.1	\$2.6	23.8%	May/06 distribution rate increase.
FortisOntario	\$1.0	\$1.3	30.0%	Customer growth and increased taxable deductions (\$4.1 mln tax recovery).
FortisAlberta	\$9.5	\$11.9	25.3%	
FortisBC	\$11.8	\$11.7	(0.8%)	Lower ROE offset by increased rate base and reduced income taxes due to timing differences.
Total Canadian Earnings	\$35.1	\$38.0	8.3%	
Regulated Utilities - Caribbean				Higher electricity sales, lower financing charges and positive impact of exchange rate.
Belize Electricity	\$1.5	\$2.7	80.0%	
Caribbean Utilities	\$1.6	\$2.0	25.0%	
Turks & Caicos	\$0.0	\$1.8	n.m.	Q1/07 results are consolidated due to ownership interest increased to 54% in Nov/06.
Total Caribbean Earnings	\$3.1	\$6.5	109.7%	Purchased Aug/06.
Non-Regulated				
Fortis Generation	\$5.4	\$7.3	35.2%	Better rainfall at Belize hydro operations and higher Ontario and NY spot electric prices.
Fortis Properties	\$1.5	\$1.8	20.0%	
Total Non-Regulated Earnings	\$6.9	\$9.1	31.9%	Purchase of 4 western Canadian hotels in Nov/06.
Corporate and Consolidated Adjustments	(\$8.5)	(\$9.7)	14.1%	
Recurring Earnings	\$36.6	\$43.9	19.9%	\$2.4 mln charge at Caribbean Utilities from disposal of steam turbine and boiler.
Non-recurring items	\$0.0	(\$2.4)		
Reported Net Earnings	\$36.6	\$41.5	13.4%	
EPS:				In-line with our expectations and a few cents above consensus.
Recurring	\$0.35	\$0.40	13.2%	
Non-recurring items	\$0.00	(\$0.02)		
Reported	\$0.35	\$0.38		5.17 mln units issued in Jan/06; another 44.275 mln shares to be issued on close of Terasen Gas acquisition.
Cash Flow Per Share	\$0.77	\$0.78	1.6%	
Average Shares Outstanding (mln)	103.3	109.4	5.9%	
Regulated				Regulated operations will grow due to pending purchase of Terasen Gas.
Earnings	\$38.2	\$44.5	16.5%	
% of total	104%	101%		
Non-Regulated				
Earnings	\$6.9	\$9.1	31.9%	
% of total	19%	21%		
Corporate				
Earnings	(\$8.5)	(\$9.7)	(14.1%)	
% of total	(23.2%)	(22.1%)		

Source: Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

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(as of 28 March 2007)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	301	57.8%		42.2%
Speculative Buy	64	12.3%		71.9%
Hold	129	24.8%		34.1%
Sell	27	5.2%		3.7%
	521	100.0%		

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Fortis Inc.

FTS : TSX : C\$27.19

BUY

Target: C\$32.00

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COMPANY STATISTICS:

52-week Range: C\$24.50 - 30.00
Avg. Daily Vol. (000s): 393.2
Market Cap (M): C\$4,192.6
Shares Out (M): 154.2
Current Dividend: C\$0.84
Current Dividend Yield: 3.1%

EARNINGS SUMMARY:

FYE Dec	2006A	2007E	2008E
EPS:	\$1.39	\$1.40	\$1.70
P/E:	19.6x	19.4x	16.0x
CFPS:	\$2.86	\$3.25	\$3.60
P/CF:	9.5x	8.4x	7.6x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

Q3 EARNINGS IN LINE; EXPECT BIG JUMP IN 2008 AS TERASEN SWINGS UP >\$0.15 PER SHARE

Event

Third quarter earnings per share of \$0.20, in line with the consensus estimate.

Impact

Neutral.

Valuation

We are maintaining our C\$32.00 target and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are raising our 2007 EPS estimate to \$1.40 as Fortis is well positioned to exceed our previous \$1.35 EPS estimate with Terasen's fourth quarter earnings contribution swinging positive for the first time since its May 17th acquisition. As a gas utility, Terasen has highly seasonal earnings, with around 55% of annual earnings occurring in the first quarter of the year, small profit or losses in the second and third quarters and around 45% of earnings in the fourth quarter. While Terasen is expected to add about \$100 million in the first year of operation before financing costs, it will record well less than half that in 2007 due to the May 17 acquisition date. And after equity dilution and debt financing costs, Terasen could prove to be an \$0.08 per share drag on earnings. Fortunately, this situation should reverse itself in 2008, with Terasen adding up to \$0.10 per share. This more than \$0.15

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swing, along with growth from other operations, should push earnings to around \$1.70, well above the \$1.58 consensus estimate. Our 2008 EPS estimate remains unchanged at \$1.70.

The company continues to have a solid organic long-term growth profile from lower-risk utility operations. Total capital spending could be as much as \$4 billion over the next five years, with most of its ~\$3 billion gross electric utility capital expenditure to be driven by FortisAlberta, FortisBC and its Caribbean utilities. In addition, the company is always on the lookout for other good utility operations that fit with existing operations. The company has an impressive track record of profitable acquisitions and, looking ahead, similar growth is possible. In fact, dividend growth is set to achieve a higher growth rate as the company has a lower than normal payout ratio (49% based on 2008 projections) that can expand to the 65% industry average over time. We note that the company's balance sheet is comprised of 35.8% equity, below its long-term target of 40%. Given its ongoing significant capital spending requirement and its 40% targeted equity/total capital ratio, we expect the company may issue some type of equity (possibly preferred shares) over the next 6-12 months to rebalance its capital structure.

The company's investments in the Caribbean have shown strong growth and promise to continue that well into the future. Year-to-date earnings were up 57%. Looking forward, a new US\$52.5 million, 18.5 MW hydroelectric generating facility in Belize has been approved, a new 16 MW unit was commissioned in June 2007 in the Grand Cayman, and an additional 7 MW of power was added in Turks and Caicos during the third quarter. Fortis has successfully doubled its investment in Turks and Caicos since the August 2006 purchase and could triple the investment by 2012, possibly making it more profitable than its investment in the Cayman Islands. While Belize Electricity has had difficulty with the Public Utilities Commission on tariffs, it is appealing the latest decision (potential impact of about \$1 million) and earnings have grown over the years none the less. License renewal negotiations continue between Caribbean Utilities and the Government of Cayman Islands, where the company is looking to establish a 20-year regulatory agreement. After performing well during and after Hurricane Ivan several years ago, with the company agreeing to swallow certain costs and avoiding certain legitimate and allowable rate increases, we would expect a new agreement to be fair and reasonable to the company and its shareholders. We expect Fortis to continue to leverage its experience in the region and to successfully pursue new opportunities.

Earnings Summary

Fortis reported third quarter earnings of \$0.20 per share versus \$0.37 last year and \$0.92 year-to-date versus \$1.07 last year. Earnings improved in all Canadian regulated business operations except Maritime Electric and Fortis Ontario, where earnings were hampered by depressed electricity sales (down 2.5%) due to moderate weather conditions, the loss of a major customer and the temporary shut down of another customer. FortisAlberta had the strongest growth this quarter, increasing 19.5% over Q3/06 as a result of a 3.4% rise in energy deliveries and a \$2.7 million higher corporate tax recovery. Offsetting the improved results was a negative contribution (\$3.7 million) from Terasen due to its seasonal earnings. The Caribbean regulated utilities had strong earnings growth this quarter, up 27% or \$2.1 million, primarily driven by higher contributions (\$2.0 million) from Fortis Turks and Caicos. On the non-regulated side, Fortis Generation's earnings declined considerably (\$2.8 million) as a result of an 11.8% reduction in energy sales caused by

lower rainfall. Upper New York State hydroelectric generating stations had the most significant quarterly percentage decline in energy sales, falling to 1 GWh from 10 GWh in Q3/06. However, contributions from Fortis Properties were able to partially offset the non-regulated decline, thanks to strong growth in the western Canadian hospitality industry. Corporate and other overhead was a drag on earnings this quarter due to the inclusion of \$10.4 million of Terasen acquisition-related financing charges. Overall results were significantly impacted by the 44 million share issue on May 17th to partly finance the acquisition of Terasen. For more details on the second quarter results, please refer to Figure 1.

Noteworthy Items

- Capital Budget
 - 2007 capital budget forecast to be \$770 million; \$539 million spent YTD
 - \$4.0 billion of utility capex anticipated over next 5 years; \$3 billion on electric utilities and \$1 billion on gas utilities
 - Terasen plans a natural gas storage facility
 - \$175-\$200 million if approved
 - Late 2011 expected startup
 - Newfoundland Power
 - Return on Equity locked-in at 8.95% for the up-coming rate application
 - S&P raised long-term corporate credit rating to A- from BBB+ as of June 19/07
 - Financings:
 - Fortis: US\$200 million of senior secured notes at 6.60% due September 2037; private placement
 - FortisBC: \$105 million of 5.90% senior unsecured debentures due July 2047
 - Newfoundland Power: \$70 million of 5.904% first mortgage sinking fund bonds due August 2037
-

Figure 1: Fortis Inc. third quarter financial details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2006	2007	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Seasonal earnings - virtually 100% of annual earnings generated in first and fourth quarters.
Terasen Gas	-	(\$3.7)		FortisOntario electricity sales down 2.5% from moderate weather, the loss of a major customer and the temporary shut down of another customer.
Newfoundland Power	\$2.6	\$2.7	3.8%	
Maritime Electric & Fortis Ontario	\$4.7	\$4.4	(6.4%)	Energy deliveries up 132 GWh or 3.4%.
FortisAlberta	\$12.3	\$14.7	19.5%	
FortisBC	\$5.7	\$6.2	8.8%	BCUC approved a 1.2% rate increase effective January 1, 2007 and additional 2.1% increase effective April 1, 2007.
Total Canadian Earnings	\$25.3	\$24.3	(4.0%)	
Regulated Utilities - Caribbean	\$7.7	\$9.8	27%	
Non-Regulated				Impact of increased investment in Caribbean Utilites (now 54%) and 21% higher electric sales from Fortis Turks and Caicos.
Fortis Generation	\$7.8	\$5.0	(36.1%)	
Fortis Properties	\$6.3	\$8.0	27.0%	11.8% decrease in production from lower rainfall and repairs on Ontario assets.
Total Non-Regulated Earnings	\$14.1	\$13.0	(8.0%)	
Corporate and Consolidated Adjustments	(\$8.3)	(\$16.3)	(96.4%)	Hospitality revenue was up \$8.7 mln due to growth in western Canadian operations; Q3/07 revenue per room was \$95.11 versus \$88.09 in Q3/06.
Recurring Earnings	\$38.8	\$30.8	(20.7%)	
Non-recurring items	\$0.0			
Reported Net Earnings	\$38.8	\$30.8	(20.7%)	
EPS:				
Recurring	\$0.37	\$0.20	(46.8%)	In-line with \$21 consensus.
Non-recurring items	\$0.00	\$0.00		
Reported	\$0.37	\$0.20		\$1.15 bln common share issue to fund Terasen purchase.
Cash Flow Per Share	\$0.66	\$0.94	43.3%	
Average Shares Outstanding (mln)	103.6	154.5	49.1%	
Regulated				
Earnings	\$33.0	\$34.1	3.3%	
% of total before corporate	70%	72%		
Non-Regulated				Non-regulated contribution down due to Fortis Generation's weak earnings (down \$2.8 mln).
Earnings	\$14.1	\$13.0	(8.0%)	
% of total before corporate	30%	28%		
Corporate				
Earnings	(\$8.3)	(\$16.3)	(96.4%)	Includes \$10.4 mln Terasen acquisition-related financing charges.

Source: Fortis Inc., Canaccord Adams research

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could

impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Price Chart:*

	Date	Analyst	Rating	Target Price
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2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 1 October 2007)

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	#	%	#	%
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Speculative Buy	48	9.0%	66.7%	
Hold	151	28.4%	28.5%	
Sell	18	3.4%	11.1%	
	531	100.0%		

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COMPANY STATISTICS:

52-week Range: C\$24.50 - 30.00
 Avg. Daily Vol. (000s): 393.2
 Market Cap (M): C\$4,378.72
 Shares Out (M): 155.3
 Current Dividend: C\$1.00
 Current Dividend Yield %: 3.5

EARNINGS SUMMARY:

FYE Dec	2006A	2007E	2008E
EPS:	C\$1.39	C\$1.40	C\$1.70
P/E (x):	20.3	20.1	16.6
CFPS:	C\$2.86	C\$3.25	C\$3.60
P/CF (x):	9.9	8.7	7.8

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities**DIVIDEND INCREASE****Event**

Fortis announced a 19% increase to its dividend.

Impact

Positive.

Valuation

We are maintaining our C\$32.00 target and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that it has raised its annual dividend to \$1.00 per share, up 19% from \$0.84 per share to provide a yield of 3.5% and a payout ratio of 59% of 2008 estimated earnings. The dividend is payable on March 1, 2008 and the record date is February 8, 2008. Fortis has a history of raising its dividend annually; this increase marks the 35th consecutive year. While the market was likely anticipating an increase given the company's track record and an expected positive earnings contribution from Terasen Gas in 2008, the magnitude may be a pleasant surprise and may signal confidence of a strong earnings performance in 2008. Note our \$1.70 estimate is \$0.12 higher than the consensus. In addition, favourable federal and provincial dividend taxation will make dividends even more attractive relative to interest income in 2008.

The company continues to grow its asset base and earnings while maintaining its low risk, conservative growth profile. Fortis derives about 84% of its earnings from regulated utility assets and we believe the stock offers investors a 17% total return over the next year.

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Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Site Visit:

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 November 2007)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	301	57.6%	42.5%
Speculative Buy	55	10.5%	69.1%
Hold	149	28.5%	30.9%
Sell	18	3.4%	5.6%
	523	100.0%	

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$29.24

BUY

Target: C\$32.00

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COMPANY STATISTICS:

52-week Range: C\$24.50 - 29.89
Avg. Daily Vol. (000s): 393.2
Market Cap (M): C\$4,541.82
Shares Out (M): 155.3
Current Dividend: C\$1.00
Current Dividend Yield %: 3.4

EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E
EPS:	C\$1.39	C\$1.34	C\$1.65
P/E (x):	21.0	21.8	17.7
CFPS:	C\$2.97	C\$3.37	C\$3.50
P/CF (x):	9.8	8.7	8.4

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

NO SURPRISES IN Q4 RESULTS

Event

Fortis released fourth quarter recurring earnings per share of \$0.44 versus \$0.33 last year and essentially in line with the \$0.45 consensus estimate.

Impact

Neutral.

Valuation

We are maintaining our C\$32.00 target and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are lowering our 2008 EPS estimate modestly to \$1.65 from \$1.70. In 2008, Terasen should add about \$0.15 per share or more after being a \$0.07 drag in 2007. In addition, increased allowed returns on most of the Canadian regulated operations plus the significant capital spend at Terasen (\$120 million spent in 2007 and \$250 million of expected capex in 2008), FortisAlberta (\$285 million spent in 2007 and \$264 million budgeted for 2008), and FortisBC (\$147 million spent in 2007 and \$136 million expected in 2008) should help boost the contribution from Canadian regulated operations. Capital spending of \$4 billion over the next 5 years should help drive longer-term earnings growth. The company continues to be on the lookout for profitable acquisitions of regulated natural gas and electric utilities in Canada, the United States and the Caribbean that fit well with existing utility operations.

Earnings Summary

Fortis reported fourth quarter recurring earnings of \$0.44 per share versus \$0.33 last year, slightly below the \$0.45 consensus estimate. Net reported earnings were \$0.51 versus \$0.33 for the quarter.

For the full year, recurring earnings per share were \$1.34 versus \$1.38 and net reported earnings were \$1.40 versus \$1.42. For the year, the company estimates that the acquisition of Terasen was about \$0.07 dilutive to full year earnings due to the seasonality of earnings and timing and funding of the acquisition.

In the fourth quarter, earnings generated from the Canadian regulated business operations improved over last year, mainly as a result of the contribution from the May 17, 2007 purchase of Terasen Gas. The contribution from FortisAlberta was lower due mainly to higher costs and lower at Maritime Electric due to the loss of a large industrial customer. A modest improvement came from FortisBC, which benefited from increased rates and higher sales volumes. The Caribbean regulated utilities' earnings improved modestly due to the impact of an additional 16% interest in Caribbean Utilities in November 2006, partly offset by a weaker US\$/C\$ exchange rate. On the non-regulated side, Fortis Generation's earnings were flat while the contribution from Fortis Properties was up modestly as a result of new properties acquired in November of 2006. Corporate and other overhead increased (as expected) due to the inclusion of Terasen acquisition related financing charges. The impact of the May 17th share issue of 44 million to partly finance the acquisition of Terasen was more than offset by the large seasonal earnings contribution from Terasen. For more details on the fourth quarter and full year results, please refer to Figures 1 and 2.

Noteworthy Items

- 2008 Capex budget of \$890 million
 - \$741 million at Canadian regulated utility operations
 - \$250 million at Terasen Gas
 - \$264 million at FortisAlberta
 - \$136 million at FortisBC
 - \$53 million at Newfoundland Power
 - \$38 million at other Canadian regulated utilities
 - \$101 million at Caribbean regulated utility operations
 - \$48 million at non-regulated operations
 - 2008 return on equity up at many utility operations
 - Terasen Gas: 8.62% in 2008 vs 8.37% in 2007
 - FortisBC: 9.02% in 2008 vs 8.77% in 2007
 - FortisAlberta: 8.75% in 2008 vs 8.51% in 2007
 - Newfoundland Power: 8.95% ± 50bps in 2008 vs 8.60% ± 50bps in 2007
 - FortisOntario: unchanged at 9.00%
 - Belize Electric: unchanged at 10-15%
 - Fortis Turks & Caicos: unchanged at 17.5%
 - Maritime Electric: 10.00% in 2008 vs 10.25% in 2007
 - Caribbean Utilities: 9-11% in 2008 vs 15% in 2007
-

- Fourth quarter financings:
 - Terasen Gas: \$250 million of unsecured notes at 6.60% due October 2037
 - Caribbean Utilities: US\$10 million of 5.65% senior unsecured notes due June 2022

Figure 1: Fortis Inc. fourth quarter financial details

Millions of dollars (except per share data)	Fourth Quarter Earnings			
	2006	2007	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Terasen Gas	-	\$45.0	n.m.	Purchased May/2007. Earnings seasonal with all profits generated in Q1 and Q4, losses in Q3.
Newfoundland Power	\$9.0	\$9.0	0.0%	Loss of large industrial customer, higher amortization and interest expenses.
Maritime Electric & FortisOntario	\$3.0	\$1.5	(50.0%)	
FortisAlberta	\$8.0	\$6.0	(25.0%)	Higher operating, amortization and financing costs.
FortisBC	\$6.0	\$7.0	16.7%	Higher electricity rates and sales volumes.
Total Canadian Earnings	\$27.0	\$68.5	153.7%	
Regulated Utilities - Caribbean	\$8.0	\$9.0	13%	5% more electricity sales and 16% higher ownership of Caribbean Utilities, partly offset by lower Caribbean Utilities earnings and negative FX impact.
Non-Regulated				
Fortis Generation	\$7.0	\$6.7	(4.3%)	
Fortis Properties	\$3.0	\$4.0	33.3%	Expanded hospitality operations in Western Canada.
Total Non-Regulated Earnings	\$10.0	\$10.7	7.0%	
Corporate and Consolidated Adjustments	(\$11.0)	(\$20.0)	(81.8%)	Terasen acquisition-related financing charges.
Recurring Earnings	\$34.0	\$68.2	100.6%	
Non-recurring items	\$0.8	\$10.8		
Reported Net Earnings	\$34.8	\$79.0	127.1%	\$7 mln gain on sale of land at Terasen Gas, \$2 mln regulated refund at FortisOntario, \$1.5 mln positive future tax adjustment and \$0.3 mln insurance proceeds.
EPS:				
Recurring	\$0.33	\$0.44	34.2%	
Non-recurring items	\$0.01	\$0.07	826.3%	
Reported	\$0.33	\$0.51	52.0%	Slightly lower than 45¢ consensus.
Cash Flow Per Share	\$0.78	\$0.92	18.7%	\$1.15 bln common share issue in May to fund Terasen purchase.
Average Shares Outstanding (mln)	104.0	155.4	49.5%	
Regulated				
Earnings	\$35.0	\$77.5	121.4%	Increased seasonality due to Terasen acquisition.
% of total before corporate	78%	88%	10 bps	
Non-Regulated				
Earnings	\$10.0	\$10.7	7.0%	
% of total before corporate	22%	12%	(10 bps)	
Corporate				
Earnings	(\$11.0)	(\$20.0)	(81.8%)	
% of total	(32.4%)	(29.3%)	3 bps	

Source: Fortis Inc.; Canaccord Adams

Figure 2: Fortis Inc. full year financial details

Millions of dollars (except per share data)	Full Year Earnings			
	2006	2007	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Partial year contribution coupled with equity issue to finance acquisition dilutes EPS by ~7¢.
Terasen Gas		\$43.0	n.m.	Higher revenue and increased corporate tax recoveries.
Newfoundland Power	\$30.0	\$30.0	0.0%	Higher electricity rates and sales volumes, lower energy supply costs and reduced taxes.
Maritime Electric & FortisOntario	\$14.0	\$14.5	3.6%	
FortisAlberta	\$42.0	\$48.0	14.3%	
FortisBC	\$27.0	\$31.0	14.8%	Reflects full year contribution from Turks & Caicos vs 4 months in 2006, higher Belize Electricity earnings; partly offset by weak US\$.
Total Canadian Earnings	\$113.0	\$166.5	47.3%	
Regulated Utilities - Caribbean	\$23.0	\$33.4	45.2%	
Non-Regulated				Lower rainfall causes reduced electricity sales.
Fortis Generation	\$26.0	\$23.7	(8.8%)	
Fortis Properties	\$15.9	\$20.0	25.8%	Purchased 4 hotels in Alberta and BC in Nov/2006.
Total Non-Regulated Earnings	\$41.9	\$43.7		
Corporate and Consolidated Adjustments	(\$35.0)	(\$59.0)	68.6%	Includes \$2.4 mln charge on turbine disposal at CUC, \$7 mln gain on sale of land at Terasen Gas, \$2 mln regulated refund at FortisOntario, \$1.5 mln positive future tax adjustment and \$0.3 mln insurance proceeds.
Recurring Earnings	\$142.9	\$184.6	29.2%	
Non-recurring items	\$3.7	\$8.4	n.m.	
Reported Net Earnings	\$146.6	\$193.0	31.7%	
EPS:				
Recurring	\$1.38	\$1.34	(2.8%)	
Non-recurring items	\$0.04	\$0.06	71.8%	Modestly below \$1.36 consensus estimate.
Reported	\$1.42	\$1.40	(0.9%)	
Cash Flow Per Share	\$2.89	\$3.56	23.1%	
Average Shares Outstanding (mln)	103.6	137.6	32.8%	
Regulated				
Earnings	\$136.0	\$199.9	47.0%	
% of total	95%	108%	13 bps	Should increase in 2008 with full year contribution from Terasen.
Non-Regulated				
Earnings	\$41.9	\$43.7	4.3%	
% of total	29%	24%	(6 bps)	
Corporate				
Earnings	(\$35.0)	(\$59.0)	(68.6%)	
% of total	(24.5%)	(32.0%)	(7 bps)	

Source: Fortis Inc.; Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could

impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Site Visit:

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Date	Analyst	Rating	Target Price
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4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
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10) 09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 2 January 2008)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	294	61.8%		43.9%
Speculative Buy	57	12.0%		70.2%
Hold	112	23.5%		33.0%
Sell	13	2.7%		0.0%
	476	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$27.96

BUY

Target: C\$31.00 ↓

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COMPANY STATISTICS:

52-week Range: C\$24.50-29.94
Avg. Daily Vol. (000s): 447.7
Market Cap (M): C\$4,382.84
Shares Out (M): 156.8
Current Dividend: C\$1.00
Current Dividend Yield %: 3.6

EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
EPS:	C\$1.39	C\$1.34	C\$1.60	C\$1.70
P/E (x):	20.1	20.9	17.5	16.4
CFPS:	C\$2.97	C\$3.37	C\$3.50	C\$3.70
P/CF (x):	9.4	8.3	8.0	7.6

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy – Pipeline and Power Utilities

ANOTHER SOLID QUARTER

Event

Fortis released first quarter recurring earnings per share of \$0.58 versus \$0.40 last year and slightly above the \$0.55 consensus estimate.

Impact

Neutral.

Valuation

We are reducing our target by \$1.00 to C\$31.00 but are maintaining our BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers. Consequently, a slightly lower earnings estimate and growth profile has impacted our target price.

Outlook

We are reducing our 2008 and 2009 EPS estimates by \$0.05 for both years to \$1.60 and \$1.70, respectively to reflect slower than expected earnings growth at FortisAlberta and a slower earnings growth from its Caribbean operations with the absorption of a new regulatory licence at Caribbean Utilities. While capital spending continues and is adding to its Alberta rate base, prior years' earnings were positively impacted by tax recoveries that are not repeatable, keeping earnings relatively flat in 2008 before growing again in 2009.

The biggest contributor to the expected \$0.26 per share earnings gain in 2008 is the \$0.15 estimated contribution from a full year of Terasen (after being a \$0.07 drain in 2007). Increased allowed returns and higher rate bases at many of its Canadian regulated operations will also improve results in 2008. Longer-term earnings growth should be helped

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by planned capital spending of about \$900 million in 2008 and \$4 billion over the next five years. The company is still on the hunt for profitable acquisitions of regulated natural gas and electric utilities in Canada, the US and the Caribbean that fit well with existing utility operations. Fortis will also consider acquisitions in its non-regulated businesses (mainly at Fortis Properties) that tax-effectively support its utility growth and acquisitions.

First quarter earnings

First quarter recurring earnings were \$0.58 versus \$0.40 last year, slightly above the \$0.55 consensus estimate. Note that the results would have been \$0.04 higher at \$0.62, but an accounting change at Newfoundland Power shifted more power purchase expenses into the first and fourth quarters from the middle two quarters (there is no impact on annual earnings). The earnings improvement was primarily due to Terasen Gas purchased last May, which has a seasonally strong first quarter. Caribbean-regulated utilities improved modestly due to higher production and a favourable accounting change for deferred fuel costs under the new Transmission and Distribution licence at Caribbean Utilities. FortisAlberta, FortisBC and other Canadian regulated utilities were generally flat over last year. As has been the case for some time now, foreign earnings improvements were partly offset by the stronger Canadian dollar. For more details on the first quarter results, please refer to Figure 1.

Noteworthy

- A new government repealed recent tariff amendment at Belize Electricity
 - Currently working to resolve the issue
 - Could negatively impact earnings by \$0.7 million annually
 - Belize Electricity filed application to recover rising costs of power
 - Application was disallowed
 - Annual Tariff Review recently filed requesting 13.5% rate increase
 - Decision expected in Q2/08
 - FERC issued an order repealing its original order of a \$2 million refund to FortisOntario
 - Could reverse a one-time \$2 million gain to Fortis
 - Not material
 - 2008 return on equity up at many Canadian utility operations
 - ROEs up 25 bps at Terasen Gas, Terasen Gas Vancouver Island, FortisBC, FortisAlberta and Newfoundland Power
-

Figure 1: Fortis Inc. first quarter financial details

Millions of dollars (except per share data)	First Quarter Earnings			
	2007	2008	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Integration going well and earnings and Terasen earnings in-line with expectations; gas volumes up 2.9% due to favourable economic activity.
Terasen Gas	–	\$58		Accounting change shifts distribution of expense for purchased power. Lowers Q1 by \$6 mln but will fully recover in Q2 and Q3. No impact to full year.
Newfoundland Power	\$11	\$6	(42.9%)	Lower tax recoveries, higher depreciation and employee-related costs.
FortisAlberta	\$12	\$11	(7.6%)	
FortisBC	\$12	\$12	2.6%	Allowed ROE up 25 bps and rate increase partly offset by lower sales from forestry slowdown.
Other Canadian Regulated Utilities	\$4	\$4	11.1%	
Total Canadian Earnings	\$38	\$91	141.4%	
Regulated Utilities - Caribbean	\$6.4	\$7.0		Higher production and favourable impact of calculating deferred fuel costs at Caribbean Utilities under new license.
Non-Regulated				
Fortis Generation	\$7	\$6	(17.8%)	Lower production and impact of strong C\$.
Fortis Properties	\$2	\$3	66.7%	
Total Non-Regulated Earnings	\$9	\$9	(1.1%)	Delta Regina properties acquired Aug/07 and good Rev/Available Room.
Corporate and Consolidated Adjustments	(\$10)	(\$16)	64.9%	
Recurring Earnings	\$44	\$91	109.2%	Higher costs to finance Terasen purchase.
Non-recurring items	(\$2)	\$0		
Reported Net Earnings	\$41	\$91	121.4%	
EPS:				
Recurring	\$0.40	\$0.58	46.1%	In-line with 55¢ consensus estimate
Non-recurring items	(\$0.02)	\$0.00		
Reported	\$0.38	\$0.58		\$1.15 bln common share issue to fund Terasen purchase last year.
Cash Flow Per Share	\$0.82	\$1.19	44.4%	
Average Shares Outstanding (mln)	109.4	156.6	43.1%	
Regulated				
Earnings	\$44	\$98	122.2%	Higher regulated earnings as a result of Terasen addition.
% of total	101%	108%		
Non-Regulated				
Earnings	\$9	\$9	(1.1%)	
% of total	21%	10%		
Corporate				
Earnings	(\$9.7)	(\$16.0)	(64.9%)	Terasen purchase finance cost.
% of total	(22.3%)	(17.6%)		

Source: Fortis Inc.; Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk

could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Price Chart:*

Date	Analyst	Rating	Target Price
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2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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(as of 1 April 2008)

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	#	%	%
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Speculative Buy	61	11.7%	60.7%
Hold	122	23.5%	16.4%
Sell	20	3.8%	5.0%
	520	100.0%	

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EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
EPS:	C\$1.39	C\$1.34	C\$1.60	C\$1.70
P/E (x):	20.1	20.9	17.5	16.4
CFPS:	C\$2.97	C\$3.37	C\$3.50	C\$3.70
P/CF (x):	9.4	8.3	8.0	7.6

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy – Pipeline and Power Utilities

ANOTHER SOLID QUARTER

Event

Fortis released first quarter recurring earnings per share of \$0.58 versus \$0.40 last year and slightly above the \$0.55 consensus estimate.

Impact

Neutral.

Valuation

We are reducing our target by \$1.00 to C\$31.00 but are maintaining our BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers. Consequently, a slightly lower earnings estimate and growth profile has impacted our target price.

Outlook

We are reducing our 2008 and 2009 EPS estimates by \$0.05 for both years to \$1.60 and \$1.70, respectively to reflect slower than expected earnings growth at FortisAlberta and a slower earnings growth from its Caribbean operations with the absorption of a new regulatory licence at Caribbean Utilities. While capital spending continues and is adding to its Alberta rate base, prior years' earnings were positively impacted by tax recoveries that are not repeatable, keeping earnings relatively flat in 2008 before growing again in 2009.

The biggest contributor to the expected \$0.26 per share earnings gain in 2008 is the \$0.15 estimated contribution from a full year of Terasen (after being a \$0.07 drain in 2007). Increased allowed returns and higher rate bases at many of its Canadian regulated operations will also improve results in 2008. Longer-term earnings growth should be helped

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by planned capital spending of about \$900 million in 2008 and \$4 billion over the next five years. The company is still on the hunt for profitable acquisitions of regulated natural gas and electric utilities in Canada, the US and the Caribbean that fit well with existing utility operations. Fortis will also consider acquisitions in its non-regulated businesses (mainly at Fortis Properties) that tax-effectively support its utility growth and acquisitions.

First quarter earnings

First quarter recurring earnings were \$0.58 versus \$0.40 last year, slightly above the \$0.55 consensus estimate. Note that the results would have been \$0.04 higher at \$0.62, but an accounting change at Newfoundland Power shifted more power purchase expenses into the first and fourth quarters from the middle two quarters (there is no impact on annual earnings). The earnings improvement was primarily due to Terasen Gas purchased last May, which has a seasonally strong first quarter. Caribbean-regulated utilities improved modestly due to higher production and a favourable accounting change for deferred fuel costs under the new Transmission and Distribution licence at Caribbean Utilities. FortisAlberta, FortisBC and other Canadian regulated utilities were generally flat over last year. As has been the case for some time now, foreign earnings improvements were partly offset by the stronger Canadian dollar. For more details on the first quarter results, please refer to Figure 1.

Noteworthy

- A new government repealed recent tariff amendment at Belize Electricity
 - Currently working to resolve the issue
 - Could negatively impact earnings by \$0.7 million annually
 - Belize Electricity filed application to recover rising costs of power
 - Application was disallowed
 - Annual Tariff Review recently filed requesting 13.5% rate increase
 - Decision expected in Q2/08
 - FERC issued an order repealing its original order of a \$2 million refund to FortisOntario
 - Could reverse a one-time \$2 million gain to Fortis
 - Not material
 - 2008 return on equity up at many Canadian utility operations
 - ROEs up 25 bps at Terasen Gas, Terasen Gas Vancouver Island, FortisBC, FortisAlberta and Newfoundland Power
-

Figure 1: Fortis Inc. first quarter financial details

Millions of dollars (except per share data)	First Quarter Earnings			
	2007	2008	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Integration going well and earnings and Terasen earnings in-line with expectations; gas volumes up 2.9% due to favourable economic activity.
Terasen Gas	–	\$58		Accounting change shifts distribution of expense for purchased power. Lowers Q1 by \$6 mln but will fully recover in Q2 and Q3. No impact to full year.
Newfoundland Power	\$11	\$6	(42.9%)	Lower tax recoveries, higher depreciation and employee-related costs.
FortisAlberta	\$12	\$11	(7.6%)	
FortisBC	\$12	\$12	2.6%	Allowed ROE up 25 bps and rate increase partly offset by lower sales from forestry slowdown.
Other Canadian Regulated Utilities	\$4	\$4	11.1%	
Total Canadian Earnings	\$38	\$91	141.4%	
Regulated Utilities - Caribbean	\$6.4	\$7.0		Higher production and favourable impact of calculating deferred fuel costs at Caribbean Utilities under new license.
Non-Regulated				
Fortis Generation	\$7	\$6	(17.8%)	Lower production and impact of strong C\$.
Fortis Properties	\$2	\$3	66.7%	
Total Non-Regulated Earnings	\$9	\$9	(1.1%)	Delta Regina properties acquired Aug/07 and good Rev/Available Room.
Corporate and Consolidated Adjustments	(\$10)	(\$16)	64.9%	
Recurring Earnings	\$44	\$91	109.2%	Higher costs to finance Terasen purchase.
Non-recurring items	(\$2)	\$0		
Reported Net Earnings	\$41	\$91	121.4%	
EPS:				
Recurring	\$0.40	\$0.58	46.1%	In-line with 55¢ consensus estimate
Non-recurring items	(\$0.02)	\$0.00		
Reported	\$0.38	\$0.58		\$1.15 bln common share issue to fund Terasen purchase last year.
Cash Flow Per Share	\$0.82	\$1.19	44.4%	
Average Shares Outstanding (mln)	109.4	156.6	43.1%	
Regulated				Higher regulated earnings as a result of Terasen addition.
Earnings	\$44	\$98	122.2%	
% of total	101%	108%		
Non-Regulated				
Earnings	\$9	\$9	(1.1%)	
% of total	21%	10%		
Corporate				Terasen purchase finance cost.
Earnings	(\$9.7)	(\$16.0)	(64.9%)	
% of total	(22.3%)	(17.6%)		

Source: Fortis Inc.; Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk

could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Site Visit:

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 April 2008)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	317	61.0%	40.4%
Speculative Buy	61	11.7%	60.7%
Hold	122	23.5%	16.4%
Sell	20	3.8%	5.0%
	520	100.0%	

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Risk Qualifier:

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$27.31

BUY

Target: C\$30.00 ↓

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COMPANY STATISTICS:

52-week Range: C\$24.50 - 29.94
Avg. Daily Vol. (000s): 447.7
Market Cap (M): C\$4,382.84
Shares Out (M): 156.8
Current Dividend: C\$1.00
Current Dividend Yield %: 3.6

EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
EPS:	C\$1.39	C\$1.34	C\$1.60	C\$1.70
P/E (x):	20.1	20.9	17.5	16.4
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P/CF (x):	9.4	8.3	8.0	7.6

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All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

PUC DECISION ELIMINATES A YEAR OF BELIZE EARNINGS

Event

Belize Electricity Limited (BEL; 70.1% owned by Fortis) received a regulatory decision that retroactively disallowed C\$18 million (\$12.6 million to Fortis) of previously incurred costs and reduced Belize Electricity's rate of return on assets to 10% from 12%.

Impact

Negative, as it wipes out over one year's worth of Belize earnings. However, the Initial Decision was released on May 2 and the shares of Fortis appear to have already discounted the impact. Fortis' total Belize investment is about \$200 million (\$1.28 per share) and this decision applies to just the regulated half of its operations. Since May 1, Fortis has trailed its Canadian peers by 3% or about \$0.80 per share or \$125 million in total. Consequently, it appears that investors have already eliminated more than the full value of its regulated investment, despite the possibility of successful appeals by the companies. If the stock overreacts to this news, we would BUY on the weakness.

Valuation

We are reducing our target price to \$30 from \$31 to reflect the uncertainty of the value of the Belize investment but maintaining our BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

The Public Utilities Commission (PUC) in Belize issued a Final Decision on the Annual Rate Review Proceeding for BEL (70.1% Fortis Inc.

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owned). The Decision retroactively disallowed previously incurred costs by BZ\$36 million (C\$18 million; C\$12.6 million). Following the Initial Decision, BEL filed a number of objections which were addressed by an Independent Expert hired by the Commission. However, the PUC failed to incorporate a majority of the recommendations and decided to maintain the 2007 mean electricity rate. BEL will likely appeal this decision and Fortis itself may take its case to court as the decision violates the agreement reached when it originally purchased its assets.

Fortis said in its news release: "The Final Decision violates both established regulatory practice and contractual obligations made by the Government of Belize at the time Fortis made its initial investment in Belize Electricity. Fortis is considering its options and legal remedies." Fortis is not prepared to walk from its investment without appropriate compensation. Possibly if the Government of Belize was interested in buying it from Fortis at a FAIR price... Though this is unlikely to happen any time soon.

Significant changes to BEL's Cost of Power Rate Stabilization Account:

1. 80% BEL's actual cost of power was reduced for January and February 2008 due to claims that BEL did not dispatch sufficient hydro resources
2. Depreciation rates were lowered for 2005 through 2007
3. Actual versus projected total return
4. Eliminated all previous balances in the Hurricane Cost Rate Stabilization Account

PUC's Initial Decision reduced BEL's rate of return to 8.5%, below the company's 10% average cost of debt and below the risk-free debt rate for the Government of Belize (estimated by the International Monetary Fund to be over 9%). The decision also requires BEL, from its own funds, re-establish the BZ\$5,000,000 deposit for the Insurance Reserve Fund (about \$1.7 million value to Fortis).

As required under the appeal, the decision was put before an Independent Expert. The Expert did have some questions regarding BEL's Hurricane account and other disclosure practices. However, for the most part, the Expert did not agree with the PUC's adjustments to the Cost of Power Rate Stabilization Account or the rate of return decision, and instead recommended: the 2008 rate be set to 12% given current market conditions; no disallowances of power costs for the first two months of the year as the PUC agreed with BEL's rule curve for dispatching hydro; and the balance of the Hurricane account should not be eliminated (though further investigation was warranted). Despite believing the depreciation and return adjustments were inconsistent with *Good Utility Practices*, he did include the PUC's adjustments in his recommendations. Regardless of his recommendations, the Commission ignored the Expert and maintained its original stance on a majority of issues.

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk

could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Site Visit:

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

Price**Chart:***

	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Buy	16.25
2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 30 May 2008)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	331	61.1%		36.6%
Speculative Buy	56	10.3%		60.7%
Hold	131	24.2%		23.7%
Sell	24	4.4%		8.3%
	542	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

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Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$26.76

HOLD ↓

Target: C\$29.00 ↓

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COMPANY STATISTICS:

52-week Range: C\$24.11-29.94
 Avg. Daily Vol. (000s): 447.7
 Market Cap (M): C\$4,194.74
 Shares Out (M): 156.8
 Current Dividend: C\$1.00
 Current Dividend Yield %: 3.7

EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
EPS:	C\$1.39	C\$1.34	C\$1.50	C\$1.55
P/E (x):	19.3	20.0	17.8	17.3
CFPS:	C\$2.97	C\$3.37	C\$3.50	C\$3.70
P/CF (x):	9.0	7.9	7.6	7.2

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy – Pipeline and Power Utilities

DELAYED GROWTH, LOWERED EARNINGS, TARGET AND RATING

Event

Fortis released second quarter recurring earnings per share of \$0.28 versus \$0.32 last year, in line with the consensus estimate. However, gains at Terasen and Newfoundland Power that will not improve our annual earnings estimate offset a negative impact from Alberta taxes and corporate expenses.

Impact

Negative. We are reducing our outlook for 2008 and 2009 earnings.

Valuation

We are reducing our 12-month target price to C\$29.00 from C\$30.00 due to modestly lower earnings estimates and lowering our rating to HOLD from Buy. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both Fortis's historical valuation and its utility and pipeline peers.

Outlook

We are lowering our 2008 estimate to \$1.50 (excluding the one-time \$0.08 from a retroactive fuel cost issue in Belize) from \$1.60 per share and our 2009 estimate to \$1.55 from \$1.70. While Fortis continues to perform on track in most of its operations, earnings will be hurt by elevated Alberta taxes and corporate expenses. Corporate taxes at FortisAlberta have dampened earnings by about \$9 million so far this year due to the timing of the collection of Alberta Electric System Operator (AESO) deferral account charges. This deferral account captures variances from customer transmission charges and their actual cost with a two-year regulatory lag between when they are collected or refunded

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in customer rates. This issue was mitigated in the past by selling the receivable balance to a bank, allowing FortisAlberta to record the proceeds in the year they were incurred. Due to widening credit spreads Fortis elected not to pursue this option for 2008. Outside of this segment, Terasen continues to perform as expected and should be biggest source of earnings improvement this year. Increased allowed returns and higher rate bases at many of its Canadian regulated operations will also improve results in 2008. Longer-term earnings growth should be helped by planned capital spending of over \$900 million in 2008 and \$4.5 billion over the next five years (up from the \$4 billion estimate last quarter).

Second quarter earnings

Second quarter recurring earnings were \$0.28 per share versus \$0.32 last year, in line with the \$0.27 consensus estimate. A stronger earnings performance versus the same quarter last year was muted by a 20% increase in shares outstanding to fund last year's Terasen purchase. As expected, earnings growth largely stemmed from Terasen Gas (\$12 million versus \$1.6 million in Q2/07), which contributed for the full second quarter this year (acquired on May 17 last year). Fortis Generation also improved due to increased production at the Central Newfoundland hydroelectric facility and increased average wholesale energy prices in both Ontario and upper New York State. Fortis Properties' earnings grew by \$1 million due to the contribution from Delta Regina (purchased August 1, 2007), improved performance at its Atlantic Canada hospitality operations and higher average room rates. While Newfoundland Power's contribution rose 25%, the increase was due to an accounting change that shifted power purchase expenses into the first and fourth quarters from the middle two quarters (there is no impact on annual earnings). Earnings growth was offset by an \$8 million (\$0.05 per share) decline at FortisAlberta mainly due to higher corporate taxes associated with AESO approval of its charges deferral account and timing of its collection. Note that reported earnings were \$0.18 per share versus \$0.32 last year due to the inclusion of a one-time \$8 million charge at Belize Electricity from disallowed previously incurred fuel and purchase power costs, a \$2 million charge at FortisOntario as a result of the FERC reversing its stance on transmission charges with Niagara Mohawk Power Corp (\$2 million gain reported in Q4/07 was essentially reversed) and a \$0.6 million gain at FortisBC from insurance proceeds associated with a turbine generator failure in 2006. For more details on the second quarter results, please refer to Figure 1.

Noteworthy

- FortisOntario and Grimsby Power just entered into a non-binding letter of intent
 - FortisOntario to acquire a 10% minority interest in Grimsby Power's electricity distribution business for ~\$1.1 million and the cost to integrate Grimsby Power's customer information system service to FortisOntario's SAP-based system
 - Caribbean Utilities and Government of Cayman Islands signed an exclusive 20-year transmission and distribution license and 21.5-year generation license
 - Under the T&D licence, customer rates set using initial target rate of return on asset base of 10%; down from 15% in previous licence
 - Caribbean Utilities announced a US\$28 million rights offering in June 2008
 - To repay credit facility and finance capex
-

- Closes August 15
- Fortis to buy its share, plus any unsubscribed rights
- Fortis Generation
 - Average Q2 wholesale energy prices: \$46.86/MWh vs. \$42.93/MWh in Ontario and \$80.89/MWh vs. \$56.97/MWh in upper New York State
 - Reservoirs in central Newfoundland hydro facility at ~two-thirds of maximum; Chalillo reservoir in Belize full

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

11 August 2008

Figure 1: Fortis Inc. second quarter financial details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2007	2008	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Reflects full quarter of earnings vs ~1.5 months last year (acquired May 17, 2007)
Terasen Gas	\$1.6	\$12.0	n.m.	Quarterly shift in annual purchased power expense raised earnings by \$2.5 mln this quarter.
Newfoundland Power	\$8.0	\$10.0	25.0%	
FortisAlberta	\$15.5	\$7.0	(54.8%)	Higher corporate taxes associated with regulator approved charges for deferral account and timing of its collection.
FortisBC	\$6.5	\$6.4	(1.5%)	
Other Canadian Regulated Utilities	\$4.0	\$4.0	0.0%	
Total Canadian Earnings	\$35.6	\$39.4	10.7%	
Regulated Utilities - Caribbean	\$7.6	\$8.0	5.3%	Excludes \$8 mln charge from disallowed fuel and purchased power costs incurred at Belize Electricity.
Non-Regulated				
Fortis Generation	\$4.9	\$7.0	42.9%	13.9% higher production and higher wholesale energy prices.
Fortis Properties	\$6.0	\$7.0	16.7%	
Total Non-Regulated Earnings	\$10.9	\$14.0	28.4%	Contribution from Delta Regina acquired on Aug. 1/07 and higher revenue per available room.
Corporate and Consolidated Adjustments	(\$12.6)	(\$18.0)	42.9%	Includes \$8 mln Belize charge, \$2 mln charge at FortisOntario for repayment of interconnection agreement received in Q4/07 and \$0.6 mln of insurance proceeds at FortisBC.
Recurring Earnings	\$41.5	\$43.4	4.6%	
Non-recurring items		(\$14.4)		
Reported Net Earnings	\$41.5	\$29.0	(30.1%)	
EPS:				
Recurring	\$0.32	\$0.28	(12.7%)	In-line with 27 consensus but ... not the way we wanted.
Non-recurring items	\$0.00	(\$0.09)		
Reported	\$0.32	\$0.18		
Cash Flow Per Share	\$0.88	\$1.05	18.6%	\$1.15 bln common share issue to fund Terasen purchase last year.
Average Shares Outstanding (mln)	131.1	157.0	19.8%	
Regulated				
Earnings	\$43.2	\$47	9.7%	Higher as a result of Terasen addition.
% of total	104%	109%		
Non-Regulated				
Earnings	\$10.9	\$14	28.4%	Stems mainly from increased contribution from Fortis Generation.
% of total	26%	32%		
Corporate				
Earnings	(\$12.6)	(\$18.0)	(42.9%)	Finance of Terasen purchase.
% of total	(30.4%)	(41.5%)		

Source: Fortis Inc; Canaccord Adams

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Price Chart:*

	Date	Analyst	Rating	Target Price
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2)	11/03/04	BH	Buy	17.50
3)	01/26/05	BH	Buy	19.00
4)	02/09/05	BH	Hold	19.50
5)	04/04/05	BH	Hold	18.75
6)	06/30/05	BH	Hold	20.00
7)	09/29/05	BH	Hold	24.00
8)	11/24/05	BH	Hold	26.00
9)	05/02/06	BH	Buy	26.00
10)	09/28/06	BH	Buy	28.00
11)	05/02/08	BH	Buy	31.00
12)	06/30/08	BH	Buy	30.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 5 August 2008)

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	#	%	%
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Speculative Buy	59	10.1%	57.6%
Hold	126	21.6%	21.4%
Sell	24	4.1%	12.5%
	583	100.0%	

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Fortis Inc.

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COMPANY STATISTICS:

52-week Range: C\$24.11 - 29.94
 Avg. Daily Vol. (000s): 447.7
 Market Cap (M): C\$3,945.50
 Shares Out (M): 156.8
 Current Dividend: C\$1.00
 Current Dividend Yield %: 4.0

EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
EPS:	C\$1.39	C\$1.34	C\$1.50	C\$1.55
P/E (x):	17.9	18.5	16.6	16.0
CFPS:	C\$2.97	C\$3.37	C\$3.40	C\$3.55
P/CF (x):	8.4	7.4	7.3	7.0

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities**RATING RAISED TO BUY ON SHARE PRICE WEAKNESS****Event**

We are raising our rating on the shares of Fortis to BUY from Hold due to recent share price weakness but we are making no change to our C\$29.00 target price.

Valuation

We are raising our target price to BUY from Hold and maintaining our target price of C\$29.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions

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arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Site Visit:

An analyst has visited with the issuer's management and some of the issuer's material operations. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00
11) 05/02/08	BH	Buy	31.00
12) 06/30/08	BH	Buy	30.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 5 August 2008)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	374	64.2%	35.8%
Speculative Buy	59	10.1%	57.6%
Hold	126	21.6%	21.4%
Sell	24	4.1%	12.5%
	583	100.0%	

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$26.21

BUY**Target: C\$29.00**

Bob Hastings, CFA 1.604.643.0177
 bob.hastings@canaccordadams.com
 Juan Plessis, MBA, CFA 1.604.643.0181
 juan.plessis@canaccordadams.com
 Christy Taylor 1.604.643.7034
 christy.taylor@canaccordadams.com

COMPANY STATISTICS:

52-week Range: C\$20.70 - 29.94
 Avg. Daily Vol. (000s): 432.8
 Market Cap (M): C\$4,160.58
 Shares Out (M): 157.3
 Current Dividend: C\$1.00
 Current Dividend Yield %: 3.8

EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
EPS:	C\$1.39	C\$1.34	C\$1.55	C\$1.60
P/E (x):	18.9	19.6	16.9	16.4
CFPS:	C\$2.97	C\$3.37	C\$3.40	C\$3.55
P/CF (x):	8.8	7.8	7.7	7.4

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities**OUTLOOK IMPROVES ON AESO CHARGES BEING OFFSET AND GOOD HYDROLOGY****Event**

Fortis released third quarter recurring earnings per share of \$0.24, modestly above the consensus estimate.

Impact

Modestly positive.

Valuation

We are maintaining our C\$29.00 target price and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are raising our 2008 EPS estimate to \$1.55 from \$1.50 to reflect strong hydrology and the company's ability to now recover previous transmission charges in Alberta from the Alberta Electric System Operator (AESO) via an income tax mechanism. We are also moving our 2009 EPS estimate up by \$0.05 to \$1.60 from \$1.55 for the same reason. The company is now applying tax deductions on AESO transmission tariffs that will improve annual earnings by ~\$0.05 per share in both 2008 and 2009. These charges were to be recovered from customers after a two-year lag, so while the cash flow impact is still delayed, the accounting change better matches the expense with its recovery and removes the negative earnings impact.

The company's operations are performing largely in line with expectations, with better-than-expected results from non-regulated generation due to strong hydrology. The company stated that with Terasen now substantially integrated into its operations, it is well positioned to pursue additional growth in its core areas. While Fortis has an adequate balance sheet, we believe potential acquisitions would have to be extremely attractive and immediately accretive in order for it to pursue them, given the current market environment. Regardless, the planned \$4.5 billion of capital spending in regulated operations over the next five years should help generate longer-term earnings growth even without a new acquisition.

Earnings Summary

Fortis generated \$0.24 per share of recurring earnings in the third quarter, versus \$0.20 last year, slightly above the \$0.21 consensus estimate. The year-over-year improvement was mainly due to higher rainfall and power prices Belize and an accounting change at Newfoundland Power which redistributes quarterly income (with no change in annual earnings). The improvement over consensus was due to the company being able to now offset the AESO transmission charge and the better hydrology. These improvements were partly offset by lower rates and hurricane related costs at the regulated Caribbean operations. For the first nine months of the year, recurring earnings were \$1.09 per share versus \$0.91 for the same period last year. For more details on the third quarter results, please refer to Figure 1.

Noteworthy Items

- Non-recurring items
 - Tax settlement of \$5.5 million recorded at Terasen Gas
 - \$2 million tax reduction stemming from prior periods
 - FortisAlberta Q3 earnings includes \$4.5 million recovery of future taxes
 - Applies to Q2/08
 - FortisOntario to acquire 10% interest in Grimsby Power Inc. for \$1.1 million
 - Caribbean Utilities (CUC)
 - Now owns 57%, up from 54%
 - 2.1 mln shares purchased in August Rights Offering
 - 267,669 shares purchased in October through a private arrangement
 - Fortis Q4/08 results to benefit from five months of CUC financial results
 - Change in CUC's fiscal year-end
-

Figure 1: Fortis Inc. third quarter financial details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2007	2008	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				Seasonal earnings, mainly in Q1 & Q4.
Terasen Gas	(\$4)	(\$5)	n.m.	Quarterly shift in purchased power expense raised earnings by \$5.5 mln in Q3 - no annual impact.
Newfoundland Power	\$3	\$8	196.3%	
FortisAlberta	\$15	\$13	(15.0%)	Higher proportion of company-owned hydro production lowered energy costs.
FortisBC	\$6	\$8	29.0%	
Other Canadian Regulated Utilities	\$4	\$5	13.6%	Lower rates at Belize Elec. & Caribbean Utilities. Includes \$1 mln of Hurricane Ike costs at Fortis Turks and Caicos.
Total Canadian Earnings	\$24	\$29	19.3%	
Regulated Utilities - Caribbean	\$10	\$7	(28.6%)	
Non-Regulated				Higher rainfall in NY and Belize; higher realized prices.
Fortis Generation	\$5	\$9	80.0%	
Fortis Properties	\$8	\$9	12.5%	REVPAR starting to slip; \$93.64 vs \$95.11.
Total Non-Regulated Earnings	\$13	\$18	38.5%	
Corporate and Consolidated Adjustments	(\$16)	(\$17)	4.3%	
Recurring Earnings	\$31	\$37	20.1%	\$7.5 mln of tax reductions at Terasen Gas applicable to prior periods; \$4.5 mln of future tax recoveries applicable to Q2/08 at FortisAlberta.
Non-recurring items	\$0	\$12		
Reported Net Earnings	\$31	\$49	59.1%	
EPS:				
Recurring	\$0.20	\$0.24	18.1%	Ahead of 21¢ consensus estimate.
Non-recurring items	\$0.00	\$0.08		
Reported	\$0.20	\$0.31		
Cash Flow Per Share	\$0.94	\$0.83	(11.6%)	
Average Shares Outstanding (mln)	154.5	157.2	1.7%	
Regulated				Mainly due to Newfoundland Power's quarterly shift of purchased power expense.
Earnings	\$34	\$36	5.6%	
% of total	111%	97%		
Non-Regulated				Increased contribution from Fortis Generation.
Earnings	\$13	\$18	38.5%	
% of total	42%	49%		
Corporate				
Earnings	(\$16)	(\$17)	(4.3%)	
% of total	(52.9%)	(45.9%)		

Source: Fortis Inc; Canaccord Adams

Investment risks

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Speculative Buy	57	9.8%	56.1%	
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Sell	18	3.1%	11.1%	
	582	100.0%		

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Fortis Inc.

FTS : TSX : C\$23.75

BUY**Target: C\$29.00**

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COMPANY STATISTICS:

52-week Range: C\$20.70-29.94
 Avg. Daily Vol. (000s): 537.9
 Market Cap (M): C\$4,013.75
 Shares Out (M): 169.0
 Current Dividend: C\$1.04
 Current Dividend Yield %: 4.4

EARNINGS SUMMARY:

FYE Dec	2007A	2008E	2009E	2010E
EPS:	C\$1.34	C\$1.51	C\$1.50	C\$1.60
P/E (x):	17.7	15.7	15.8	14.8
CFPS:	C\$3.37	C\$3.40	C\$3.50	C\$3.60
P/CF (x):	7.0	7.0	6.8	6.6

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Energy -- Pipeline and Power Utilities

STEADY Q4 EARNINGS; MAINTAINING BUY RATING AND C\$29.00 TARGET

Event

Fortis released fourth quarter recurring earnings per share of \$0.47, slightly above the \$0.46 consensus estimate.

Impact

Neutral

Valuation

We are maintaining our C\$29.00 target price and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2009 EPS estimate of \$1.50 and introducing a 2010 estimate of \$1.60. We expect growth to be driven mainly driven from regulated utilities, and we point to the company's 2008 capital program of \$900 million and 2009 program of \$1.0 billion.

The company's operations continue to perform well, with the positive exception of better than expected results at FortisAlberta and in its non-regulated generation. However, while 2009 earnings will grow from the capital expansion program, the benefit may well be completely offset by: loss of its non-regulated Ontario generation at the end of the first quarter that could remove about \$10 million of earnings; challenges at its Hospitality Division at Fortis Properties due to the economy; lower

growth at its Caribbean operations as tourism slows; modestly lower allowed ROEs at many of the company's utility operations; and dilution from the 11.7 million share issue in December. Longer term, the company will continue to pursue acquisitions in regulated natural gas and electric utilities in Canada, the US and the Caribbean, now that the Terasen acquisition has been fully integrated into its operations. We believe any potential acquisitions would need to be extremely attractive given the current economic and credit market environment. Regardless, the \$4.5 billion of capital spending at the company's regulated operations over the next five years should help generate longer-term earnings growth.

Fourth quarter earnings summary

Fortis generated \$0.47 per share of recurring earnings in the fourth quarter, versus \$0.44 last year, just above the \$0.46 consensus estimate. The improvement was mainly generated from lower future income taxes at FortisAlberta and higher earnings at Terasen Gas. These improvements were partly offset by hurricane-related costs at the regulated Caribbean operations and a \$2 million impact at Newfoundland Power from the quarterly shift in purchased power expense (although neutral for the full year). For the full year, recurring earnings were \$1.51 per share versus \$1.34 for the same period last year, due primarily to the full year-inclusion of Terasen. For more details on the fourth quarter and full year results, please refer to Figures 1 and 2.

Noteworthy items

- Some projects completion dates delayed
 - Terasen's 50 km pipeline lateral from Squamish to Whistler
 - Completion slipped from summer 2008 to April 2009
 - No impact on cost
 - \$53 million Vaca generating facility in Belize
 - Start-up early 2010 versus late 2009
 - 2009 capital expenditure program of \$1.045 billion
 - Terasen – \$287 million
 - FortisAlberta – \$292 million
 - FortisBC – \$160 million
 - Newfoundland Power – \$65 million
 - Other Canadian regulated utilities – \$34 million
 - Regulated Caribbean utilities – \$118 million
 - Non-regulated utility operations – \$56 million
 - Fortis Properties – \$33 million
 - Belize Electricity now in violation of debt covenants
 - BZ\$11 million with the Caribbean Development Bank and the International Bank for Reconstruction and Development
 - First Caribbean Bank withdrew credit facility in November
-

- Repaid BZ\$4 million out of cash flow
 - Scotiabank may not renew BZ\$5.1 million credit facility, but not yet used
 - Lower energy prices provides some near-term liquidity relief
- Impact of global economic downturn
 - Growth at Fortis Properties Hospitality Division may be challenging
 - Caribbean growth may decline with lower tourism
- Pension plan assets declined by \$95 million, or 14% from previous year
 - Fortis expects no material increase in pension expense in 2009
 - Actuarial valuations scheduled for completion in 2009 and 2010
 - Longer-term pension funding obligations could increase

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

Figure 1: Fourth-quarter earnings**Fortis Inc.**

Millions of dollars
(except per share data)

Regulated Utilities - Canadian

Terasen Gas

\$45 \$47 4.4%

Newfoundland Power

\$9 \$8 (11.1%)

FortisAlberta

\$6 \$11 83.3%

FortisBC

\$7 \$7 0.0%

Other Canadian Regulated Utilities

\$2 \$3 100.0%

Total Canadian Earnings

\$69 \$76 10.9%

Regulated Utilities - Caribbean

\$9 \$7 (22.2%)

Non-Regulated

Fortis Generation

\$7 \$8 19.4%

Fortis Properties

\$4 \$4 0.0%

Total Non-Regulated Earnings

\$11 \$12 12.1%

Corporate and Consolidated Adjustments

(\$20) (\$20) 0.0%

Recurring Earnings

\$68 \$75 10.0%

Non-recurring items

\$11 \$1

Reported Net Earnings

\$79 \$76 (3.8%)

Higher ROE partly offset by increased labour costs.

Quarterly shift in purchased power expense lowered earnings by \$2 mln in Q4 - no annual impact.

Lower future income tax expenses partly offset by higher labour costs, increased amortization due to capex program and increased financing costs

Higher rates offset by increased purchase power costs and amortization expense.

Favorable FX, offset by hurricane costs and higher opex.

3% higher production, higher prices and lower interest expenses due to Nov/07 refinancing.

Includes \$5 mln business development costs.

\$1 mln benefit from change in Caribbean Utilities' fiscal year end that added 2 months' results.

EPS:

Recurring

\$0.44 \$0.47 7.5%

Non-recurring items

\$0.07 \$0.01

Reported

\$0.51 \$0.48

Cash Flow Per Share

\$0.92 \$0.98 6.0%

Average Shares Outstanding (mln)

155.4 158.9 2.3%

In-line with 46¢ consensus estimate.

11.7 mln share issue in December.

Regulated

Earnings

\$78 \$83 7.1%

% of total

88% 111%

Due mainly from lower future taxes at FortisAlberta.

Non-Regulated

Earnings

\$11 \$12 12.1%

% of total

12% 16%

More production at Fortis Generation.

Corporate

Earnings

(\$20) (\$20) 0.0%

% of total

(29.3%) (26.7%)

Figure 2: Full-year earnings**Fortis Inc.**

Millions of dollars (except per share data)	Full Year Earnings			
	2007	2008	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				2008 earnings reflect full year contribution of Terasen Gas vs 7.5 months in 2007.
Terasen Gas	\$43	\$113	161.6%	Higher customer rates, lower operating and financing charges.
Newfoundland Power	\$30	\$32	6.7%	
FortisAlberta	\$48	\$46	(4.2%)	Lower future tax recoveries, higher headcount and increased depreciation/interest expenses due to ongoing capex.
FortisBC	\$31	\$33	7.7%	
Other Canadian Regulated Utilities	\$15	\$16	10.3%	
Total Canadian Earnings	\$167	\$240	44.1%	Primarily due to lower rates at Belize Electricity and Caribbean Utilities and Hurricane Ike costs.
Regulated Utilities - Caribbean	\$33	\$29	(13.2%)	
Non-Regulated				Increased wholesale electricity prices, more production and lower financing charges.
Fortis Generation	\$24	\$17	(28.3%)	
Fortis Properties	\$20	\$23	15.0%	Full year contribution from the Delta Regina hotel acquired Aug/07.
Total Non-Regulated Earnings	\$44	\$40	(8.5%)	
Corporate and Consolidated Adjustments	(\$59)	(\$71)	20.3%	
Recurring Earnings	\$185	\$238	28.9%	Terasen financing charges in for full year, higher preference share dividends and greater business development costs, partly offset by higher corporate tax recovery.
Non-recurring items	\$8	\$7		
Reported Net Earnings	\$193	\$245	26.9%	
EPS:				
Recurring	\$1.34	\$1.51	12.7%	In-line with the consensus estimate.
Non-recurring items	\$0.06	\$0.05		
Reported	\$1.40	\$1.56		
Cash Flow Per Share	\$3.56	\$3.95	11.0%	
Average Shares Outstanding (mln)	137.6	157.4	14.4%	

Regulated				
Earnings	\$200	\$269	34.5%	Due mainly from full year contribution of Terasen in 2008.
% of total	108%	113%		
Non-Regulated				
Earnings	\$44	\$40	(8.5%)	Improvements at Fortis Generation and addition of Delta Regina hotel.
% of total	24%	17%		
Corporate				
Earnings	(\$59)	(\$71)	(20.3%)	
% of total	(32.0%)	(29.8%)		

Source: Fortis; Canaccord Adams

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Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00
11) 05/02/08	BH	Buy	31.00
12) 06/30/08	BH	Buy	30.00
13) 08/11/08	BH	Hold	29.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 4 February 2009)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	339	60%		31%
Speculative Buy	68	12%		53%
Hold	135	24%		24%
Sell	23	4%		26%
	565	100%		

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental

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Fortis Inc.

FTS : TSX : C\$22.23

BUY**Target: C\$29.00**

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 Juan Plessis, MBA, CFA 1.604.643.0181
 juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range: C\$20.70 - 28.34
 Avg. Daily Vol. (000s): 593.0
 Market Cap (M): C\$3,756.87
 Shares Out (M): 169.0
 Current Dividend: C\$1.04
 Current Dividend Yield %: 4.7

EARNINGS SUMMARY:

FYE Dec	2007A	2008A	2009E	2010E
EPS:	C\$1.34	C\$1.51	C\$1.50	C\$1.60
P/E (x):	16.6	14.7	14.8	13.9
CFPS:	C\$3.37	C\$3.40	C\$3.65	C\$3.90
P/CF (x):	6.6	6.5	6.1	5.7

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities

NO SURPRISES IN Q1 RESULTS; MAINTAINING BUY RATING AND C\$29.00 TARGET PRICE

Event

Fortis released first-quarter recurring earnings per share of \$0.53, modestly below the \$0.57 consensus estimate.

Impact

Neutral.

Valuation

We are maintaining our C\$29.00 target price and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2009 and 2010 EPS estimates of \$1.50 and \$1.60, respectively. Growth will be driven mainly driven from \$900 million of capital expenditures invested in regulated operations and planned capital expenditures of \$1.0 billion in 2010. Our outlook for Fortis's various operations remain unchanged. Regulated utilities should continue to benefit from higher-rate bases as the strong capital spending program continues over the next five years. In addition, we could see some improvements in allowed ROEs beginning in 2010 if Canadian regulators mirror the National Energy Board's (NEB) recent approach to rate-making. Last month, the NEB abandoned its ROE formula approach in favour of an after-tax weighted average cost of capital approach on its recent decision regarding TQM Pipeline that also better recognized risk issues and raised its allowed equity return.

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<http://www.canaccordadams.com/research/Disclosure.htm>.

As the NEB was the originator of the formula ROE approach, the well laid out reasoning for the change should positively impact the regulatory methodologies at other regulatory jurisdictions that had previously adopted the NEB formula approach.

While 2009 earnings will benefit from the planned capital expenditures, the benefit will be mitigated by the loss of its non-regulated Ontario generation at the end of the first quarter; potentially lower earnings at Fortis Properties due to the poor economy; slower growth at its Caribbean operations as tourism moderates in the current economic climate; modestly lower allowed ROEs at many of the company's utility operations; and dilution from the 11.7 million share issue in December.

First-quarter earnings summary

Fortis reported first-quarter recurring income of \$0.53 per share, versus \$0.58 last year, modestly below the \$0.57 consensus estimate. Total earnings were flat over last year, but earnings per share were down because of an 8% increase in shares outstanding. Improved earnings at FortisBC and FortisAlberta from increased rate bases were partly offset by lower rates at the regulated Caribbean operations and a decline in earnings generated from the Fortis Properties division. Net reported earnings per share for the first quarter were \$0.54 which included \$2 million on non-recurring items at Fortis Turks and Caicos. For more details on the first-quarter results, please refer to Figure 1.

Noteworthy items

- Completed Terasen's 50-kilometre pipeline lateral from Squamish to Whistler
 - \$4.5 billion of capital spending over the next five years
 - \$3.1 billion at regulated electric utilities
 - \$1.2 billion at regulated gas utilities
 - \$0.2 billion at non-regulated operations
 - 2009 capital expenditure program of \$1 billion
 - Impact of global economic downturn
 - Fortis Properties Hospitality Division impacted modestly
 - Caribbean growth may decline with lower tourism (unless everyone switches from Mexico to the Caribbean!)
 - Pension expenses are almost exclusively related to regulated operations and are recoverable in rates
 - Actuarial valuations scheduled for completion in 2009 and 2010
-

Figure 1: Fortis first-quarter earnings details

Millions of dollars (except per share data)	First Quarter Earnings			
	2008	2009	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Customer growth offsets 15bps decline in ROE.
Terasen Gas	\$58	\$58		
Newfoundland Power	\$6	\$6	0.0%	
FortisAlberta	\$11	\$12	9.1%	Earnings growing with continued capital investment.
FortisBC	\$12	\$14	16.7%	
Other Canadian Regulated Utilities	\$4	\$5	25.0%	
Total Canadian Earnings	\$91	\$95	4.4%	Favourable FX more than offset by lower rates at Belize Electricity and Caribbean Utilities.
Regulated Utilities - Caribbean	\$7.0	\$4.0		
Non-Regulated				Lower production and wholesale prices in New York and Ontario offset by favourable FX and higher production in Belize.
Fortis Generation	\$6	\$6	0.0%	
Fortis Properties	\$3	\$2	(33.3%)	Lower occupancy rates and one-time transitional opex from purchase of Sheraton Hotel Newfoundland.
Total Non-Regulated Earnings	\$9	\$8	(11.1%)	
Corporate and Consolidated Adjustments	(\$16)	(\$17)	6.3%	
Recurring Earnings	\$91	\$90	(1.1%)	Lower debt levels and rates but higher costs on Pref shares issue in Q2/08.
Non-recurring items	\$0	\$2		
Reported Net Earnings	\$91	\$92	1.1%	
EPS:				Higher than our 50¢ estimate but below the 57¢ consensus estimate.
Recurring	\$0.58	\$0.53	(8.6%)	
Non-recurring items	\$0.00	\$0.01		
Reported	\$0.58	\$0.54		11.7 mln shares issue in Dec/2008.
Cash Flow Per Share	\$1.19	\$1.17	(1.6%)	
Average Shares Outstanding (mln)	156.6	169.4	8.2%	
Regulated				
Earnings	\$98	\$99	1.0%	
% of total	108%	110%		
Non-Regulated				Lower occupancy and one time opex at Fortis Properties.
Earnings	\$9	\$8	(11.1%)	
% of total	10%	9%		
Corporate				Higher financing costs
Earnings	(\$16.0)	(\$17.0)	(6.3%)	
% of total	(17.6%)	(18.9%)		

Source: Fortis Inc., Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could

adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Price Chart:*

Date	Analyst	Rating	Target Price
1) 06/08/04	BH	Buy	16.25
2) 11/03/04	BH	Buy	17.50
3) 01/26/05	BH	Buy	19.00
4) 02/09/05	BH	Hold	19.50
5) 04/04/05	BH	Hold	18.75
6) 06/30/05	BH	Hold	20.00
7) 09/29/05	BH	Hold	24.00
8) 11/24/05	BH	Hold	26.00
9) 05/02/06	BH	Buy	26.00
10) 09/28/06	BH	Buy	28.00
11) 05/02/08	BH	Buy	31.00
12) 06/30/08	BH	Buy	30.00
13) 08/11/08	BH	Hold	29.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 April 2009)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	314	57%		29%
Speculative Buy	69	13%		51%
Hold	144	26%		22%
Sell	25	5%		20%
	552	100%		

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
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Company	Disclosure
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Fortis Inc.

FTS : TSX : C\$24.93

BUY**Target: C\$29.00**

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Juan Plessis, MBA, CFA 1.604.643.0181
 juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range: C\$20.70-28.00
 Avg. Daily Vol. (000s): 593.0
 Market Cap (M): C\$4,233.11
 Shares Out (M): 169.8
 Current Dividend: C\$1.04
 Current Dividend Yield %: 4.2

EARNINGS SUMMARY:

FYE Dec	2008A	2009E	2010E
EPS:	C\$1.51	C\$1.50	C\$1.60
P/E (x):	16.5	16.6	15.6
CFPS:	C\$3.40	C\$3.65	C\$3.90
P/CF (x):	7.3	6.8	6.4

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**SMALL ONTARIO ACQUISITION AND DEBT ISSUES COMING****Event**

Fortis has agreed to purchase Great Lakes Power Distribution Inc. from Brookfield Renewable Power for \$68 million. The company also announced that it will issue senior unsecured debentures, although terms are not yet known.

Impact

Minimally positive.

Valuation

We are maintaining our C\$29.00 target price and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that its wholly owned subsidiary, FortisOntario, has entered into an agreement to purchase the shares of Great Lakes Power Distribution Inc. from Brookfield Renewable Power Inc. for \$68 million subject to normal closing adjustments. The purchase price is about book value or rate base, and will be under \$30 million once debt is issued to finance approximately 60% of rate base. Consequently, the investment represents only \$0.16 per Fortis share, or <0.7% of market cap, and will contribute around \$0.01 per share. Why make such a small investment? It enhances and expands the company's existing electricity distribution operations in Ontario and makes the company the only investor-held power utility in the province. This may also place it in a stronger position if the government ever eliminates the onerous

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municipal electricity utilities transfer tax that has stifled municipal utility sales. Fortis also announced that it has filed a preliminary prospectus in connection with the offering and sale of senior unsecured debentures. The terms and size of the offering are not yet known. The debentures will likely be longer term in nature (10 to 30 years) and the proceeds will be used to repay short-term or maturing debt. Expect another debt issue of around \$40 million to inject debt into the capital structure of Great Lakes Power Distribution after the deal closes. The acquisition is subject to regulatory approval by the Ontario Energy Board and *Competition Act* approval.

Great Lakes Distribution Inc.

- Serves approximately 12,000 customers
- Located in the district of Algoma in northern Ontario
- 1,800 kilometres of distribution lines that cover 14,200 square kilometres
- Meets a peak load of ≈ 40 MW and an annual energy requirement of 198 GWh

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

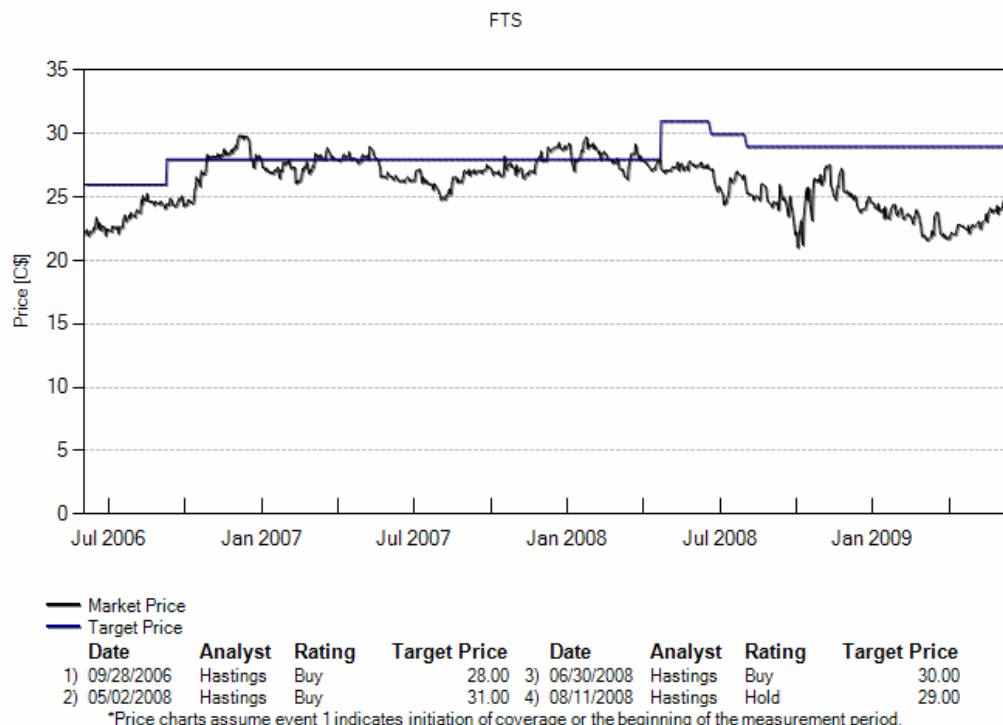
23 June 2009

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Site Visit:

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 3 June 2009)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	313	53.3%	25	25.2%
Speculative Buy	67	11.4%	20	44.8%
Hold	180	30.7%	19	21.7%
Sell	27	4.6%	10	22.2%
	587	100.0%		

Canaccord Ratings System:

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Fortis Inc.

FTS : TSX : C\$25.76

BUY**Target: C\$29.00**

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Juan Plessis, MBA, CFA 1.604.643.0181
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COMPANY STATISTICS:

52-week Range: C\$20.70 - 28.00
 Avg. Daily Vol. (000s): 566.0
 Market Cap (M): C\$4,377.50
 Shares Out (M): 170.0
 Current Dividend: C\$1.04
 Current Dividend Yield %: 4.0

EARNINGS SUMMARY:

FYE Dec	2008A	2009E	2010E
EPS:	C\$1.51	C\$1.50	C\$1.60
P/E (x):	17.1	17.2	16.1
CFPS:	C\$3.40	C\$3.65	C\$3.90
P/CF (x):	7.6	7.1	6.6

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**ANOTHER GOOD QUARTER****Event**

Fortis released second-quarter recurring earnings per share of \$0.31, modestly ahead of the \$0.27 consensus estimate.

Impact

Neutral.

Valuation

We are maintaining our C\$29.00 target price and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2009 and 2010 EPS estimates of \$1.50 and \$1.60, respectively. Growth will come from about \$1.0 billion/year of capital expenditures over the next five years, with \$4.75 billion of the expected \$5 billion total spending in regulated operations, generating about 7% annual rate base growth. In addition, regulated utilities should benefit from higher regulated returns beginning in 2010, as many provincial regulators are considering changes to their rate making approach. In the first quarter, the National Energy Board set precedence when it issued a decision on TQM Pipeline that moved away from its traditional ROE formula approach based on Government of Canada bond yields to an after-tax weighted average cost of capital approach that recognized higher equity premiums. This is expected to positively impact regulatory methodologies and ROEs at various provincial utilities, though we have added little to our 2010 forecast for improved returns given timing and economic uncertainty.

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On the down side, earnings are impacted by the expiry of its non-regulated Ontario generation contract in April and a poor economy that could produce lower earnings at Fortis Properties and slow the growth at its tourism-driven Caribbean operations.

Second-quarter results

Fortis reported second quarter recurring income of \$0.31 per share, versus \$0.22 last year, above the \$0.27 consensus estimate. Generally, we believe the differential is one of quarterly timing and does not impact our 2009 full year estimate. The improvement in earnings over last year was driven mainly by the non-recurrence of a \$13 million regulatory charge in Q2/08 (~\$0.08 per share) and \$5.5 million increase (~\$0.03 per share) in FortisAlberta earnings due mainly to a change in tax strategy. In addition, incremental earnings were delivered at most of the other Canadian regulated operations due to lower interest and tax rates and rate base additions from last year's capital spending. These improvements were partly offset by the expiry of the power-for-water agreement at the Rankine hydro facility which lowered earnings by \$3.4 million. Recurring earnings in the first half of the year was \$0.84 per share versus \$0.80 for the same period last year. For more details on the second quarter results, please refer to Figure 1.

Noteworthy items

- Economy and housing impacts new customer additions at Terasen
 - Net customer losses of 1,200 in Q2/09
- Capital Program
 - Spent \$496 million in H1/09
 - ~\$500 million to be spent in H2/09
 - \$5 billion capital expected to be spent in 2009-2013
 - ~\$3.5 billion at regulated electric utilities
 - ~\$1.25 billion at regulated gas utilities
 - ~\$0.25 billion at non-regulated operations
- Construction costs coming down
 - Okanagan Transmission Reinforcement Project to cost \$110 million versus \$141 million original estimate; 22% lower – labour, equipment, and commodity costs
- Debt issues in Q2 and Q3
 - Fortis Inc. – \$200 million, 6.51%, 30-year debentures in July/09
 - FortisBC - \$105 million, 6.1%, 30-year unsecured debentures in June/09
 - Newfoundland Power – \$65 million, 6.606%, 30-year first mortgage sinking bonds in May/09
 - Caribbean Utilities – US\$30 million 7.5%, 15-year unsecured notes in May/09
- Acquisitions
 - Closed purchase of 10% interest in Grimsby Power in Ontario for \$1 million
 - Agreement to purchase Great Lakes Power Distribution Inc. for \$68 million
- Pension funding costs based on Q1/09 completed actuarial valuations
 - \$22 million in '09, \$18 million in '10, \$6 million in '11, \$2 million in '12

5 August 2009

- Obligations may increase from Dec/09 and Dec/10 actuarial valuations
- Fortis Turks and Caicos
 - Commissioned two diesel generating units, increasing supply by 6 MW or 12.5%
 - Purchase 17.5 MW diesel engines for US\$12 million – April/10 and Jan/11
- Purchased additional 768,200 shares of Caribbean Utilities at a price of US\$8/share
 - Increased ownership to 59.5% from 56.8%

Figure 1: Fortis second-quarter financial details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2008	2009	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Terasen Gas	\$12.0	\$14.0	16.7%	Lower tax rate; lower debt rate and debt balances' and higher customer rates.
Newfoundland Power	\$10.0	\$10.7	7.0%	Reduced amortization and lower corporate tax rate.
FortisAlberta	\$11.5	\$17.0	47.8%	Change in tax strategy swings tax expense. Q2/08 reflects additional \$4.5 mln recorded in Q3/08 but related to Q2/08. Also higher load and customer rates.
FortisBC	\$6.4	\$7.0	9.4%	
Other Canadian Regulated Utilities	\$4.0	\$4.0	0.0%	
Total Canadian Earnings	\$43.9	\$52.7	20.0%	
Regulated Utilities - Caribbean	(\$5.0)	\$7.0	(240.0%)	Q2/08 includes \$13 mln Belize regulatory charge that disallowed fuel and purchased power costs.
Non-Regulated				
Fortis Generation	\$7.0	\$3.0	(57.1%)	Agreement expiry related to Rankine station reduces earnings by \$3.4 mln. Also lower electricity prices in Ontario & Upper New York.
Fortis Properties	\$7.0	\$8.0	14.3%	
Total Non-Regulated Earnings	\$14.0	\$11.0	(21.4%)	
Corporate and Consolidated Adjustments	(\$18.0)	(\$18.0)	0.0%	One-time lease termination fees, purchase of Sheraton Hotel Newfoundland in Nov/08 and Holiday Inn Select, Ontario in April, offset by lower occupancy rates
Recurring Earnings	\$34.9	\$52.7	51.0%	
Non-recurring items	(\$1.4)	\$0.3		
Reported Net Earnings	\$33.5	\$53.0	58.2%	
EPS:				
Recurring	\$0.22	\$0.31	39.5%	
Non-recurring items	(\$0.01)	\$0.00		Beats 27¢ consensus estimate.
Reported	\$0.21	\$0.31		
Cash Flow Per Share	\$1.05	\$0.98	(6.2%)	11.7 mln shares issue in Dec/2008.
Average Shares Outstanding (mln)	157.0	170.0	8.3%	
Regulated				
Earnings	\$39	\$60	53.5%	Impact of capex program and Alberta tax swing.
% of total	111%	113%		
Non-Regulated				
Earnings	\$14	\$11	(21.4%)	Expiry of Rankine power-for-water exchange program related to Rankine hydro plant.
% of total	40%	21%		
Corporate				
Earnings	(\$18.0)	(\$18.0)	0.0%	
% of total	(51.6%)	(34.2%)		

Source: Fortis Inc., Canaccord Adams

Investment risks

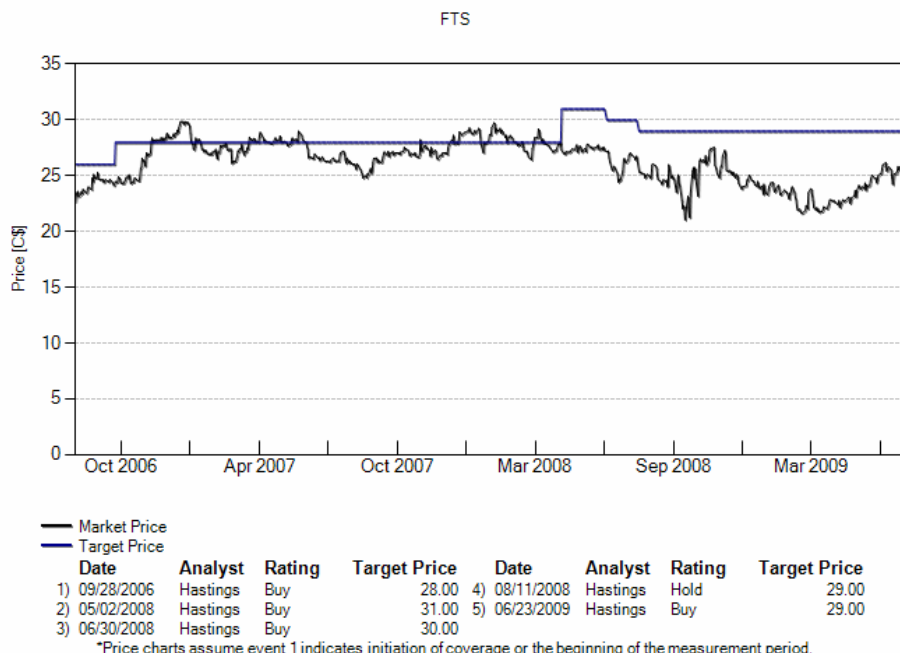
Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties; (4) debt refinancing at higher interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impinge on the profitability and the future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) challenging economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry; and (11) if the announced increase to the dividend tax credit is not passed into law, it would likely have a material impact on our target price.

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 2 July 2009)

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	#	%	#	%
Buy	322	52.2%	25	25.8%
Speculative Buy	70	11.3%	47	47.1%
Hold	195	31.6%	22	22.1%
Sell	30	4.9%	17	16.7%
	617	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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Fortis Inc.

FTS : TSX : C\$25.75

BUY**Target: C\$29.00**

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Juan Plessis, MBA, CFA 1.604.643.0181
 juan.plessis@canaccordadams.com

COMPANY STATISTICS:

52-week Range: C\$21.52 - 28.00
 Avg. Daily Vol. (000s): 518.2
 Market Cap (M): C\$4,386.00
 Shares Out (M): 170.0
 Current Dividend: C\$1.04
 Current Dividend Yield %: 4.0

EARNINGS SUMMARY:

FYE Dec	2008A	2009E	2010E
EPS:	C\$1.51	C\$1.50	C\$1.60
P/E (x):	17.1	17.2	16.1
CFPS:	C\$3.40	C\$3.65	C\$3.90
P/CF (x):	7.6	7.1	6.6

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All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**Q3 IN LINE****Event**

Fortis released third-quarter recurring earnings per share of \$0.21, in line with the consensus estimate.

Impact

Neutral.

Valuation

We are maintaining our C\$29.00 target price and BUY rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2009 and 2010 EPS estimates of \$1.50 and \$1.60, respectively. Modest growth largely stems from regulated operations – fuelled by roughly \$1.0 billion/year of planned capital expenditures through 2013 (about 6%-7% annual rate base growth) and higher regulated returns as many regulators consider changes following the National Energy Board's move away from traditional ROE formula approach. While higher returns are expected to flow through to Fortis's earnings, we have not factored this into our 2010 forecast given the uncertainty of the outcome of regulatory decisions and the timing. We expect a less-than-robust economy to impact Fortis Properties on a lag basis and continue to limit growth in the Caribbean, which is impacted by both weak tourism and banking-related businesses.

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Third-quarter results

Fortis reported third-quarter recurring income of \$0.21 per share, versus \$0.24 last year, in line with the \$0.21 consensus estimate. Recurring earnings came in \$2 million less than in Q2/08 due mainly to the expiration of an agreement related to the Rankine hydro facility in Ontario. The modest reduction in earnings was exacerbated by an 8% increase in the shares outstanding from the December 2008 common equity issue. Earnings in the Canadian-regulated utility businesses improved modestly due to higher rate bases at Terasen Gas and FortisAlberta. Regulated Caribbean operations were flat over Q3/08, with higher operating expenses and amortization offset by favourable changes in the foreign exchange rate. Fortis Properties delivered flat results as the contribution from the November 2008 addition of Sheraton Hotel Newfoundland and the April 2009 acquisition of the Holiday Inn Select in Ontario was offset by low occupancy in the Hotel division. Recurring earnings for the first nine months of the year was \$1.05 per share versus \$1.04 for the same period last year. For more details on the third-quarter results, please refer to Figure 1.

Noteworthy Items

- Economy and housing continues to impact new customer additions at Terasen
 - Net customer losses of 300 in Q3/09
 - Year-to-date customer additions were 800 versus 5,600 last year
 - Capital Program
 - Spent \$763 million in first nine months of 2009
 - ~\$250 million to be spent in Q4
 - \$5 billion capital expected to be spent in 2009-2013
 - Debt issues in Q3 and Q4
 - FortisAlberta - \$125 million, 5.37%, 30-year unsecured debentures in Oct/09
 - Caribbean Utilities – US\$10 million, 7.5%, 15-year unsecured notes in July/09
 - Fortis Inc. - \$200 million, 6.51%, 30-year debentures in July/09
 - Non-regulated generation
 - 1.5 month maintenance outage at Chalillo hydro facility in Belize in Q3
 - Lower power prices in Q3/09 versus Q3/08
 - Upper New York State: US\$37.52/MWh vs \$77.82
 - No resolution to Newfoundland nationalizing AbitibiBowater's hydro facilities (partially owned by Fortis)
 - Regulatory highlights
 - Review of generic ROE adjustment and deemed equity at Terasen Gas
 - Applying for 11% (now 8.47%) and 40% deemed equity (now 35%)
 - Decision expected late 2009/early 2010
-

5 November 2009

- Review of generic cost of capital by Alberta Utilities Commission
 - Applies to all gas, electric and pipeline utilities (i.e. FortisAlberta)
 - Order expected late 2009
- Newfoundland Power applying for ROE of 11.0% from current 8.95%
- Terasen's estimate to move customer care operation in-house dropped from \$145 million to \$120 million

Figure 1: Fortis Inc. third-quarter financial details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2008	2009	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Terasen Gas	(\$5)	(\$3)	n.m.	Lower tax rate and higher customer rates.
Newfoundland Power	\$8	\$7	(12.5%)	Higher amortization due to re-allocation and timing of vegetation management costs.
FortisAlberta	\$13	\$16	28.0%	Higher load, customer growth and increased rates from capital spending.
FortisBC	\$8	\$8	0.0%	
Other Canadian Regulated Utilities	\$5	\$5	0.0%	
Total Canadian Earnings	\$29	\$33	13.8%	
Regulated Utilities - Caribbean	\$7	\$7	0.0%	Reduction mainly due to expiry of Rankine station agreement. Also lower production and prices in Ontario & Upper New York.
Non-Regulated				
Fortis Generation	\$9	\$4	(55.6%)	Room rates in the Hotel Division declined to \$89.02 from \$93.64 in Q3/08; Occupancy rate in Real Estate Division fell to 96.2% from 96.6%.
Fortis Properties	\$9	\$9	0.0%	
Total Non-Regulated Earnings	\$18	\$13	(27.8%)	
Corporate and Consolidated Adjustments	(\$17)	(\$18)	5.9%	
Recurring Earnings	\$37	\$35	(5.4%)	
Non-recurring items	\$8	\$1		Favourable tax adjustment.
Reported Net Earnings	\$44.5	\$36.0	(19.1%)	
EPS:				
Recurring	\$0.24	\$0.21	(12.7%)	In-line with consensus.
Non-recurring items	\$0.05	\$0.01		
Reported	\$0.28	\$0.21		
Cash Flow Per Share	\$0.83	\$0.84	0.7%	
Average Shares Outstanding (mln)	157.2	170.4	8.4%	
Regulated				
Earnings	\$36	\$40	11.1%	Impact of large capex program.
% of total	97%	114%		
Non-Regulated				
Earnings	\$18	\$13	(27.8%)	Expiry of Rankine power-for-water exchange program related to Rankine hydro plant.
% of total	49%	37%		
Corporate				
Earnings	(\$17)	(\$18)	(5.9%)	
% of total	(45.9%)	(51.4%)		

Source: Fortis Inc., Canaccord Adams

Investment risks

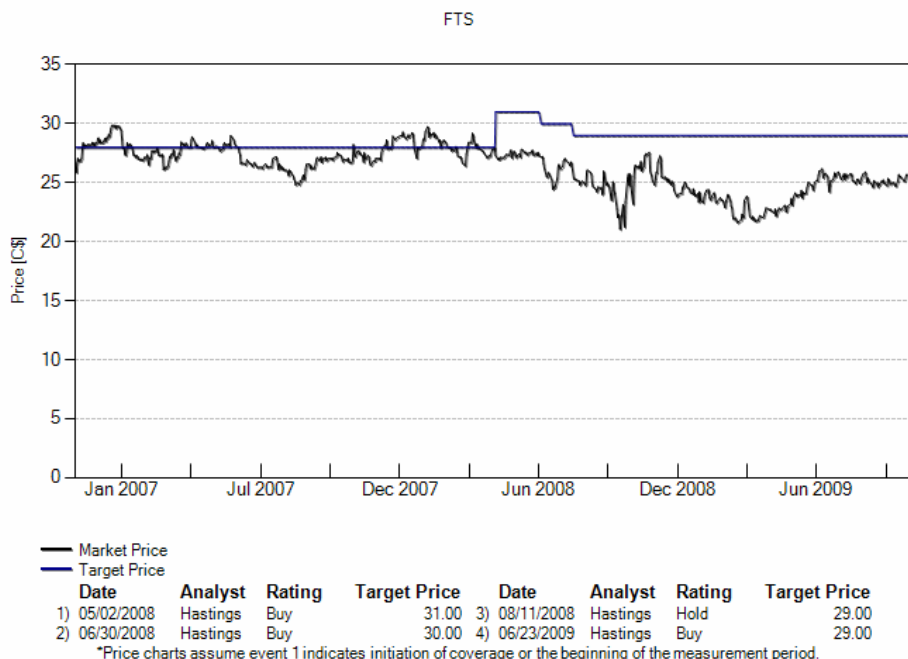
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Fortis Inc.

FTS : TSX : C\$26.60

HOLD ↓**Target: C\$28.00 ↓****Bob Hastings, CFA**

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bob.hastings@canaccord.com

Juan Plessis, MBA, CFA

1.604.643.0181

juan.plessis@canaccord.com

COMPANY STATISTICS:

52-week Range:	C\$21.52-28.00
Avg. Daily Vol. (000s):	513.7
Market Cap (M):	C\$4,538.91
Shares Out (M):	170.7
Current Dividend:	C\$1.04
Current Dividend Yield %:	3.9

EARNINGS SUMMARY:

FYE Dec	2008A	2009E	2010E	2011E
EPS:	C\$1.51	C\$1.53	C\$1.65	C\$1.75
P/E (x):	17.6	17.4	16.1	15.2
CFPS:	C\$3.40	C\$3.68	C\$3.95	C\$4.20
P/CF (x):	7.8	7.2	6.7	6.3

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**INTRODUCING 2011 ESTIMATES AND FINE-TUNING TARGET PRICE****Event**

We are introducing our 2011 earnings and cash flow estimates for Fortis Inc. and adjusting our target price to reflect modest adjustments to our outlook for interest rates. In addition, we are moving our 2009 EPS estimate up \$0.03 and our 2010 and 2011 EPS estimates up by \$0.05 to \$1.65 and \$1.75, respectively, to reflect the impact of the recent Alberta Utilities Commission decision to discontinue its annual formula to determine ROEs and increase the deemed equity portion of FortisAlberta to 41% from 37%.

Valuation

We are lowering our target price to \$28.00 from \$29.00 and lowering our rating to HOLD from Buy. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

We are introducing our 2011 earnings and cash flow forecasts for the companies and trusts in our coverage area. In addition, we are fine-tuning several of our target prices. In a nutshell, we believe the group is attractive for income-oriented investors, with superior returns possibly available in the less liquid and often overlooked power trust area. It should be noted that a major assumption in our forecasts is that the group will have some of its upside limited by rising interest rates, with rates on Government of Canada bonds with a duration of 10 years and over estimated to rise by over 10%, from about 4.0% now to 4.5%. If rates remain at current levels, targeted total rates of return would be around 10% higher and even more attractive than we are currently forecasting. Improvements in allowed rates of return from the dreadfully low allowed returns currently in place is a distinct possibility, and would improve earnings and returns for investors longer term.

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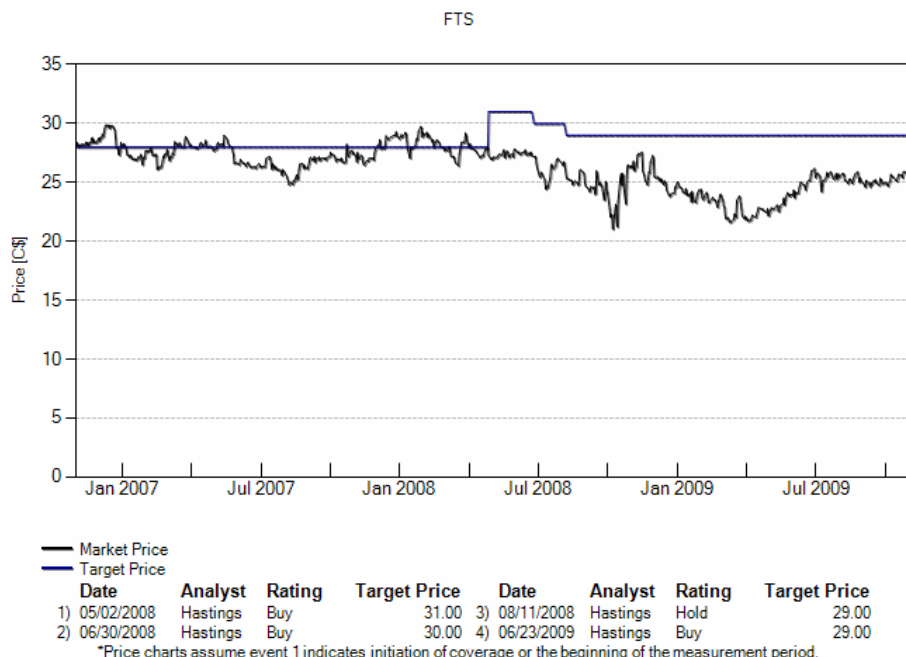
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Fortis Inc.

FTS : TSX : C\$26.52

HOLD**Target: C\$28.00****Bob Hastings, CFA**

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bob.hastings@canaccord.com

Juan Plessis, MBA, CFA

1.604.643.0181

juan.plessis@canaccord.com

COMPANY STATISTICS:

52-week Range: C\$21.52-27.55
 Avg. Daily Vol. (000s): 497.9
 Market Cap (M): C\$4,532.08
 Shares Out (M): 170.7
 Current Dividend: C\$1.04
 Current Dividend Yield %: 3.9

EARNINGS SUMMARY:

FYE Dec	2008A	2009E	2010E	2011E
EPS:	C\$1.51	C\$1.53	C\$1.60	C\$1.70
P/E (x):	17.6	17.3	16.6	15.6
CFPS:	C\$3.40	C\$3.68	C\$3.90	C\$4.15
P/CF (x):	7.8	7.2	6.8	6.4

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**TERASEN RATE SETTLEMENT NOT AS GOOD AS HOPED****Event**

Fortis's Terasen Gas operations received regulatory approval of its settlement rate application for 2010 and 2011.

Impact

Modestly negative. Rates are expected to remain flat in 2010 with a very minor increase in 2011.

Valuation

We are maintaining our \$28.00 target price and HOLD rating. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

The British Columbia Utilities Commission (BCUC) issued a decision, approving Terasen Gas Inc. (TGI) and Terasen Gas Vancouver Island's (TGVI's) 2010 and 2011 Negotiated Settlement. The Negotiated Settlement calls for no customer rate increases in 2010 and a 0.8% increase in 2011. The Negotiated Settlement is somewhat disappointing and reflects lower rates than we had assumed. Consequently, we are lowering our 2010 and 2011 EPS estimates by \$0.05 in each year to \$1.60 and \$1.70, respectively. Given the recent settlement and assuming current allowed equity returns and capital structure, we anticipate Fortis could earn around \$1.55 per share in 2010. However, TGI and TGVI have filed cost of capital applications with the BCUC and decisions are expected within the next month. We expect the decisions will be positive

for both deemed equity thickness and allowed ROE, which should help earnings get to \$1.60 or more in 2010 and \$1.70 in 2011. While both TGI and TGVI deserve an allowed return in excess of 9% and 9.5% respectively and higher equity underpinning, the regulator may be reluctant to award higher rates given the current economic climate.

Figure 1: Terasen Gas Inc. and Terasen Gas Vancouver Island regulatory metrics

	2009E	2010E	2011E
Terasen Gas Inc.			
Rate base (\$ mlns)	2,453.5	2,534.4	2,628.8
Deemed equity component	35.0%	?	?
Allowed ROE	8.47%	?	?
Terasen Gas Vancouver Island			
Rate base	539.8	554.0	729.0
Deemed equity component	40.0%	?	?
Allowed ROE	9.17%	?	?

Source: Terasen Gas Inc. and Terasen Gas Vancouver Island, Canaccord Adams

Investment risks

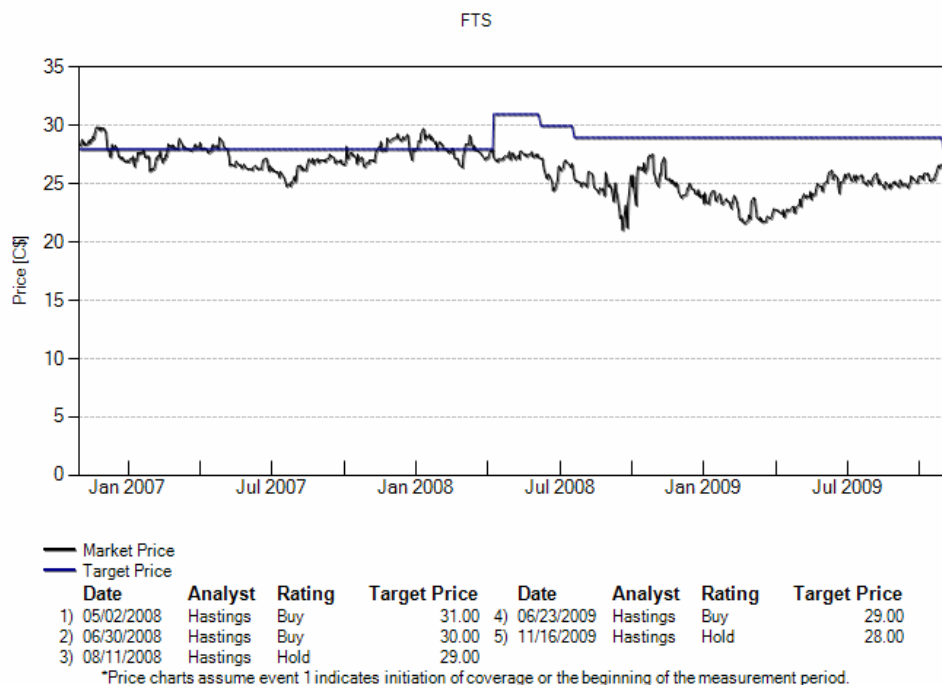
Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 2 November 2009)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	364	56.9%	27.7%
Speculative Buy	70	10.9%	52.9%
Hold	186	29.1%	17.2%
Sell	20	3.1%	5.0%
	640	100.0%	

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Fortis Inc.

FTS : TSX : C\$28.23

HOLD**Target: C\$30.00 ↑****Bob Hastings, CFA**

1.604.643.0177

bob.hastings@canaccord.com

Juan Plessis, MBA, CFA

1.604.643.0181

juan.plessis@canaccord.com

COMPANY STATISTICS:

52-week Range:	C\$21.52 - 27.46
Avg. Daily Vol. (000s):	488.4
Market Cap (M):	C\$4,829.10
Shares Out (M):	170.7
Current Dividend:	C\$1.04
Current Dividend Yield %:	3.7

EARNINGS SUMMARY:

FYE Dec	2008A	2009E	2010E	2011E
EPS:	C\$1.51	C\$1.53	C\$1.70	C\$1.85
P/E (x):	18.7	18.5	16.6	15.3
CFPS:	C\$3.40	C\$3.65	C\$4.00	C\$4.30
P/CF (x):	8.3	7.7	7.1	6.6

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**TERASEN RECEIVES POSITIVE DECISION; RAISING TARGET PRICE TO C\$30.00****Event**

Fortis's Terasen Gas operations received a regulatory decision regarding its allowed return on common equity (ROE) and capital structure for 2010.

Impact

Positive. The decision raises the allowed ROEs for Terasen Gas, Terasen Gas (Vancouver Island), Terasen Gas (Whistler) and FortisBC. In addition, the deemed equity component for Terasen Gas was raised. Consequently, expected annual earnings will improve by about \$0.10 per share.

Valuation

We are raising our target price to C\$30.00 from C\$28.00 to reflect the favourable earnings impact from the regulatory decision but our HOLD rating remains unchanged. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

We are raising our 2010 and 2011 EPS estimates to \$1.70 and \$1.85, up from \$1.60 and \$1.70, respectively. This is due to a more favourable than anticipated cost of capital decision from the BCUC. While we believe the decision is fair, we had modeled in a lesser outcome to be conservative. The improved outlook also boosts our target price for the stock to C\$30.00 from C\$28.00.

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The British Columbia Utilities Commission (BCUC) issued its cost of capital decision for the Fortis group of companies in BC, namely: Terasen Gas Inc. (TGI); Terasen Gas (Vancouver Island) Inc. (TGVI); Terasen Gas (Whistler) Inc.; and Fortis BC. The decision is applicable for the last half of 2009 (ROE increase only – not increased equity component) and all of 2010, and notably the BCUC has rejected an annual adjustment formula going forward. The decision raises TGI's allowed ROE to 9.5% (previously 8.47%) and increases its deemed equity thickness to 40% (previously 35.01%). For TGVI, the decision raises its allowed ROE to 10.0% (previously 9.17%), which slightly lowers its ROE premium over TGI's allowed ROE to 50 bps from 70 bps. In addition, Fortis BC's allowed ROE moves to 9.9%, up from 8.87% previously. There was no change to TGVI's or Fortis BC's equity thickness.

While the higher allowed ROE is retroactive to July 1, 2009, the higher equity thickness at Terasen Gas only comes into effect on January 1, 2010. Therefore, the decision will have a more modest impact on 2009 earnings and we are leaving our 2009 EPS estimate at \$1.53.

We note that the increase to 40% of TGI's deemed equity component will require about \$125 million of additional common equity, likely through Fortis using its internally generated cash flow and issuing preferred and/or common shares. We assume Fortis issues about \$100 million of common equity and that earnings per share will rise by about \$0.10 per share in 2010 and by as much as \$0.15 per share in 2011.

Decision Highlights

We believe the BCUC delivered a thorough, balanced and well thought out decision that resulted in a fair outcome. We highlight some of the key points in the regulator's decision.

- Endorsed the National Energy Board's (NEB's) fair return standard in the TQM Decision (see our March 23, 2009 *Daily Letter* note).
- In agreement with the NEB and the Alberta Utilities Commission that utilities in Canada need to compete for capital in the global market and therefore the decision included US data in determining Terasen Gas Inc.'s capital structure, ROE and credit metrics.
- Determined that the use of deferral accounts impacts short-term risk and is better addressed in the ROE calculation than in capital structure.
- Concluded business risk has increased
 - Lack of certainty around the nature and extent of aboriginal rights and title in BC together with the lack of treaties, which combine to create operational and regulatory complexity and a risk of litigation
 - Climate change legislation has also created a level of uncertainty
- To determine ROE, the most weight was given to a discounted cash flow approach, lesser weight to the equity risk premium and Capital Asset Pricing Model approaches, and a very small amount of weight to the comparable earnings approach.
- Directed that the Automatic Adjustment Mechanism be eliminated.
 - TGI must complete its study of alternative formulae and report to the Commission by December 31, 2010.

- TGV's premium over TGI's ROE reduced from 70 basis points to 50 basis points due to declining risk in the operations.
- Determined the ROE for TGI should continue to serve as the Benchmark ROE for FortisBC and any other utility in BC that uses the Benchmark ROE to set rates.
- The allowed ROE is retroactive to July 1, 2009.

Investment risks

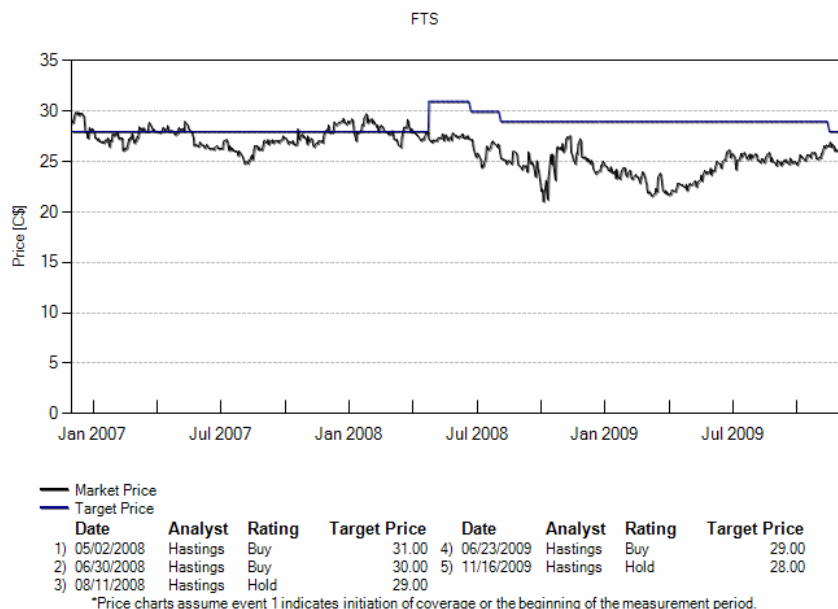
Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 1 December 2009)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	378	57.1%	29.6%
Speculative Buy	82	12.4%	48.8%
Hold	186	28.1%	15.6%
Sell	16	2.4%	0.0%
	662	100.0%	

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Fortis Inc.

FTS : TSX : C\$27.76

HOLD**Target: C\$29.00 ↓****Bob Hastings, CFA**

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COMPANY STATISTICS:

52-week Range:	C\$21.52-29.24
Avg. Daily Vol. (000s):	482.0
Market Cap (M):	C\$4,739.0
Shares Out (M):	170.7
Current Dividend:	C\$1.12
Current Dividend Yield %:	4.0

EARNINGS SUMMARY:

FYE Dec	2007A	2008A	2009A	2010E	2011E
EPS:	C\$1.34	C\$1.51	C\$1.50	C\$1.60	C\$1.75
P/E (x):	20.7	18.4	18.5	17.4	15.9
CFPS:	C\$2.97	C\$3.95	C\$3.98	C\$4.25	C\$4.55
P/CF (x):	9.3	7.0	7.0	6.5	6.1

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets approaching \$4.5 billion and annual revenues of more than \$1.4 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**2010 OUTLOOK MORE MODEST; TARGET REDUCED C\$1.00 TO C\$29.00****Event**

Fortis released fourth-quarter results that were slightly lower than the consensus estimate. Looking ahead, we are revising our estimates downward \$0.10 per share to reflect a slow economic rebound, no regulatory resolution in Belize and weaker power prices.

Impact

Modestly negative.

Valuation

We are maintaining our HOLD rating but reducing our target price C\$1.00 to C\$29.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

Earnings were roughly in line for the quarter and year. However, we are reducing out 2010 and 2011 EPS estimates by \$0.10 to \$1.60 and \$1.75 respectively, largely to account for the lack of resolution to the poor regulatory treatment in Belize and to be conservative in the timing of an improvement in the economy. Current Canadian operations are solid and offer reasonable low-risk growth, meaning the 4.0% dividend is very well protected and should grow over time.

Generally, the Caribbean investments have taken too much management time and effort relative to the returns being achieved. This is particularly true in Belize, where future court decisions are required to get to appropriate returns. While no impairment charge has been taken, that

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remains a possibility down the road. The company first entered the Caribbean in search of growth before opportunities for growth surfaced in Canada. As a result of very successful acquisitions in Alberta and BC, along with continuing growth in those investments, the Caribbean holdings have become less important to the overall company. Consequently, it would not be surprising to see Fortis exit the area if there was a reasonable opportunity to do so down the road. A catalyst could be if the company required financing for new, and more stable, utility opportunities in North America. Fortis is always watchful for good opportunities, but their timing is always uncertain.

Earnings summary

Fortis reported fourth-quarter recurring income of \$0.43 per share versus \$0.47 last year. Note for comparability purposes, we excluded \$0.02 of earnings from the Q4 rate decisions applicable to earlier in the year. As the rate decisions were known before year end, the appropriate comparison would be to add back in the \$0.02 to get to \$0.46 (does not add due to rounding), but it is still \$0.05 below the \$0.51 consensus estimate. We note that recurring earnings include a one-time negative \$0.03 after-tax impact at Terasen Gas from cost over-runs converting customer appliances from propane to natural gas. This expense may well be recovered through the regulatory process, though that is not yet known.

At Fortis Generation, the expiration of an agreement related to the Rankine hydro facility in Ontario reduced earnings by around \$4 million in the quarter. Other regulated Canadian operations were flat with the exception of FortisBC, which was up \$1 million. Regulated Caribbean operations were up slightly over Q4/08, due primarily to a change in depreciation estimates at Fortis Turks and Caicos. Fortis Properties delivered modestly higher results despite low occupancy in the Hotel division, due to the contribution from the November 2008 addition of the Sheraton Hotel Newfoundland, the April 2009 acquisition of the Holiday Inn Select in Ontario and a higher contribution from the Real Estate Division. Recurring earnings for the full year was \$1.50 versus \$1.59 the prior year. For more details on the fourth quarter and full year results, please refer to Figures 1 and 2.

Noteworthy Items

- New customer additions at Terasen returning
 - 7,400 net customer adds in Q4/09 versus a loss of 300 in Q3/09
 - Year to date customer additions were 8,200 versus 12,800 last year
- Capital Program
 - Spent \$1,024 million in 2009
 - \$888 million Canadian Regulated Utilities; \$92 million on Caribbean Regulated Utilities; \$44 million on non-regulated assets
 - ~1.1 billion budgeted for 2010
 - \$5 billion capital expected to be spent in 2010-2014
- Debt issues in Q4/09 and Q1/10
 - Fortis Inc. - \$250 million, 4.25%, 5-year rate reset preferred in Jan/10
 - FortisAlberta - \$125 million, 5.37%, 30-year unsecured debentures in Oct/09
- Regulatory highlights
 - Terasen Gas ROE 9.5% from 8.47%, effective July/09
 - Equity component 40% from 35%, effective Jan/10
 - Terasen Gas Vancouver Island ROE 10.0% from 9.17%
 - FortisBC ROE 9.90% from 8.87%, effective Jan/10
 - FortisAlberta ROE 9.0% from 8.61%, effective January 1, 2009
 - Equity component 41% from 37%
 - Newfoundland Power ROE 9.00% from 8.95%, effective Jan/10

Figure 1: Fortis fourth-quarter financial details

Millions of dollars (except per share data)	Fourth Quarter Earnings			
	2008	2009	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Terasen Gas	\$47	\$48	2.1%	Includes \$5 mln after-tax of higher than expected costs to converting Whistler customer appliances from propane to gas.
Newfoundland Power	\$8	\$8	0.0%	Excludes \$4 mln retroactive adjustment to January 1, 2009 for a higher allowed ROE and higher deemed equity component.
FortisAlberta	\$11	\$11	0.0%	
FortisBC	\$7	\$8	14.3%	Customer growth and higher rates.
Other Canadian Regulated Utilities	\$3	\$3	0.0%	
Total Canadian Earnings	\$76	\$78	2.6%	
Regulated Utilities - Caribbean	\$6	\$7	16.7%	Expiry of Rankine station agreement, lower wholesale electricity prices and lower production in Upper New York State.
Non-Regulated				
Fortis Generation	\$8	\$3	(62.5%)	
Fortis Properties	\$4	\$5	25.0%	
Total Non-Regulated Earnings	\$12	\$8	(33.3%)	
Corporate and Consolidated Adjustments	(\$20)	(\$19)	(5.0%)	
Recurring Earnings	\$74	\$74	0.0%	
Non-recurring items	\$2	\$7		\$4 mln related to retroactive adjustments for higher allowed ROE and equity thickness; \$3 mln adjustment for future taxes.
Reported Net Earnings	\$76	\$81	6.6%	
EPS:				
Recurring	\$0.47	\$0.43	(7.0%)	In-line with our expectations but a few cents lower than consensus.
Non-recurring items	\$0.01	\$0.04		
Reported	\$0.48	\$0.47		
Cash Flow Per Share	\$0.98	\$0.99	2.0%	11.7 mln shares issued in Dec/08.
Average Shares Outstanding (mln)	158.9	170.9	7.6%	
Regulated				
Earnings	\$82	\$85	3.7%	Mainly due to higher expenses at Terasen Gas.
% of total	111%	115%		
Non-Regulated				
Earnings	\$12	\$8	(33.3%)	Expiry of Rankine power-for-water exchange program related to Rankine hydro plant.
% of total	16%	11%		
Corporate				
Earnings	(\$20)	(\$19)	5.0%	
% of total	(27.0%)	(25.7%)		

Source: Fortis Inc., Canaccord Adams

Figure 2: Fortis full year financial details

Millions of dollars (except per share data)	Full Year Earnings			
	2008	2009	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Terasen Gas	\$113	\$117	4.0%	\$6 mln impact from higher ROEs effective July 1, 2009.
Newfoundland Power	\$32	\$32	0.0%	
FortisAlberta	\$46	\$60	30.4%	Impact of strong capital spending and 49 bps higher allowed ROE and 400 bps increase in equity component effective January 1, 2009.
FortisBC	\$33	\$37	10.8%	
Other Canadian Regulated Utilities	\$16	\$17	6.3%	Lower operating expenses at FortisOntario.
Total Canadian Earnings	\$240	\$263	9.6%	
Regulated Utilities - Caribbean	\$28	\$25	(10.7%)	Lower allowed ROA at Belize Electricity and higher opex.
Non-Regulated				
Fortis Generation	\$17	\$16	(5.9%)	About \$12.5 mln reduction in earnings from expiry of Rankine station agreement.
Fortis Properties	\$23	\$24	4.3%	
Total Non-Regulated Earnings	\$40	\$40	0.0%	
Corporate and Consolidated Adjustments	(\$71)	(\$72)	1.4%	
Recurring Earnings	\$237	\$256	8.1%	
Non-recurring items	\$8	\$6		\$3 mln adjustment for future taxes; \$1 mln favourable tax impact; \$2 mln favourable one-time impact in Caribbean operations.
Reported Net Earnings	\$245	\$262	6.9%	
EPS:				
Recurring	\$1.51	\$1.50	(0.1%)	
Non-recurring items	\$0.05	\$0.04		~5¢ lower than consensus.
Reported	\$1.56	\$1.54		
Cash Flow Per Share	\$3.95	\$3.98	0.8%	
Average Shares Outstanding (mln)	157.4	170.2	8.1%	
Regulated				
Earnings	\$268	\$288	7.5%	Impact of large capex program.
% of total	113%	113%		
Non-Regulated				
Earnings	\$40	\$40	0.0%	Expiry of Rankine power for water contract.
% of total	17%	16%		
Corporate				
Earnings	(\$71)	(\$72)	(1.4%)	
% of total	(30.0%)	(28.1%)		

Investment risks

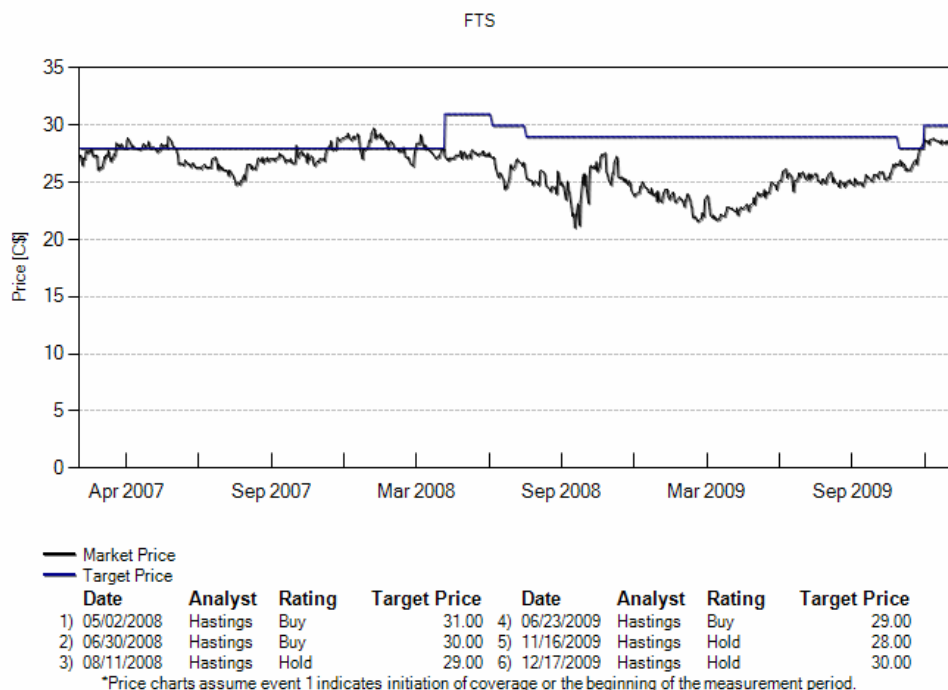
Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC, Alberta, Manitoba, Newfoundland and Grand Cayman. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 1 February 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	393	59.6%	29.5%	
Speculative Buy	83	12.6%	56.6%	
Hold	167	25.3%	18.6%	
Sell	16	2.4%	0.0%	
	659	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Fortis Inc.

FTS : TSX : C\$28.05

HOLD**Target: C\$29.00**

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Zayem Lakhani	1.604.643.7506
zayem.lakhani@canaccord.com	

COMPANY STATISTICS:

52-week Range:	C\$22.15 - 29.32
Avg. Daily Vol. (000s):	442.7
Market Cap (M):	C\$4,788.1
Shares Out (M):	170.7
Current Dividend:	C\$1.12
Current Dividend Yield %:	4.0

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
EPS:	C\$1.50	C\$1.60	C\$1.75
P/E (x):	18.7	17.5	16.0
CFPS:	C\$3.98	C\$4.25	C\$4.55
P/CF (x):	7.0	6.6	6.2

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**SOLID START TO THE YEAR****Event**

Fortis first quarter results hit our estimate but were \$0.02 above consensus.

Impact

Neutral.

Valuation

We are maintaining our HOLD rating and C\$29.00 target price. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are making no change to our 2010 and 2011 EPS estimates of \$1.60 and \$1.75 respectively. Our estimates reflect the impact of a slow economy and current low electricity prices at the non-regulated generation operations. While we expect the eventual resolution to the poor regulatory treatment in Belize, our estimates do not include a near term resolution. Higher allowed returns on the Canadian regulated assets coupled with about \$5 billion of planned capital spending over the next five years provide a stable and low risk source of income and growth. The company has a strong track record of successful electric and natural gas utility acquisitions and continues to be on the lookout for further strategic acquisition opportunities in the United States. Fortis's management would be comfortable acquiring assets with an enterprise value up to \$4 billion and would consider financial partners (i.e. private equity) for purchases with a higher price tag.

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First Quarter Summary

Fortis reported first-quarter recurring income of \$0.58 per share versus \$0.53 last year, in line with our \$0.58 estimate and a couple of cents above consensus. The earnings improvement was driven mainly by a \$15 million (\$0.09 per share) earnings improvement at Terasen Gas. This was partly offset by the expiration of an agreement related to the Rankine hydro facility in Ontario in Q2/09 (\$3 million reduction Q1/Q1) and increased interest expense from higher interest rates on long-term debt. In addition, low rainfall in Belize reduced earnings from the non-regulated Belize operations by \$1-\$2 million. Both Newfoundland Power and FortisAlberta delivered earnings ~\$1 million higher than last year. For more details on the first quarter results, please refer to Figure 1.

Noteworthy Items

- Allowed returns and equity components rising for regulated operations
 - FortisAlberta
 - 2010 ROE of 9.0% versus 8.51% in 2009
 - 2010 equity component of 41% versus 37% in 2009
 - Terasen Gas
 - 2010 ROE of 9.5% versus 8.47% in 2009
 - 2010 equity component of 40% versus 35% in 2009
 - FortisBC
 - 2010 ROE of 9.9% versus 8.87% in 2009
 - Newfoundland Power
 - 2010 ROE of 9.0% versus 8.95% in 2009
 - 19 MW Vaca Belize hydroelectric facility commissioned in March 2010
 - US\$53 million capital investment
 - 4 GWh produced during Q1
 - Could add \$6-7 million of earnings annually (assuming normal weather)
 - Algoma Power contributed \$0.4 million to earnings
 - Purchased October 2009
 - 2010 capital budget still at \$1.1 billion
 - \$188 million spent in Q1
 - 5-year capital budget of ~\$5 billion
 - 70% - for Regulated Electric Utilities (mainly FortisAlberta and FortisBC)
 - 27% - Regulated Gas Utilities (Terasen)
 - 3% - non-regulated operations
-

Figure 1: Fortis Inc. first quarter earnings details

Millions of dollars (except per share data)	First Quarter Earnings			
	2009	2010	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Terasen Gas	\$58	\$73		Allowed ROE raised to 9.5% from 8.47% in 2009 and equity thickness increased to 40% from 35% in 2009.
Newfoundland Power	\$6	\$7	16.7%	Impact of investment in rate base and timing differences positively impacting opex.
FortisAlberta	\$12	\$13	8.3%	
FortisBC	\$14	\$14	0.0%	ROE up 49bps vs 2009; equity thickness increased to 41% from 37% in 2009.
Other Canadian Regulated Utilities	\$5	\$5	0.0%	
Total Canadian Earnings	\$95	\$112	17.9%	
Regulated Utilities - Caribbean	\$4.0	\$4.0	0.0%	
Non-Regulated				
Fortis Generation	\$6	\$2	(66.7%)	Expiry of Rankine station agreement lowers earnings by \$3 mln. Reduced production in Belize.
Fortis Properties	\$2	\$2	(10.0%)	
Total Non-Regulated Earnings	\$8	\$4	(52.5%)	
Corporate and Consolidated Adjustments	(\$17)	(\$21)	23.5%	\$250 mln pref shares issued Jan/10 and \$200 mln debentures issued July/10.
Recurring Earnings	\$90	\$99	9.8%	
Non-recurring items	\$2	\$1		
Reported Net Earnings	\$92	\$100	8.7%	
EPS:				
Recurring	\$0.53	\$0.58	8.4%	About in-line with consensus estimate.
Non-recurring items	\$0.01	\$0.01		
Reported	\$0.54	\$0.58		\$1 mln prior period regulatory adjustment at FortisAlberta and \$0.2 mln gain on sale at Fortis Properties.
Cash Flow Per Share	\$1.17	\$1.19	n.m.	
Average Shares Outstanding (mln)	169.4	171.6	1.3%	
Regulated				
Earnings	\$99	\$116	17.2%	
% of total	110%	117%		
Non-Regulated				
Earnings	\$8	\$4	(52.5%)	Expiry of Rankine power for water contract.
% of total	9%	4%		
Corporate				
Earnings	(\$17.0)	(\$21.0)	(23.5%)	Impact of higher rates on new debt.
% of total	(18.9%)	(21.3%)		

Source: Fortis Inc., Canaccord Adams

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk

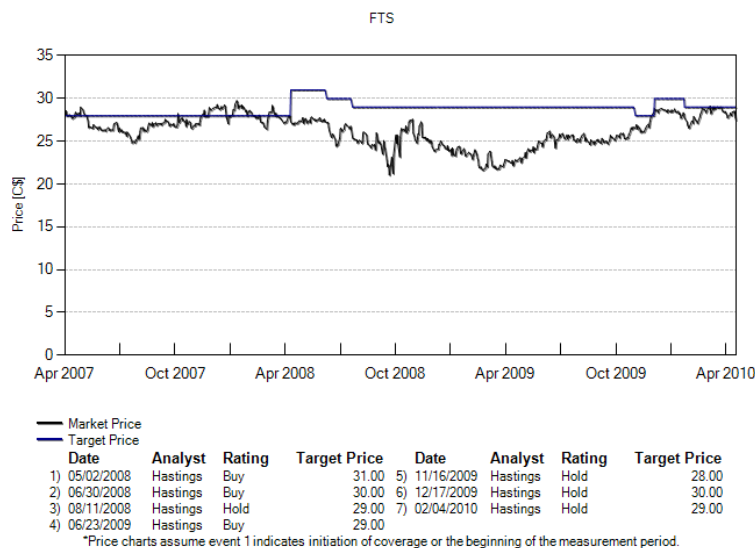
of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC, Alberta, Manitoba, Newfoundland and Grand Cayman. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 1 April 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	406	60.8%	32	32.0%
Speculative Buy	83	12.4%	59	59.0%
Hold	159	23.8%	16	16.4%
Sell	20	3.0%	0	0.0%
	668	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$28.72

HOLD**Target: C\$29.00**

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COMPANY STATISTICS:

52-week Range: C\$16.65 - 29.32
Avg. Daily Vol. (000s): 445.7
Market Cap (M): C\$4,966
Shares Out (M): 172.9
Current Dividend: C\$1.12
Current Dividend Yield %: 3.9

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
EPS:	C\$1.50	C\$1.60	C\$1.75
P/E (x):	19.1	18.0	16.4
CFPS:	C\$3.98	C\$4.25	C\$4.55
P/CF (x):	7.2	6.8	6.3

SHARE PRICE PERFORMANCE:**COMPANY SUMMARY:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**STABLE AND STEADY: NO SURPRISES IN Q2 RESULTS****Event**

Fortis reported second-quarter earnings spot on ours and consensus estimates.

Impact

Neutral.

Points of interest

- No change to C\$29.00 target, HOLD rating, and EPS estimates
- Q2 met ours and consensus estimates
 - Includes unsuccessful acquisition bid costs of \$0.014 PS in Q2 and \$0.024 in H1/10
- \$5 billion of planned capex in 2010-2014, mainly regulated
- New project potential – over \$500 million if Terasen pipeline expansion, and interior gas peaker power plant and its associated LNG storage facilities go ahead

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2010 and 2011 EPS estimates of \$1.60 and \$1.75, respectively. Our estimates reflect both the impact of a gradual

economic recovery and the low electricity price environment currently existing in the markets where Fortis owns non-regulated generation operations. Growth in 2011 will come about from continued capital investment in the regulated operations; \$1.1 billion of capex is planned for 2010 and ~\$5 billion is planned for the 2010-2014 period. We believe there is potential upside to the five-year capital budget with the possibility of a major pipeline expansion on the Southern Crossing pipeline (at Terasen) to provide transportation service to allow gas from northeast British Columbia to access the Kingsgate market hub. This service is currently operating jointly with Spectra Energy on a trial basis. In addition, there may be the need for FortisBC to build a gas peaker power plant to meet peak demand for its operations in the interior of the province and to develop an associated LNG storage facility. If these two initiatives were to be developed, the cost would likely be well in excess of \$500 million, with the in-service dates in 2014 at the earliest.

Management continues to seek regulated electric and natural gas utility acquisition opportunities, focusing on strategic assets in the United States, Canada, and the Caribbean. We believe Fortis could manage a sizeable acquisition with an enterprise value up to \$4 billion and would consider financial partners for purchases in excess of \$4 billion.

Second-quarter earnings summary

Fortis reported second-quarter recurring earnings of \$0.32 per share versus \$0.31 last year, in line with the consensus estimate. The modest year-over-year improvement stemmed from higher earnings at Terasen gas due to a 103 bps increase in allowed ROE combined with an increase in allowed equity thickness to 40% from 35%. This was partly offset by higher net corporate interest expenses and business development expenses for an acquisition that it did not win (~\$0.015 per share after tax). For the first half of the year, Fortis recorded \$0.90 of recurring income versus \$0.84 last year. For more details on the second-quarter results, please see Figure 1.

Noteworthy items

- Allowed ROE and equity components increasing
 - FortisAlberta
 - ROE 9.0% versus 8.51% in 2009; Equity 41% versus 37%
 - Terasen Gas
 - ROE 9.5% versus 8.47% in 2009; Equity 40% versus 35%
 - Newfoundland Power
 - ROE of 9.0% versus 8.95% in 2009
 - 19 MW Vaca Belize hydroelectric facility commissioned in March 2010
 - US\$53 million investment; ~\$6-7 million of normalized earnings/year
 - 1H 2010 lower than average hydrology; reservoirs now full after great July
 - 2010 capital budget still \$1.1 billion
 - \$432 million spent in H1/10; \$244 spend in Q2
 - 5-year capital budget ~\$5 billion
 - 71% Electric (mainly FortisAlberta, FortisBC); 27% Terasen; 2% non-regulated
 - \$1.36 billion of unused credit facilities
 - FX swing ~\$0.01 per share drag on earnings
-

4 August 2010

Figure 1: Fortis Inc. second-quarter earnings details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2009	2010	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				9.5% allowed ROE vs 8.47% in 2009; equity component raised to 40% from 35% in 2009.
Terasen Gas	\$14	\$17	21.4%	Higher rates, lower op costs and lower tax rate offset higher pension costs, increased amortization and financing charges.
Newfoundland Power	\$11	\$11	2.8%	
FortisAlberta	\$17	\$17	0.0%	
FortisBC	\$7	\$8	14.3%	Higher rates and increased incentives partly mitigated by higher opex and amortization.
Other Canadian Regulated Utilities	\$4	\$4	0.0%	
Total Canadian Earnings	\$53	\$57	8.2%	
Regulated Utilities - Caribbean	\$7	\$7	0.0%	Up \$1 mln before FX swing.
Non-Regulated				
Fortis Generation	\$3	\$3	0.0%	
Fortis Properties	\$8	\$8	0.0%	
Total Non-Regulated Earnings	\$11	\$11	0.0%	\$250 mln pref shares issued Jan/10 and \$200 mln debentures issued July/09 partly offset by higher interest income and \$1 mln favourable FX.
Corporate and Consolidated Adjustments	(\$18)	(\$20)	11.1%	
Recurring Earnings	\$53	\$55	4.4%	
Non-recurring items	\$0			
Reported Net Earnings	\$53	\$55	3.8%	
EPS:				In-line with ours and consensus.
Recurring	\$0.31	\$0.32	2.9%	
Non-recurring items	\$0.00	\$0.00		
Reported	\$0.31	\$0.32		Increased shares outstanding due mainly to DRIP program (2% purchase discount).
Cash Flow Per Share	\$0.98	\$0.93	(5.5%)	
Average Shares Outstanding (mln)	170.0	172.4	1.4%	
Regulated				Impact of capital spending.
Earnings	\$60	\$64	7.2%	
% of total	113%	116%		
Non-Regulated				
Earnings	\$11	\$11	0.0%	
% of total	21%	20%		
Corporate				Impact of increased debt.
Earnings	(\$18.0)	(\$20.0)	(11.1%)	
% of total	(34.2%)	(36.4%)		

Source: Fortis Inc., Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

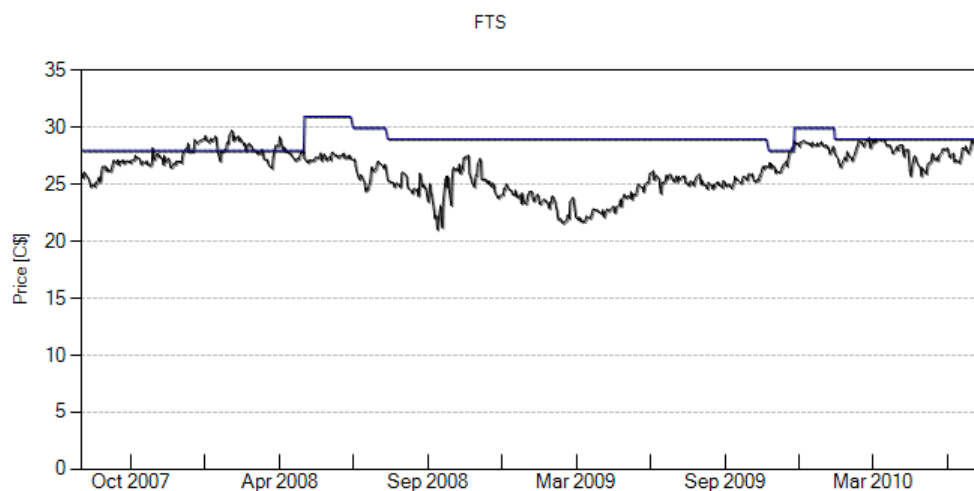
4 August 2010

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Site Visit:

An analyst has visited Fortis's material operations in BC, Alberta, Manitoba, Newfoundland and Grand Cayman. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
2) 06/30/2008	Hastings	Buy	30.00	6) 12/17/2009	Hastings	Hold	30.00
3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 3 August 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	412	60.1%	37	37.1%
Speculative Buy	77	11.2%	65	64.9%
Hold	187	27.3%	19	19.8%
Sell	10	1.5%	0	0.0%
	686	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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Fortis Inc.	1A, 2, 7
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Fortis Inc.

FTS : TSX : C\$29.16

HOLD**Target: C\$29.00**

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COMPANY STATISTICS:

52-week Range: C\$21.60 - 29.51
Avg. Daily Vol. (000s): 445.4
Market Cap (M): C\$5,041.76
Shares Out (M): 172.9
Current Dividend: C\$1.12
Current Dividend Yield %: 3.8

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
EPS:	C\$1.50	C\$1.60	C\$1.75
P/E (x):	19.4	18.2	16.7
CFPS:	C\$3.98	C\$4.25	C\$4.55
P/CF (x):	7.3	6.9	6.4

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12 billion. Fortis has holdings in regulated and non-regulated natural gas and electric distribution utilities in Alberta, BC, Newfoundland, PEI, Ontario, New York State, Belize, Turks and Caicos Islands, and Cayman Islands. Fortis also owns and operates hotels and real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**INNOVATIVE STRUCTURE GETS PROJECT OVER THE FINISH LINE****Investment recommendation**

We continue to rate the shares of Fortis a HOLD with a \$29.00 target price. Fortis announced a new 51% interest in the \$900 million Waneta hydroelectric expansion in British Columbia proposed by two provincial crown corporations. While we expect the investment to deliver incremental earnings and contribute to the company's longer-term growth, the announcement is unlikely to influence the shares in the near term given that it is still almost five years away. We continue to believe the shares are appropriately valued in the current market environment.

Investment highlights

- \$29 target price and HOLD rating maintained
- 51% interest in \$900 million project
 - 49%-owned by two provincial crown corporations
 - five years from delivering ~\$0.05 EPS annually
- Still firmly focused on growth in areas of expertise
 - \$5.5 billion of capex planned from 2010-14
 - Mostly regulated assets or power

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and

cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced that it will pursue the development of the 335 MW hydroelectric facility in British Columbia jointly with crown entities Columbia Power Corporation and Columbia Basin Trust (CPC/CBT). Fortis will own 51% of the approximately \$900 million project, which is to have an in-service date of spring 2015. We estimate that once operating, the project could contribute ~\$0.05 to annual EPS, depending on financing. The project is backed by 40-year agreements with both BC Hydro and Fortis BC, and should provide Fortis a steady level of EBITDA and enhance longer-term returns as debt is repaid and interest costs decline. It is important to note that the project could not be owned by Fortis BC due to its relatively large size and volatility of earnings due to vagaries of the weather/precipitation. While this will impact Fortis as well, weather-related earnings impacts will be less significant and average out over time.

The Waneta expansion project

- 335 MW unregulated hydro project south of Trail, BC
- Expected in-service spring 2015
- Fortis (51%), Columbia Power Corporation, and Columbia Basin Trust (49%)
 - Fortis to operate and maintain facility
- \$900 million capital cost
 - Each party provides its own financing for both debt and equity
 - Fortis to use 65% debt (through existing credit facilities) for its portion
- 40-year EPA with BC Hydro under its 2008 Clean Power Call
 - Pays for all available power at firm and non-firm prices
- 40-year capacity purchase agreement with Fortis BC for 234 MW
 - Fee for first right to purchase, plus power price for any power taken
 - Subject to BCUC approval
- Includes a 10 km transmission line

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis;

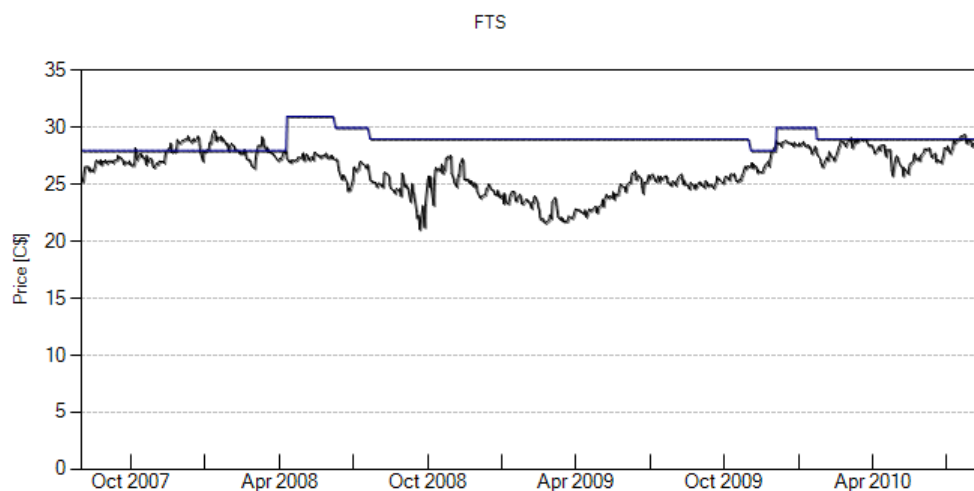
(7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC, Alberta, Manitoba, Newfoundland and Grand Cayman. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
2) 06/30/2008	Hastings	Buy	30.00	6) 12/17/2009	Hastings	Hold	30.00
3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 3 August 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	412	60.1%	37	37.1%
Speculative Buy	77	11.2%	7	64.9%
Hold	187	27.3%	10	19.8%
Sell	10	1.5%	0	0.0%
	686	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	1A, 2, 7
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Fortis Inc.

FTS : TSX : C\$33.45

HOLD**Target: C\$32.00**

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COMPANY STATISTICS:

52-week Range:	C\$21.60 - 33.58
Avg. Daily Vol. (000s):	460.7
Market Cap (M):	C\$5,728
Shares Out (M):	173.6
Current Dividend:	C\$1.12
Current Dividend Yield %:	3.3

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
EPS:	C\$1.50	C\$1.60	C\$1.75
P/E (x):	22.3	20.9	19.1
CFPS:	C\$3.98	C\$4.25	C\$4.55
P/CF (x):	8.4	7.9	7.4

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

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All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**SOLID Q3, AS EXPECTED; HOLD RATING AND C\$32.00 TARGET UNCHANGED****Investment recommendation**

Fortis reported third-quarter results in line with expectations. The company is a well-managed utility with reasonable growth stemming from Western Canada. While it has more modest operations in the Caribbean, they have been viewed by investors negatively due to being harder hit by the economic slowdown and poor regulatory treatment in Belize. Fortunately, those issues may be coming to an end, though we remain cautious. Regardless, the stock is trading at the top end of its peer group valuation range and we rate it a HOLD.

Investment highlights

- Q3 recurring EPS of \$0.24, in line with our \$0.23 estimate and \$0.24 consensus
 - \$0.25 ex Hurricane Igor costs, \$0.26 after all non-recurring items
- Regulated earnings on track
- ~\$1 billion/year of regulated capex driving growth
- Belize could swing – Vaca dam to add ~\$0.04/year; good regulation could add another ~\$0.04
- DBRS upgraded debt rating to A(low) from BBB(high)

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2010 and 2011 EPS estimates of \$1.60 and \$1.75, respectively. While we note the 2010 consensus estimate is \$1.65, we prefer to remain conservative. We continue to assume a gradual economic recovery with growth largely stemming from continued capital investment in regulated operations. The company forecasts a record \$1.1 billion of capex for 2010 and ~\$5 billion for 2011-2015.

Management would like to acquire regulated electric and natural gas utilities, and is focusing on the United States, Canada, and the Caribbean. While Fortis could manage a sizeable acquisition of up to \$4 billion (and would consider financial partners for anything larger), the timing of such a purchase depends on availability and price. Fortunately, Fortis remains disciplined.

Third-Quarter Earnings

Third-quarter recurring earnings were \$0.24 versus \$0.21, in line with our \$0.23 estimate and the \$0.24 consensus. The results included \$0.01 of costs for Hurricane Igor. Final reported earnings were \$0.26 after including \$4 million reversal of costs incurred in 2009 from the Whistler conversion from propane to gas (the regulator allowed cost overruns to be recovered). Nine month recurring earnings were \$1.13 versus \$1.05, with final reported earnings of \$1.16 versus \$1.06. A full breakout of third quarter and nine month earnings can be found in Figures 1 and 2.

Noteworthy Items

- Most regulated utilities are on track to achieve allowed rates of return
 - Belize is the exception
 - Belize court case wrapped up
 - Final submission early December, decision in Q1/11
 - If successful, could boost annual EPS by \$0.04-\$0.05 plus \$0.25 retroactively
 - Delaying IFRS by a year; if regulatory accounting is NOT recognized, the company is likely to move to US GAAP in 2012
-

5 November 2010

Figure 1: Fortis Inc. third-quarter earnings summary

Millions of dollars (except per share data)	Third Quarter Earnings			
	2009	2010	Change	
				Favourable (Unfavourable)
Regulated Utilities - Canadian				
Terasen Gas	(\$3)	(\$9)	(200.0%)	Removed \$4 M non-recurring operating expense reversal related to 2009.
Newfoundland Power	\$7	\$8	14.3%	Higher ROE and equity component as part of 2010-2011 regulatory rate decision.
FortisAlberta	\$16	\$19	18.8%	
FortisBC	\$8	\$11	37.5%	Higher allowed ROE, larger rate base and increased performance incentives.
Other Canadian Regulated Utilities	\$5	\$5	0.0%	
Total Canadian Earnings	\$33	\$34	3.0%	
Regulated Utilities - Caribbean	\$7	\$8	14.3%	Turks and Caicos and Belize offset by lower demand at Grand Cayman. \$1M tax expense deferred to match collection in future period.
Non-Regulated				
Fortis Generation	\$4	\$9	125.0%	
Fortis Properties	\$9	\$9	0.0%	Higher generation in Belize due to higher rainfall and commissioning of Vaca; offset partly by \$1 M of FX.
Total Non-Regulated Earnings	\$13	\$18	38.5%	
Corporate and Consolidated Adjustments	(\$18)	(\$19)	5.6%	
Recurring Earnings	\$35	\$41	17.1%	
Non-recurring items	\$1	\$4		\$4 M reversal of previously expensed costs as part of Terasen operations in 2009.
Reported Net Earnings	\$36.0	\$45.0	25.0%	
EPS:				
Recurring	\$0.21	\$0.24	15.0%	In-line with our 23¢ estimate and 24¢ consensus.
Non-recurring items	\$0.01	\$0.02		
Reported	\$0.21	\$0.26		Higher amortization costs driven by Terasen Gas and decrease in corporate taxes paid at Terasen Gas and Newfoundland Power.
Cash Flow Per Share	\$0.84	\$0.93	11.2%	
Average Shares Outstanding (mln)	170.4	173.6	1.9%	
Regulated				
Earnings	\$40	\$42	5.0%	
% of total	114%	102%		
Non-Regulated				
Earnings	\$13	\$18	38.5%	
% of total	37%	44%		
Corporate				
Earnings	(\$18)	(\$19)	(5.6%)	
% of total	(51.4%)	(46.3%)		

Source: Fortis Inc., Canaccord Genuity

Figure 2: Fortis Inc. nine months earnings summary

Millions of dollars (except per share data)	9 Months		Change	
	2009	2010		
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				Increased 2010 and 2011 ROEs and rate bases as part of Negotiated Settlement Agreement.
Terasen Gas	\$69	\$81	17.4%	ROE increase from 8.95% in 2009 to 9% in 2010.
Newfoundland Power	\$24	\$26	9.7%	
FortisAlberta	\$45	\$49	8.9%	Reflects increased investment in rate base.
FortisBC	\$29	\$33	13.8%	
Other Canadian Regulated Utilities	\$14	\$14	0.0%	Higher allowed ROE and rate base after increased investment
Total Canadian Earnings	\$181	\$203	12.3%	
Regulated Utilities - Caribbean	\$18	\$19	5.6%	Greater generation in Belize and commissioning of Vaca hydro facility largely offset by 2009 expiration of Rankine water rights and stronger C\$
Non-Regulated				
Fortis Generation	\$13	\$14	7.7%	
Fortis Properties	\$19	\$19	(1.1%)	
Total Non-Regulated Earnings	\$32	\$33	2.5%	Lower effective income tax rate offset by lower occupancies at hotel operations in Western Canada.
Corporate and Consolidated Adjustments	(\$53)	(\$60)	13.2%	
Recurring Earnings	\$178	\$195	9.6%	
Non-recurring items	\$3	\$5		
Reported Net Earnings	\$181	\$200	10.5%	
EPS:				
Recurring	\$1.05	\$1.13	8.1%	2009: \$1 M favourable tax impact; \$2 M favourable one-time impact in Caribbean operations. 2010: \$1 M favourable rate revenue accrual and \$4 M reversal of previously expensed costs.
Non-recurring items	\$0.02	\$0.03	55.4%	
Reported	\$1.06	\$1.16		
Cash Flow Per Share	\$2.99	\$3.03	1.3%	
Average Shares Outstanding (mln)	170.0	172.4	1.4%	
Regulated				
Earnings	\$199	\$222	11.7%	
% of total	112%	114%		
Non-Regulated				
Earnings	\$32	\$33	2.5%	
% of total	18%	17%		
Corporate				
Earnings	(\$53.0)	(\$60.0)	(13.2%)	
% of total	(29.8%)	(30.8%)		

Source: Fortis Inc., Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

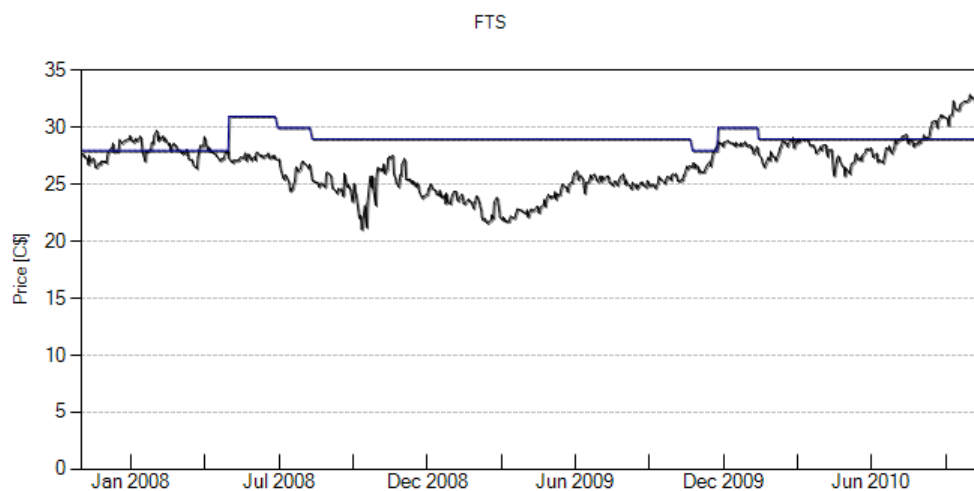
5 November 2010

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Site Visit:

An analyst has visited Fortis's material operations in BC, Alberta, Manitoba, Newfoundland and Grand Cayman. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
2) 06/30/2008	Hastings	Buy	30.00	6) 12/17/2009	Hastings	Hold	30.00
3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 November 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	419	59.1%	33	33.9%
Speculative Buy	73	10.3%	61	61.6%
Hold	197	27.8%	19	19.3%
Sell	20	2.8%	5	5.0%
	709	100.0%		

Canaccord Ratings System:

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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Fortis Inc.	1A, 2, 7
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10 February 2011

Fortis Inc.

FTS : TSX : C\$33.75

HOLD**Target: C\$32.00****Juan Plessis, MBA, CFA**

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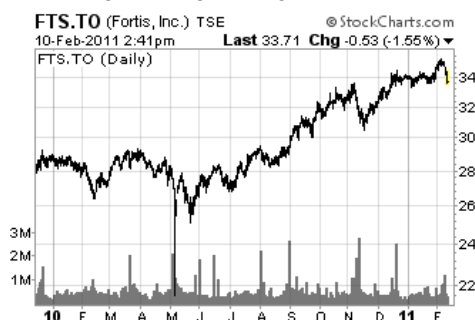
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COMPANY STATISTICS:

52-week Range:	C\$21.60 - 35.45
Avg. Daily Vol. (000s):	481.8
Market Cap (M):	C\$6,101
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E	2012E
EPS:	C\$1.50	C\$1.60	C\$1.75	C\$1.80
P/E (x):	22.5	21.1	19.3	18.8
CFPS:	C\$3.98	C\$4.08	C\$4.38	C\$4.48
P/CF (x):	8.5	8.3	7.7	7.5

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**NO SURPRISES IN Q4; STEADY GROWTH AHEAD****Investment recommendation**

Fortis reported fourth-quarter recurring earnings generally in line with expectations. The company continues to deliver stable earnings growth stemming mainly from its regulated utility operations in Canada. With \$5.5 billion of planned capital expenditures over the next five years (83% in regulated operations) we expect the company to deliver measured earnings growth. We maintain our HOLD rating and C\$32.00 target price.

Investment highlights

- Maintain HOLD rating and C\$32.00 target
- Q4 recurring earnings \$0.49, below \$0.51 consensus
- 2010 recurring earnings \$1.61, in line with our \$1.60 estimate
- Steady growth - \$5.5 billion capex program over next five years
- Continues to actively seek utility acquisitions

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are maintaining our 2011 and 2012 EPS estimates of \$1.75 and \$1.80, respectively. The company is well positioned to achieve stable earnings growth through its planned \$5.5 billion capital expenditure program. Approximately ~\$4.6 billion of spending is targeted within Fortis' regulated operations, driven mainly by investments in FortisAlberta and FortisBC and about \$1.1 billion at Terasen Gas.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

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In addition, the company has begun construction on the 335 MW Waneta Expansion hydro project where it holds a 51% interest (~\$460 million Fortis portion of the estimated capital cost). The company continues to seek acquisitions and is focused primarily on electric and gas utilities in the United States or Canada. We believe the company has the financial capability to integrate an acquisition of up to \$4 billion in enterprise value but would consider larger acquisitions with the assistance of a financial partner. However, we expect management will remain prudent and wait for the right opportunity.

Fortis' Caribbean operations have been earning a lower-than-expected return on its investments and we expect earnings to gradually improve. A decision on its regulated return in Belize is expected in the first quarter this year and the electricity rate review filing at Fortis Turks and Caicos is advancing.

Earnings summary

Fortis reported fourth-quarter and full-year earnings that were essentially in line with our expectations but slightly below the consensus. Recurring earnings for the company's fourth quarter was \$0.49 per share versus \$0.46 last year. The increase was due mainly to higher earnings from regulated operations in Canada due to the company's significant capital expenditure program coupled with higher allowed ROE. In addition, higher non-regulated electric generation (mainly in Belize from above average hydrology) and lower effective corporate taxes also helped add incremental earnings. This was partly offset by higher operating expenses at Terasen Gas related to quarterly timing issues.

For the full year, Fortis reported recurring earnings per share of \$1.61 versus \$1.53 last year, below the \$1.66 consensus estimate. Higher allowed ROEs and increased rate bases within the Canadian regulated business in addition to above average hydrology in Belize more than offset reduced earnings at the regulated Caribbean operations and the expiration of the Rankine water rights in Ontario.

Noteworthy

- Construction on \$900 M, 335 MW, Waneta Expansion project began Fall/10
 - Fortis owns 51%
 - 40-year PPA with BC Hydro and FortisBC
 - Commissioning targeted for Spring 2015
 - 2011 ROE (vs. 2010):
 - Terasen Gas – 9.5% (unchanged)
 - FortisBC – 9.9% (unchanged)
 - FortisAlberta – 9.0% (interim rate; unchanged)
 - Newfoundland Power 8.38% (down from 9.0%)
 - Credit ratings
 - S&P A-
 - DBRS raised rating to A(low) from BBB(high)
 - Raised \$525 M in long-term debt in 2010 at lower rates
 - Capital program
 - Spent \$1.1 B in 2010, \$25 M lower than forecast in 2009 MD&A
 - \$5.5 B budgeted over next five years
 - 2011: \$1.2 B
 - 2012: \$1.1 B
 - 2013: \$1.2 B
 - 2014: \$1.0 B
 - 2015: \$1.0 B
 - Expects decision on Belize Electricity appeal in Q1/11
-

10 February 2011

Figure 1: Fortis Inc. fourth-quarter earnings summary

Millions of dollars (except per share data)	Fourth Quarter Earnings			
	2009	2010	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Terasen Gas	\$53	\$45	(15.1%)	2009 excludes \$5 M after tax non-recurring expense related to Whistler customer appliance conversions from propane to gas. Q4/10 includes higher opex related to quarterly timing issues.
Newfoundland Power	\$8	\$9	12.5%	
FortisAlberta	\$12	\$17	41.7%	2009 excludes \$3 M retroactive adjustment for higher allowed ROE relating to first three quarters of 2009.
FortisBC	\$8	\$10	25.0%	
Other Canadian Regulated Utilities	\$3	\$5	66.7%	
Total Canadian Earnings	\$84	\$86	2.4%	
Regulated Utilities - Caribbean	\$6	\$5	(16.7%)	
Non-Regulated				
Fortis Generation	\$3	\$5	66.7%	Higher generation and sales.
Fortis Properties	\$5	\$7	40.0%	
Total Non-Regulated Earnings	\$8	\$12	50.0%	
Corporate and Consolidated Adjustments	(\$19)	(\$18)	(5.3%)	
Recurring Earnings	\$79	\$85	7.6%	
Non-recurring items	\$2			
Reported Net Earnings	\$81	\$85	4.9%	
EPS:				
Recurring	\$0.46	\$0.49	5.7%	Slightly ahead of our 47¢ estimate and below the 51¢ consensus.
Non-recurring items	\$0.01	\$0.00		
Reported	\$0.47	\$0.49		
Cash Flow Per Share	\$0.99	\$1.20	20.8%	Higher amortization costs collected from customers.
Average Shares Outstanding (mln)	170.9	173.9	1.8%	
Regulated				
Earnings	\$90	\$91	1.1%	
% of total	114%	107%		
Non-Regulated				
Earnings	\$8	\$12	50.0%	Higher generation from all facilities in Fortis Generation and higher rents at Fortis Properties.
% of total	10%	14%		
Corporate				
Earnings	(\$19)	(\$18)	5.3%	
% of total	(24.1%)	(21.2%)		

Source: Fortis Inc., Canaccord Genuity

10 February 2011

Figure 2: Fortis Inc. 2010 earnings summary

Millions of dollars (except per share data)	Full Year Earnings			
	2009	2010	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
Terasen Gas	\$122	\$126	3.3%	Increased ROE for 2010 compared to 2009.
Newfoundland Power	\$32	\$35	9.4%	Growth in rate base.
FortisAlberta	\$60	\$66	10.0%	
FortisBC	\$37	\$43	16.2%	
Other Canadian Regulated Utilities	\$17	\$19	11.8%	Higher allowed ROE and investments in rate base.
Total Canadian Earnings	\$268	\$289	7.8%	
Regulated Utilities - Caribbean	\$24	\$23	(4.2%)	Lower due to unfavourable FX translation, increased legal fees associated with regulatory dispute; partly offset by reduced maintenance costs at Turks and Caicos.
Non-Regulated				
Fortis Generation	\$16	\$19	18.8%	
Fortis Properties	\$24	\$26	7.5%	
Total Non-Regulated Earnings	\$40	\$45	12.0%	
Corporate and Consolidated Adjustments	(\$72)	(\$78)	8.3%	
Recurring Earnings	\$260	\$279	7.2%	
Non-recurring items	\$2	\$6		\$4 M non-recurring reversal in 2010 of previously expensed costs in 2009 at Terasen; retro active adjustment of \$1.5 M added back relating to Turks and Caicos rate classification judgment.
Reported Net Earnings	\$262	\$285	8.8%	
EPS:				
Recurring	\$1.53	\$1.61	5.6%	
Non-recurring items	\$0.01	\$0.04		In line with our \$1.60 estimate but below the \$1.66 consensus estimate.
Reported	\$1.54	\$1.65		
Cash Flow Per Share	\$3.98	\$4.25	6.6%	
Average Shares Outstanding (mln)	170.2	172.9	1.6%	Dividend reinvestment and share purchase plans.
Regulated				
Earnings	\$292	\$312	6.8%	Higher ROEs and increased rate bases for regulated operations, slightly offset by reduced Caribbean earnings.
% of total	112%	112%		
Non-Regulated				
Earnings	\$40	\$45	12.0%	Good hydrology in Belize, lower financing charges and improved operations from Properties division.
% of total	15%	16%		
Corporate				
Earnings	(\$72)	(\$78)	(8.3%)	Reflects dividends for \$250 M preferred share issue Jan/2010.
% of total	(27.7%)	(28.0%)		

Source: Fortis Inc., Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

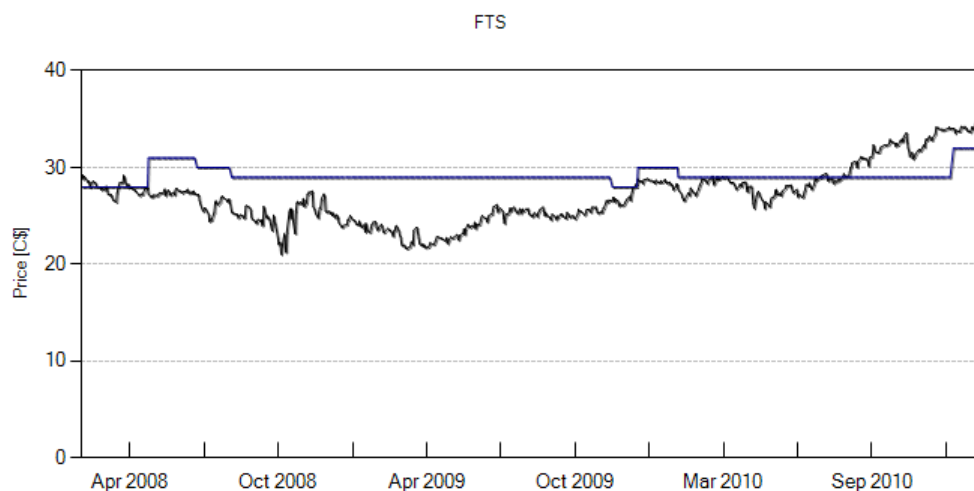
10 February 2011

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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
2) 06/30/2008	Hastings	Buy	30.00	6) 12/17/2009	Hastings	Hold	30.00
3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00	8) 01/04/2011	Plessis	Hold	32.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 2 February 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	437	57.7%	36	36.6%
Speculative Buy	65	8.6%	52	52.3%
Hold	236	31.1%	18	17.8%
Sell	20	2.6%	2	5.0%
	758	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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Risk Qualifier:

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Fortis Inc.

FTS : TSX : C\$32.03

HOLD**Target: C\$32.00****Juan Plessis, MBA, CFA**

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Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$21.60-35.45
Avg. Daily Vol. (000s):	489.6
Market Cap (M):	C\$5,560
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.75	C\$1.80
P/E (x):	21.4	19.9	18.3	17.8
CFPS:	C\$3.98	C\$4.23	C\$4.52	C\$4.62
P/CF (x):	8.0	7.6	7.1	6.9

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**NEGATIVE BELIZE DECISION NOT MATERIAL****Investment recommendation**

Fortis received unfavourable determinations from the Belize Supreme Court regarding its 70%-owned Belize Electricity Limited for appeals made against certain regulatory decisions related to a 2008 rate case with the Belize regulator. The regulatory decisions in dispute have resulted in the company not earning a sufficient return on the assets since 2008 and, while they are disappointing, we do not expect the recent findings to have a material impact on future earnings. However, the company may be required to incur a writedown on the assets at some point in the future. The Belize regulatory assets represent only around \$100-125 million (~\$0.57-0.72 per share) and we believe that if a writedown is incurred, it would be for a portion of these assets and would not be material to the stock. Fortis is the epitome of a utility, achieving stable earnings growth stemming mainly from its regulated operations in Canada. The company has \$5.5 billion of planned capital expenditures over the next five years and we continue to expect delivery of measured earnings growth.

Investment highlights

- No changes to 2011 and 2012 earnings estimates
 - Belize assets under-earning for past two and a half years
 - No assumptions for positive decision going forward
- Maintain HOLD rating and \$32 target price
- Supreme Court determination immaterial to company
 - Total Belize assets represent \$0.57-0.72 in value per share

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

In 2008, the Public Utilities Commission (PUC) in Belize issued a Final Decision on Belize Electric Limited's (70 % Fortis-owned) Annual Review Proceedings that resulted in a reduced rate of return by way of disallowing previously approved expenses and lowering the value of the rate base. Belize Electric then appealed the decisions to the Belize Supreme Court on the basis that the PUC decisions were unlawful and did not follow Good Utility Practice. In its determination, the Supreme Court sided with the PUC on all regulatory decisions in dispute and found the PUC to have acted in the interest of consumers and the utility.

Fortis has not been earning a positive return on its Belize operations since 2008. Although it is disappointing, we believe the outcome is not significantly meaningful to Fortis's earnings going forward. In total, the Belize regulatory assets are estimated at \$100-125 million (\$0.57-0.72 per share), and are not substantial relative to the total value of the company. We suspect the company may have to write down the assets at some point in the future if it is not able to derive additional value from the assets but believe any potential writedown would be a portion of the total value of the assets and would not be a significant to the stock.

Investment risks

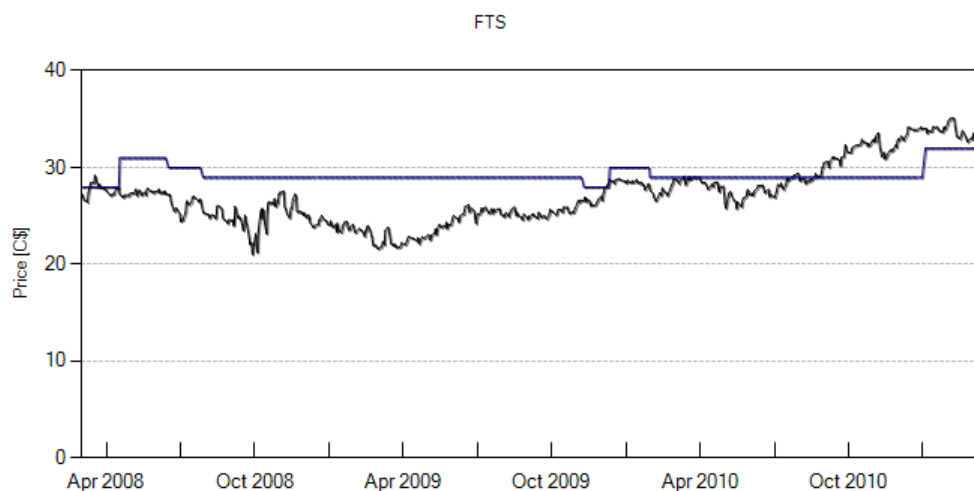
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Price Chart:*

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
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3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00	8) 01/04/2011	Plessis	Hold	32.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 3 March 2011)

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Buy	447	58.7%	36	36.9%
Speculative Buy	62	8.1%	66	66.1%
Hold	237	31.1%	17	17.3%
Sell	15	2.0%	6	6.7%
	761	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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Fortis Inc.

FTS : TSX : C\$32.12

HOLD**Target: C\$32.00****Juan Plessis, MBA, CFA**

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Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$21.60 - 35.45
Avg. Daily Vol. (000s):	466.7
Market Cap (M):	C\$5,575
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.75	C\$1.80
P/E (x):	21.4	20.0	18.4	17.8
CFPS:	C\$3.98	C\$4.23	C\$4.50	C\$4.60
P/CF (x):	8.1	7.6	7.1	7.0

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**RATE BASE GROWTH FUELS STRONG Q1****Investment recommendation**

Fortis reported first quarter recurring earnings of \$0.66 per share, above the consensus estimate. The company consistently delivers stable results, as earnings are almost entirely generated from rate regulated utility operations. Over the next five years, earnings are set for stable and consistent growth. The company plans to spend approximately \$5.5 billion in capital expenditures, 83% of which will be applied to its utility operations in western Canada. We continue to rate the stock a HOLD and maintain our C\$32.00 target price.

Investment highlights

- Q1 recurring EPS of \$0.66, above consensus
 - Growth from capital additions in western Canadian utility operations
- \$5.5 billion capital program to fuel future growth
- Maintain HOLD rating and C\$32.00 target price
 - 2011 and 2012 EPS estimates unchanged

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Outlook

We are making no changes to our 2011 and 2012 earnings estimates of \$1.75 and \$1.80, respectively. The nature of Fortis' business, energy delivery, usually leads to strong results in the first and fourth quarters when energy demand is at its peak and temperatures are the coldest. We expect to see a strong start to the year offset by comparatively weaker second and third quarters. Earnings, however, continue to grow year-over-year, mainly due to capital additions in the company's regulated operations in western Canada. Fortis is seeking to spend an additional \$5.5 billion of growth capex from 2011 through 2015. Approximately \$4.6 billion of that will be towards regulated operations, mainly FortisBC and FortisAlberta.

Growth can be further enhanced if Fortis were to acquire additional utility assets. The company has a successful track record of acquisitions in the past and is always on the lookout for assets that fit its strategy and meet its investment criteria. Management has indicated that it will consider acquiring assets with up to \$4 billion in enterprise value, and will consider partnering with another investor for larger purchases.

The company is still facing headwinds at its Caribbean operations with an unfavourable decision at Belize Electricity and a rate application that was not accepted by the Governor of Turks and Caicos. The company is working hard to resolve these issues, which could result in improved earnings in the future. However, we remain conservative on our expectations for earnings from this business division.

First quarter earnings summary

Fortis reported first quarter recurring earnings of \$0.66 per share, above the \$0.62 consensus estimate and \$0.59 in the first quarter last year. Strong rate base growth at the company's regulated utilities in western Canada contributed to the bulk of the increased earnings in the quarter. Earnings improved in its non-regulated generation segment as a result of increased power generation in Belize and higher average power prices in Ontario. Fortis Properties' earnings decreased modestly year-over-year due to higher amortization costs and lower performance as a result of continued effects of the economic downturn. However, the first quarter is typically the seasonally low quarter of the year, and we expect the Properties division to deliver a contribution in 2011 similar to last year. For additional details on the first quarter results, please see Figure 1.

Noteworthy items

- Rate applications
 - FortisAlberta 2012-2013 rate application filed in March 2011
 - Effective rate increases of 8.2% in 2012 and 6.9% in 2013
 - Hearing expected late October 2011 and final decision in Q1/12
-

- FortisBC Energy (formerly known as Terasen) expects to file 2012-2013 rate application in May 2011
 - FortisBC Electric expects to file 2012-2013 rate application in summer 2011
 - Newfoundland Power expects to file rate application in May 2011
 - 8% rate increase effective July 1, 2011
 - Considering amalgamation of three FortisBC Energy companies (formerly Terasen Gas companies)
 - FortisBC Inc., FortisBC Vancouver Island, and FortisBC Whistler
 - Application expected sometime in 2011
 - FortisBC natural gas storage facility expected to be complete in next several weeks
 - Estimated cost of \$214 million; \$80 million equity portion
 - Facility to be filled in Q2/11
 - Fortis Properties' application to construct 12-storey office building in St. John's, Newfoundland
 - Subject to municipal government approval
 - Estimated cost of \$50 million and expected completion in 2013
-

Figure 1: Fortis' first quarter earnings summary

Millions of dollars (except per share data)	First Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
FortisBC Energy Companies	\$73	\$76	4.1%	
Newfoundland Power	\$7	\$7	0.0%	Impact of capital additions; added \$3 M recurring earnings for Q1/2010 received in Q3/2010.
FortisAlberta	\$17	\$20	17.6%	
FortisBC Electric	\$13	\$19	46.2%	Higher rate base from significant capital additions.
Other Canadian Regulated Utilities	\$5	\$6	20.0%	
Total Canadian Earnings	\$115	\$128	11.3%	Higher allowed return at Algoma Power - 2011 ROE 9.85% vs 8.57% in 2010.
Regulated Utilities - Caribbean	\$4	\$4	0.0%	
Non-Regulated				
Fortis Generation	\$2	\$3	50.0%	Higher production in Belize and higher realized power prices in Ontario.
Fortis Properties	\$2	\$1	(72.2%)	
Total Non-Regulated Earnings	\$4	\$4	(7.9%)	Lower occupancies at hotels and higher amortization costs from capital investments.
Corporate and Consolidated Adjustments	(\$21)	(\$20)	(4.8%)	
Recurring Earnings	\$102	\$116	13.5%	\$1 M gain on sale of FortisAlberta asset and \$0.5 M gain on Fortis Properties asset sale.
Non-recurring items	\$1.2	\$1.5	n.m.	
Reported Net Earnings	\$103	\$117	13.6%	
EPS:				
Recurring	\$0.59	\$0.66	11.3%	
Non-recurring items	\$0.01	\$0.01	n.m.	
Reported	\$0.60	\$0.67	11.4%	Higher earnings and increased amortization costs collected from ratepayers.
Cash Flow Per Share	\$1.17	\$1.38	n.m.	
Average Shares Outstanding (mln)	171.6	175.0	2.0%	
Regulated				
Earnings	\$119	\$132	10.9%	
% of total	117%	114%		
Non-Regulated				
Earnings	\$4	\$4	(7.9%)	
% of total	4%	3%		
Corporate				
Earnings	(\$21.0)	(\$20.0)	4.8%	
% of total	(20.6%)	(17.3%)		

Source: Fortis Inc., Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks

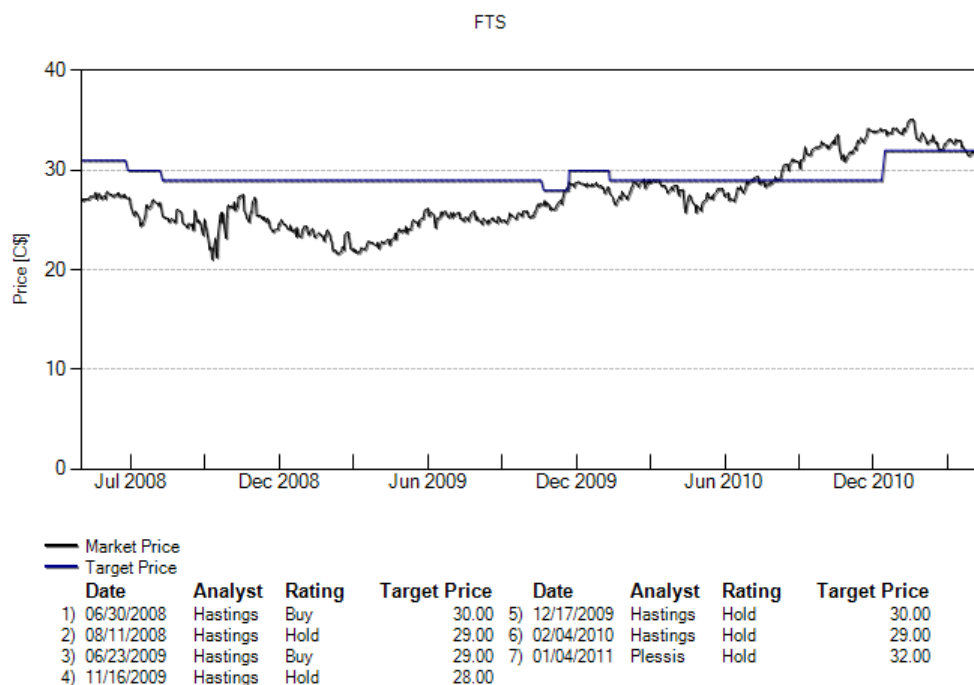
associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties, which are subject to operating risks associated with the industry.

APPENDIX: IMPORTANT DISCLOSURES**Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 3 May 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	466	59.4%	36.7%	
Speculative Buy	67	8.5%	62.7%	
Hold	234	29.8%	17.5%	
Sell	18	2.3%	11.1%	
	785	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	7
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Changes	Annual EPS	Target
	2011E \$1.70 from \$1.75	C\$33.00 from C\$32.00

Fortis Inc.

FTS : TSX : C\$32.97

HOLD**Target: C\$33.00 ↑****Juan Plessis, MBA, CFA**

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jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$26.51 - 35.45
Avg. Daily Vol. (000s):	470.9
Market Cap (M):	C\$5,723
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.5

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	22.0	20.5	19.4	18.3
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	8.3	7.8	7.4	7.2

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**ACQUIRES U.S. UTILITY AND ISSUES COMMON EQUITY****Investment recommendation**

Fortis announced the acquisition of Central Vermont Public Service (CV : NYSE : US\$24.32 | Not rated) for US\$35.10/share or US\$700 million including the assumption of US\$230 million of associated debt. We believe the acquisition will contribute up to \$0.05 to full-year EPS once it closes and we are raising our target price modestly to C\$33.00 from C\$32.00 to reflect the positive impact of the purchase. The company also announced an equity financing of up to \$345 million to finance the equity portion of rate base growth in its western Canadian utility operations and for its share in the development of the Waneta Dam. While we had modelled an equity financing into our 2011 earnings estimate, we had assumed a smaller financing. As a result, the larger equity issue dilutes our 2011 EPS by a few cents per share and we are lowering our 2011 EPS estimate to \$1.70 from \$1.75.

Investment highlights

- Acquiring Central Vermont Public Service for US\$700 million
 - 1.41x rate base (including interest in VELCO debt)
 - Expected to close in 6-12 months
 - Accretive to EPS by as much as \$0.05 per share after close
- Raising target price by C\$1.00 to C\$33.00
 - Maintain HOLD rating

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

- Announced \$300 - \$345 million common equity issue (larger than anticipated)
 - 9.1 – 10.465 million shares @ \$33/share
- Lowering 2011 EPS estimate to \$1.70 from \$1.75; 2012 EPS estimate unchanged at \$1.80

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

Fortis announced the US\$700 million acquisition of Central Vermont Public Service (CVPS). The regulatory assets of CVPS were US\$426 million in 2010 which represents a 64% premium to regulatory assets. On the surface, the price appears rich; however, we note several factors. First, the rate base on the balance sheet does not take into consideration an additional US\$155 million of debt from a minority holding of Vermont Electric Power Company (VELCO). Considering this proportional interest in the debt of VELCO, the acquisition cost including assumed debt is about US\$855 million, representing a 40% premium to rate base. Second, while still somewhat higher than recent transactions (Algonquin Power & Utilities paid a 15%, 13% and 11% premium, respectively for its recent Granite State, Energy North and Midwest utilities acquisitions) we point out that CVPS generates a 9.45% return on an attractive 57% equity component on a rate base of US\$426 million (around ~43% equity component inclusive of VELCO debt). Third, CVPS is a growing utility with rate base expected to reach over US\$800 million by 2015 (including debt of VELCO), representing around ~8.5% average annual growth rate from 2010. We expect the acquisition to contribute up to ~\$0.05 per share to full year earnings per share depending on financing terms. The acquisition is expected to close within the next 6-12 months, subject to approval by CVPS shareholders, FERC and the Vermont Public Service Board.

While Fortis is very familiar with regulated assets, with almost 90% of its earnings generated from regulated operations in Canada and the Caribbean, the acquisition of CVPS is Fortis' first foray into the U.S. utility arena. Fortis' management has long indicated that it was seeking to expand into the United States and we suspect that the purchase of CVPS establishes a beachhead for additional U.S. utility purchases in the future.

The company also announced that it will issue 9.1 million common shares at \$33 per share for gross proceeds of \$300 million. If the overallotment of 1.365 million shares is exercised, total proceeds will rise to \$345 million. We had expected the company to issue equity in 2011 and in 2012 to fund the growth of its western Canadian utility operations and the development of its interest in the non-

regulated Waneta Dam; however, the announced equity issue is larger than we had anticipated. Consequently, the larger-than-expected common share issue will dilute our anticipated earnings and we are lowering our 2011 EPS estimate by \$0.05 to \$1.70. Our 2012 EPS estimate remains unchanged at \$1.80.

Acquisition details

- Purchasing CVPS for US\$700 million; US\$855 million including US\$155 million of VELCO debt
 - Purchasing CV:NYSE shares for US\$35.10/share
 - Represents 44% premium to last closing price
 - Assuming US\$385 million debt
- Rate base of ~US\$600 million
 - Includes debt attributed to VELCO investment
 - 57% equity component on rate base of US\$426 million
 - ~43% inclusive of VELCO debt
 - 9.45% ROE
 - Based on automatic adjustment formula approach using 10-year treasury yield
- CVPS purchases, produces, distributes, transmits and sells power
 - Serves 160,000 customers
 - Owns 9,000 miles of distribution lines
 - Owns 600 miles of transmission lines
 - Holds a 41% interest in Vermont Transco LLC, an electric transmission business
 - Holds a 47% interest in Vermont Electric Power Company (VELCO), an electric transmission business
 - Holds a 59% interest in Vermont Yankee Nuclear Power Corp, which holds a PPA for nuclear power from the Vermont Yankee Nuclear Power Plant
- Closing of the acquisition to occur within the next 6-12 months, subject to approval of:
 - CVPS shareholders
 - U.S. Federal Energy Regulatory Commission (FERC)
 - Vermont Public Service Board
 - Other customary closing conditions

Financing details

- Issuing 9.1 million shares at \$33/share for gross proceeds of \$300 million
 - 1.365 million share overallotment for \$45 million
 - To fund:
 - Growing rate base in western Canadian utility operations
 - Development of Waneta Dam
 - Outstanding debt on credit facilities
 - General corporate purposes
-

- Expected to close on or about June 15, 2011

Investment risks

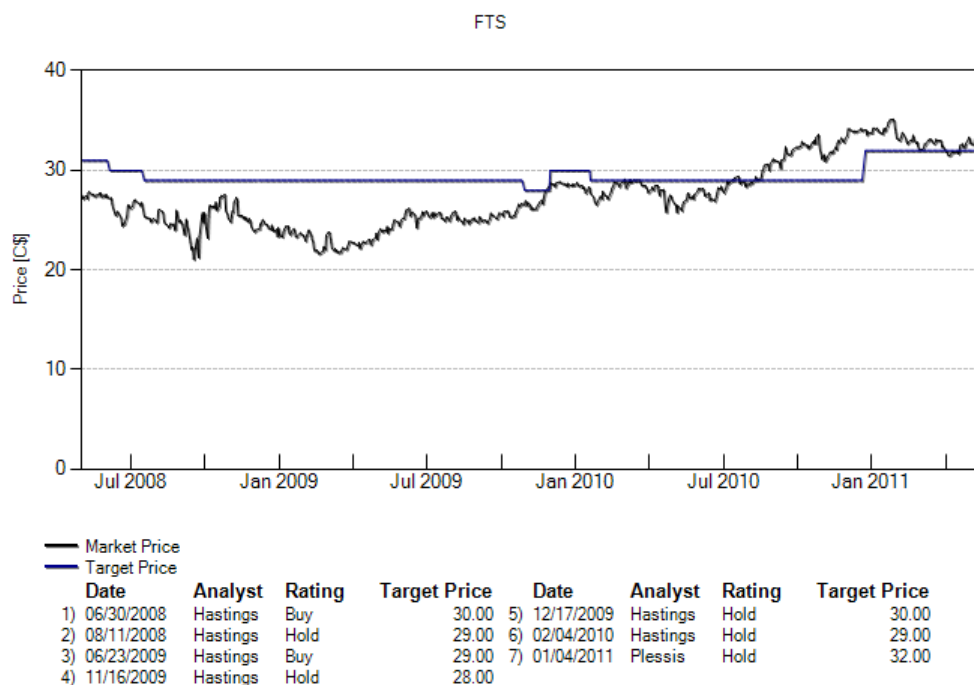
Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Site Visit:

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 3 May 2011)

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	#	%	#	%
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Speculative Buy	67	8.5%	62.7%	
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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Fortis Inc.	7
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Fortis Inc.

FTS : TSX : C\$31.91

HOLD**Target: C\$33.00****Juan Plessis, MBA, CFA**

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Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$26.80 - 35.45
Avg. Daily Vol. (000s):	479.0
Market Cap (M):	C\$5,539
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	21.3	19.8	18.8	17.7
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	8.0	7.5	7.2	6.9

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**BELIZE GOVERNMENT EXPRESSES INTEREST TO CONTROL BEL; NOT MATERIAL TO VALUE****Investment recommendation**

The Government of Belize publicly expressed its interest in purchasing majority shares in Belize Electricity Company (BEL) to assume control of the company. BEL is 70%-owned by Fortis and 25%-owned by the Government of Belize. As at this time, no purchase offer has been made to Fortis for shares of BEL. Fortis has stated in the past that it is not interested in holding a minority position in assets controlled by any government entity; this would also apply in this case. While we remain concerned that the Government may not offer a fair price for the assets, or may not purchase the entirety of Fortis' shares in BEL, we note that the Belize regulatory assets represent only around \$100-125 million or \$0.54-0.67 per share. Given the uncertainties stemming from a negative 2008 regulatory decision, we believe the market has already placed a significant discount on the BEL assets, which has been reflected in the stock. Consequently, we do not expect this issue to have a material impact on Fortis' stock price.

Investment highlights

- Maintain HOLD rating and C\$33.00 target price
- Total Belize Electricity Limited assets represent ~\$0.60 in value per share
 - Belize assets under-earning for past three years
 - No assumptions for positive decision going forward
 - Much of BEL value likely already discounted in current share price
- Potential Government control of BEL not very significant to value

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

The Government of Belize has stated its desire to own a controlling interest in BEL, a regulated utility 70%-owned by Fortis. As yet, Fortis has not received a proposal by the Government. While the Government has publicly announced its intention to 'purchase' majority shares in BEL, we remain concerned that Fortis may not receive a fair price. On previous occasions, Fortis has stated that it does not participate in minority holding of government-controlled assets, which further complicates the issue. We understand that the Belizean Government has already taken ownership of the telecommunications and water utility operations within the country, and has now set its sights on BEL. That said, we point out that Fortis' investment in BEL is ~\$100-125 million (\$0.54-0.67 per share). We also believe the market has placed a significant discount on the value of Fortis' investment in BEL. In 2008, the Belize Public Utilities Commission (PUC) issued a regulatory decision that resulted in a reduced rate of return by disallowing previously approved expenses and lowering the value of the rate base. BEL filed appeals, but the Belize Supreme Court has sided with the PUC. Since 2008, BEL has not been earning an appropriate return on its regulated Belizean assets.

We expect that the issues surrounding BEL will not be resolved in the near term, and an ultimate resolution may still be years away. The impact on the change in ownership at BEL should not be material to Fortis' stock. We note that Fortis has an additional ~\$160 million investment in non-regulated power assets in Belize. These assets are not in question, and to our knowledge the Government has been satisfied with Fortis' ownership and has never made an expression of interest regarding these assets. However, should these assets become a target of Government interest, it could potentially have a modestly negative impact on the value of the stock.

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on

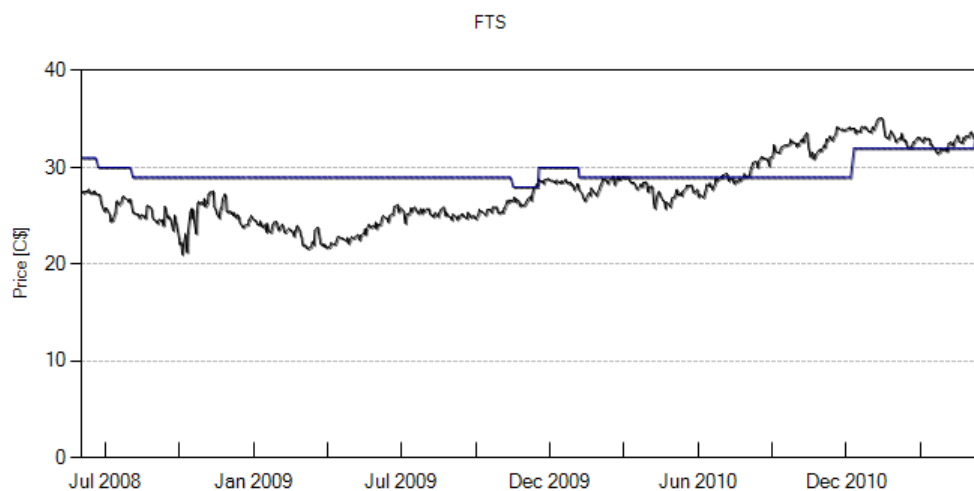
environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties that are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/30/2008	Hastings	Buy	30.00	5) 12/17/2009	Hastings	Hold	30.00
2) 08/11/2008	Hastings	Hold	29.00	6) 02/04/2010	Hastings	Hold	29.00
3) 06/23/2009	Hastings	Buy	29.00	7) 01/04/2011	Plessis	Hold	32.00
4) 11/16/2009	Hastings	Hold	28.00	8) 05/31/2011	Plessis	Hold	33.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 6 June 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	478	60.0%	37	37.4%
Speculative Buy	74	9.3%	66	66.2%
Hold	232	29.1%	17	17.7%
Sell	13	1.6%	0	0.0%
	797	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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Risk Qualifier:

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Fortis Inc.	7
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Changes	Rating/Target
	HOLD rating unchanged
	C\$32.00 from C\$33.00

Fortis Inc.

FTS : TSX : C\$31.37

HOLD

Target: C\$32.00 ↓

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Zayem Lakhani 1.604.643.7506
zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$26.80 - 35.45
Avg. Daily Vol. (000s):	475.4
Market Cap (M):	C\$5,445
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.7

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	20.9	19.5	18.5	17.4
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	7.9	7.4	7.1	6.8

SHARE PRICE PERFORMANCE:



COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities

GAZ METRO OFFER FOR CVPS PUTS KINK IN FORTIS' ACQUISITION PLANS

Investment recommendation

Gaz Métro LP made an unsolicited bid of US\$35.25 per share for Central Vermont Public Service Corporation (CV : NYSE : US\$35.62 | Not rated), just above Fortis' recent offer of US\$35.10 per share. Despite Fortis' offer being more attractive for shareholders after accounting for the \$17.5-19.5 million break fee (~\$1.30-1.45 per CVPS share), stakeholders including the Vermont regulator may view the Gaz Métro bid more favourably as the company has existing operations in Vermont and has stated it can realize \$144 million in savings for ratepayers through the transaction. Fortis will await a decision from CVPS before indicating any further actions.

Separately, Fortis has received an order of expropriation from the Government of Belize for its 70% ownership in Belize Electric Ltd (BEL). The government has not yet presented Fortis with a price. Fortis' investment in BEL is ~\$125 million or \$0.67 per share. We note there is a possibility the company incurs a loss by not receiving full value for its investment. Given the uncertainty surrounding the outcomes of the BEL expropriation and the proposed acquisition of CVPS, we are taking a more conservative view. Consequently, we are lowering our target price modestly to \$32.00 from \$33.00 until we see more clarity on the current issues. We are maintaining our HOLD rating.

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Investment highlights

- Gaz Métro made unsolicited bid for CVPS
 - Less attractive to CVPS shareholders
 - After accounting for \$1.30-1.45/share break fee and dividend considerations
 - But more attractive to ratepayers and regulators
 - Gaz Métro providing \$144 million of benefits over ten years to ratepayers vs. Fortis' US\$21 million
- Fortis awaiting decision from CVPS before any further action
- Government of Belize to expropriate BEL
 - Uncertainty over compensation to be received
 - Fortis' investment in BEL represents ~\$0.67 per share value
- Lowering target price \$1 to \$32 due to uncertainty revolving issues

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

A tale of two offers and a lot of uncertainty

Gaz Métro's hostile bid (the unsolicited offer) of \$35.25 per CVPS share is a slight increase to Fortis' original \$35.10 offer price on May 30, 2011 of which the CVPS Board supported. We note the \$0.15 premium is less than a 0.5% increase to Fortis' per share offer and does not compensate for the \$17.5 - \$19.5 million break fee CVPS shareholders would be required to pay (~\$1.30-1.45 per share). In its conference call, Gaz Métro's management stated that the company would not pay the break fee as part of their offer. Gaz Métro's bid includes the payment of the \$0.23 CVPS quarterly dividend through the close of the offer compared to the Fortis bid which would include dividend payments for two quarters plus an additional \$0.01 per share for each subsequent quarter until close. Both companies have indicated they expect the transaction to close within 6-12 months. In order for the higher dividends proposed by Gaz Métro to offset the break fee, the approval process would have to take approximately 21 months or more. We believe this is unlikely. Consequently, we believe the Fortis bid to be a better option for the CVPS shareholders.

That being said, Gaz Métro's unsolicited offer includes some sweeteners which may be attractive to other stakeholders. Gaz Métro is already invested in Vermont through its wholly-owned Green Mountain Power (Vermont's second largest utility). It intends to provide savings for rate payers through investment and synergies of US\$144 million over a ten year period after the acquisition. A majority of those savings will likely be passed on to ratepayers, although a

sharing mechanism may be negotiated through the regulator. Fortis has not provided matching concessions. Even if the Fortis offer is accepted by shareholders, there exists a risk that the regulator could deny the approval of the transaction, or may limit the recovery of some costs to mimic the synergies the Gaz Métro accomplishes and could potentially cause CVPS to generate a lower return for Fortis.

What the final outcome will be is uncertain. The Board of CVPS is now reviewing the Gaz Métro offer and Fortis has indicated it will monitor the situation and respond in due course to decisions made after the CVPS review.

The Belize Electric expropriation

Not surprisingly, on June 20, 2011 the Government of Belize issued an order to expropriate Fortis' 70% interest in BEL. Note, that a week earlier the government had expressed interest in acquiring control of the assets (see *Daily Letter*, June 13, 2011). As of yet, compensation for the assets remain in question as no offer or agreement has been announced. We remain concerned that Fortis may not receive a fair price on the assets. We highlight however, the company's total equity investment in BEL is approximately \$100-125 million and that BEL's debt is non-recourse to Fortis. This represents a small portion of the enterprise and at worst case the company stands to lose ~\$0.67 per share.

In addition, Fortis owns the non-regulated Belize Electric Company which consists of three hydroelectric generating facilities. The company's total investment in these assets is approximately ~\$160 million. There has been no indication from the government on the expropriation of these assets. However, we note there may be an additional overhang on the stock due to the uncertainty regarding the situation.

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and

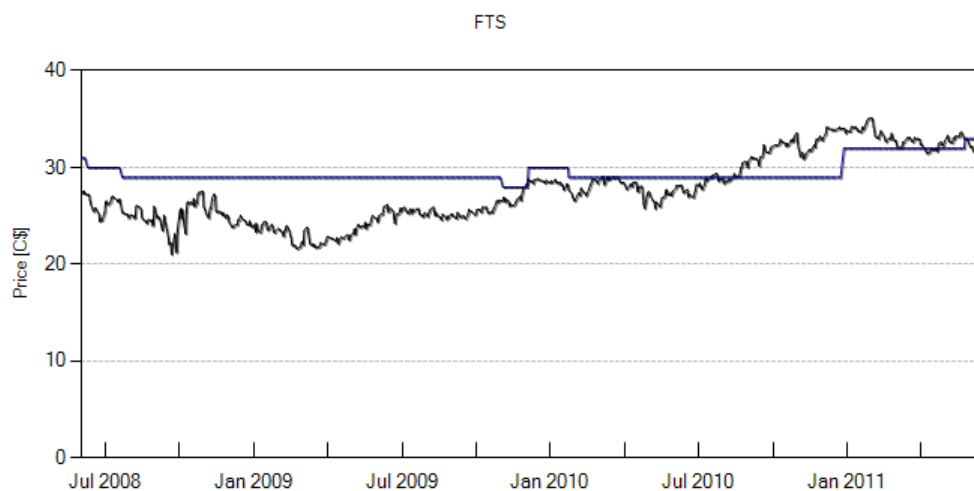
services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/30/2008	Hastings	Buy	30.00	5) 12/17/2009	Hastings	Hold	30.00
2) 08/11/2008	Hastings	Hold	29.00	6) 02/04/2010	Hastings	Hold	29.00
3) 06/23/2009	Hastings	Buy	29.00	7) 01/04/2011	Plessis	Hold	32.00
4) 11/16/2009	Hastings	Hold	28.00	8) 05/31/2011	Plessis	Hold	33.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 6 June 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	478	60.0%	37	37.4%
Speculative Buy	74	9.3%	66	66.2%
Hold	232	29.1%	17	17.7%
Sell	13	1.6%	0	0.0%
	797	100.0%		

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Fortis Inc.

FTS : TSX : C\$32.38

HOLD**Target: C\$32.00****Juan Plessis, MBA, CFA**

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COMPANY STATISTICS:

52-week Range:	C\$27.65 - 35.45
Avg. Daily Vol. (000s):	479.1
Market Cap (M):	C\$5,620
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	21.6	20.1	19.0	18.0
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	8.1	7.7	7.3	7.0

SHARE PRICE PERFORMANCE:**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**CVPS ACQUISITION TERMINATED****Investment recommendation**

Fortis announced that its merger agreement with Central Vermont Public Service (CVPS) has been terminated. The Board of CVPS has deemed that the unsolicited bid by Gaz Métro LP is a superior proposal and has terminated the merger agreement between Fortis and CVPS. Fortis has opted not to increase its offer and has instead elected to receive the \$17.5 million termination fee and \$2 million of associated expenses.

Investment highlights

- Merger agreement between Fortis and CVPS has been terminated
 - Fortis will not improve its offer for CVPS
 - Fortis will receive \$19.5 million in fees and expenses (\$0.11 per share)
- No change to C\$32.00 target or HOLD rating

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Summary

Fortis announced that it will not sweeten its bid for Central Vermont Public Service (CVPS) following the Gaz Métro LP offer, and the merger agreement between Fortis and CVPS will be terminated. The Board of CVPS has determined that the proposal from Gaz Metro was a superior proposal. Originally, Fortis had five business days to change its offer before the

agreement was terminated under the terms of the merger agreement, but instead, decided to waive the five-day period and to immediately receive its \$17.5 million termination fee and \$2 million of associated expenses.

We commend the management of Fortis for its disciplined acquisition approach. The initial bid of \$700 million represented about a 40% premium to rate base, which we viewed as a significant premium. However, this was partly offset by the high rate base growth profile of CVPS for the next several years, which could shrink the premium over time. We did not believe a sweetened bid would make sense for Fortis. While we did not believe Gaz Métro's offer was superior from a shareholder perspective, it provides savings for rate payers through investment and synergies of US\$144 million over a 10- year period following the acquisition. A majority of those savings will likely be passed on to ratepayers, although a sharing mechanism may be negotiated through the regulator. We suspect that the Gaz Métro bid would have been favoured by the regulator, which raised the regulatory risk had Fortis won. Consequently, we believe Fortis's decision to withdraw from the process was the right thing to do. We previously reduced our target by \$1.00 to \$32.00, in part due to the uncertainty surrounding the acquisition, and at this point are making no further change to our target price.

Investment risks

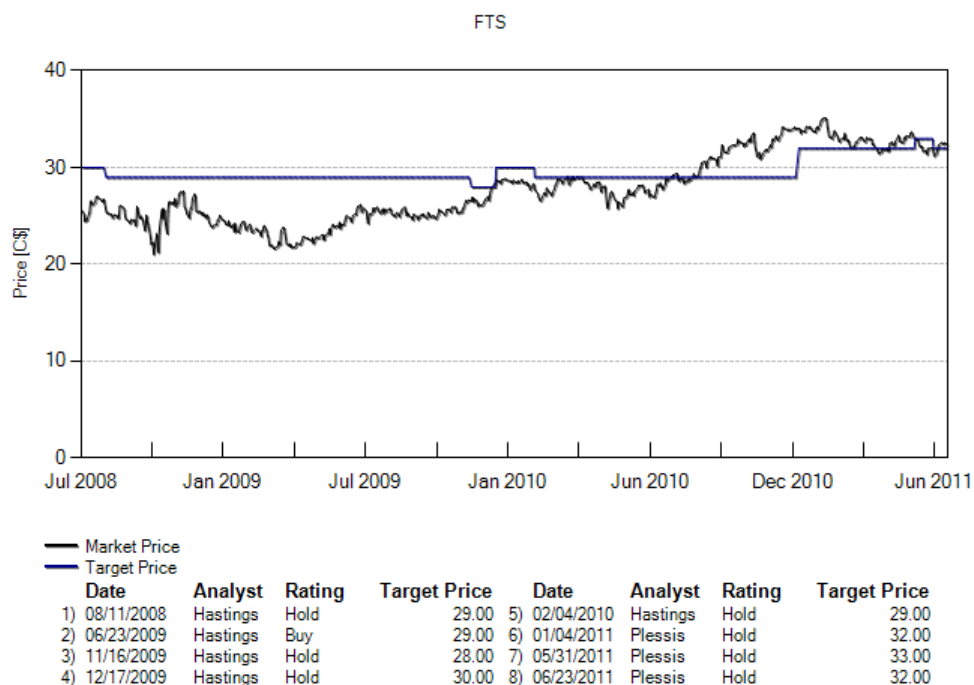
Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties, which are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 7 July 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	61%	37	37.6%
Speculative Buy	75	10%	6	65.3%
Hold	216	27%	17	19.0%
Sell	14	2%	3	21.4%
	786	100%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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3 August 2011

Changes	Annual EPS	Target
	2012E \$1.75 from \$1.80	C\$31.00 from C\$32.00

Fortis Inc.

FTS : TSX : C\$30.59

HOLD**Target: C\$31.00 ↓**

Juan Plessis, MBA, CFA 1.604.643.0181
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Zayem Lakhani 1.604.643.7506
zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range: C\$28.25 - 35.45
Avg. Daily Vol. (000s): 470.7
Market Cap (M): C\$5,588
Shares Out (M): 182.7
Current Dividend: C\$1.16
Current Dividend Yield %: 3.8

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	20.4	19.0	18.0	17.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	7.7	7.2	6.9	6.7

SHARE PRICE PERFORMANCE:



COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities

Q2 A BIT LIGHT; CARIBBEAN OPERATIONS REMAIN AN OVERHANG

Investment recommendation

Fortis reported second-quarter recurring earnings of \$0.32 per share, a few cents below the consensus estimate. For the first half of the year, recurring earnings per share were \$0.98 and are on track to meet our \$1.70 EPS estimate. The company has a \$5.7 billion capital spending program for the 2011-2015 timeframe, which should provide earnings growth in its Canadian regulated utility operations. However, due to anticipated lower Caribbean earnings contributions and issues surrounding the company's Belizean assets, we are lowering our target price by \$1 to C\$31.00. We continue to rate the stock a HOLD.

Investment highlights

- Lowering target to C\$31.00 from C\$32.00, but maintain HOLD rating
- 2012 EPS estimate lowered by \$0.05 to \$1.75
- Q2 recurring EPS of \$0.32, modestly below expectations
 - Lower contribution from Caribbean regulated and Properties divisions; low hydrology at Belize non-regulated, offset by growth from capital additions in western Canadian utility operations
- Five year capital program up \$200 million to \$5.7 billion

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Valuation

We are lowering our target price on the shares of Fortis to C\$31.00 from C\$32.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Outlook

We are maintaining our 2011 EPS estimate of \$1.70 but are lowering our 2012 EPS estimate modestly to \$1.75 from \$1.80. While earnings in the second quarter were slightly lower than our expectations, earnings in the first half of the year are on track to meet our \$1.70 per share estimate. However, the company continues to face some pushback at its Caribbean operations. The Government of Belize recently expropriated the company's investment in Belize Electricity (net assets of \$112 million, or \$0.60 per share) Fortis has initiated proceedings to receive compensation from the Government of Belize for its investment and the associated loss is likely well less than its \$0.60 investment. The recent move by the Government of Belize raises the possibility of further expropriation of the company's Belize Electric Company Limited (BECOL). However, we note that the Government of Belize has publicly indicated that it does not intend to expropriate BECOL and that Fortis is limited to its \$150 million (or \$0.80 per share) investment in BECOL. Also in the Caribbean, the Government of the Turks & Caicos plans to implement a carbon tax which is not recoverable in rates. The impact on Fortis's earnings is estimated at \$1 million in 2011 and \$2-3 million in 2012 if the carbon tax is implemented.

While we expect the company's earnings to benefit from the \$1.2 billion of capital expenditures in 2011 (mostly spent on western Canada regulated operations) and \$4.5 billion expected to be spent in the 2012-2015 period, 2012 earnings may experience a slightly lower contribution from regulated Caribbean operations (due to no earnings in 2012 from Belize Electricity versus a half year in 2011) and the dilutive impact of the 10.3 million common share issuance that closed in June.

We believe earnings growth could be further enhanced if Fortis were to acquire additional utility assets. The company continues to look for electric and gas utility acquisitions in Canada and the United States, and as evidenced by its refusal to increase its offer for Central Vermont Public Services last month, has a track record of remaining disciplined in achieving its required investment criteria.

Second-quarter earnings summary

Fortis reported second-quarter recurring earnings per share of \$0.32 compared to \$0.32 the year before, a couple of cents shy of our \$0.34 estimate and the \$0.35 consensus estimate. The slight miss was mainly attributed to lower contributions from the company's non-regulated operations. Non-regulated power generation provided lower earnings as a result of decreased production in Belize owing to less rainfall compared to the previous year. In addition, Fortis Properties experienced lower occupancy rates at its hotels combined with higher operating expenses. On the regulated side, earnings from the company's gas operations in BC declined year over year due to the timing of expenses, likely to be recovered in the second half of the year. This was offset by additional earnings at FortisAlberta driven by a growing rate base and a higher allowable return at Algoma Power in the 'Other Canadian Regulated Utilities' segment. Year-to-date recurring earnings

per share is \$0.98, above the \$0.91 reported in the first half of 2010. For additional details on the second quarter results please refer to Figure 1.

Noteworthy items

- BEL expropriation
 - Assets represent \$112 million (\$0.60 per share)
 - No indication from Government of Belize to expropriate non-regulated BECOL
 - Wholly owned by Fortis
 - \$150 million of assets (\$0.80 per share)
 - Turks and Caicos government plans to implement carbon tax in Sept 2011
 - Not a flow through cost to rate payers
 - ~\$1 M unfavourable earnings impact for 2011; ~\$2-3 M annually
 - Received US\$19.5 M (\$18.8 M) for termination of Merger Agreement between Central Vermont Public Service.
 - \$17.5 M break fee - to be recognized in Q3
 - \$2 M recovery of associated expenses
 - Expected capex of \$5.7 B over five-year period (2011-2015)
 - Previously \$5.5 B
 - Change reflects increase at Fortis BC Energy companies and exclusion of previously planned BEL capex
 - \$3.5 B (61%) for regulated electric utilities
 - \$1.3 B (23%) for regulated gas utilities
 - \$0.9 B (16%) for non-regulated operations
 - Will report according to US GAAP beginning January 2012
-

Figure 1: Fortis second quarter earnings details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
FortisBC Energy Companies	\$17	\$15	(11.8%)	Additional operating expenses to be recovered from rates in future period offset by growth in rate base.
Newfoundland Power	\$11	\$11	0.0%	
FortisAlberta	\$17	\$17	0.0%	Increased earnings due to a larger capital base. Excludes \$2 M of recognized revenues accrued from in prior periods.
FortisBC Electric	\$8	\$9	12.5%	
Other Canadian Regulated Utilities	\$4	\$6	50.0%	Higher allowed return at Algoma Power - 2011 ROE 9.85% vs 8.57% in 2010.
Total Canadian Earnings	\$57	\$58	1.8%	
Regulated Utilities - Caribbean	\$7	\$7	0.0%	
Non-Regulated				
Fortis Generation	\$3	\$2	(33.3%)	Lower production in Belize due to lower rainfall.
Fortis Properties	\$8	\$7	(12.5%)	Lower occupancies at hotels and higher operating expenses.
Total Non-Regulated Earnings	\$11	\$9	(18.2%)	
Corporate and Consolidated Adjustments	(\$20)	(\$18)	(10.0%)	
Recurring Earnings	\$55	\$56	1.8%	Accrued revenue from prior periods recognized in Q2 2011 after favourable regulatory decision in Alberta.
Non-recurring items		\$2	n.m.	
Reported Net Earnings	\$55	\$58	4.5%	
EPS:				
Recurring	\$0.32	\$0.32	(0.9%)	Shy of the 35¢ consensus estimate and our 34¢ estimate.
Non-recurring items	\$0.00	\$0.01	n.m.	
Reported	\$0.32	\$0.33	3.4%	
Cash Flow Per Share	\$0.93	\$1.37	n.m.	
Average Shares Outstanding (mln)	172.4	177.1	2.7%	
Regulated				
Earnings	\$64	\$65	1.6%	
% of total	116%	116%		
Non-Regulated				
Earnings	\$11	\$9	(18.2%)	
% of total	20%	16%		Lower operating expenses and lower interest expense offset partially by higher income tax expense and preferred share dividends.
Corporate				
Earnings	(\$20.0)	(\$18.0)	10.0%	
% of total	(36%)	(32%)		

Source: Fortis Inc.; Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk

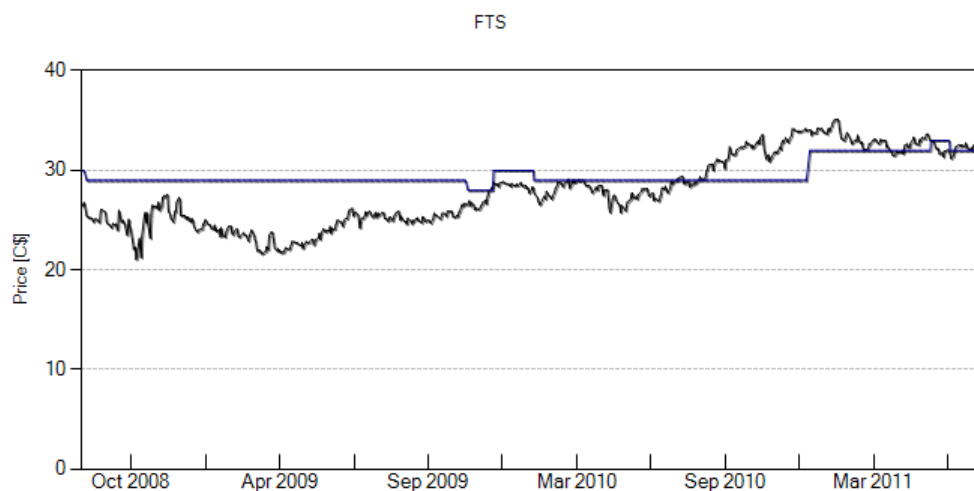
of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 08/11/2008	Hastings	Hold	29.00	5) 02/04/2010	Hastings	Hold	29.00
2) 06/23/2009	Hastings	Buy	29.00	6) 01/04/2011	Plessis	Hold	32.00
3) 11/16/2009	Hastings	Hold	28.00	7) 05/31/2011	Plessis	Hold	33.00
4) 12/17/2009	Hastings	Hold	30.00	8) 06/23/2011	Plessis	Hold	32.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 7 July 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	61%	37	37.6%
Speculative Buy	75	10%	6	65.3%
Hold	216	27%	17	19.0%
Sell	14	2%	3	21.4%
	786	100%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Fortis Inc.

FTS : TSX : C\$34.06

HOLD**Target: C\$33.00****Juan Plessis, MBA, CFA** 1.604.643.0181

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Zayem Lakhani 1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$28.24 - 35.45
Avg. Daily Vol. (000s):	484.2
Market Cap (M):	C\$6,369
Shares Out (M):	187.0
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	22.7	21.2	20.0	19.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	8.6	8.1	7.7	7.5

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Our C\$33.00 target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Infrastructure -- Utilities**STEADY AND STABLE -- Q3 RESULTS IN-LINE****Investment recommendation**

Fortis Inc. reported third quarter earnings of \$0.24 per share versus \$0.23 reported in Q3/10, in line with expectations. The company's earnings have benefited from ~\$600 million of capital expenditures in the utility businesses this year, which has mainly been invested in western Canadian utility operations. In total, capex is forecast to reach \$1.2 billion for 2011 across all segments (\$806 million spent to date), and \$5.7 billion budgeted for the five-year period, 2011 through 2015. With approximately 90% of the company's earnings generated from utility operations, rate base additions within the utility segments are expected to be the primary drivers of earnings growth. As a result, we expect to see consistent and stable growth in earnings and dividends going forward. However, we note that the company continues to pursue acquisitions of U.S.-based utility assets which could potentially have an impact on future earnings growth. We are maintaining our HOLD rating and 12-month C\$33.00 target price.

Investment highlights

- Reported Q3 recurring EPS of \$0.24, in line with consensus
- Maintaining HOLD rating and C\$33.00 target price
- No changes to 2011 and 2012 EPS estimates
 - 2011 EPS estimate: \$1.70
 - 2012 EPS estimate: \$1.75
- Received a C\$18.8 million (\$11 million after-tax) termination fee for the unsuccessful Central Vermont Public Service (CVPS) acquisition bid
- Belize Electricity expropriation compensation proceedings are ongoing with the Belize government
 - \$112 million book value
 - No earnings recorded this quarter; \$2 million contribution in Q3 last year

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Valuation

We are maintaining our 12-month target price for Fortis at C\$33.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Outlook

We are making no changes to our 2011 and 2012 earnings per share estimates of \$1.70 and \$1.75, respectively. The company's capex program in the utilities segment, primarily in western Canada, has been the driving force of earnings growth this year, and should continue to do so through 2015. Fortis' capital expenditure budget remains unchanged with the company planning to spend \$5.7 billion from 2011 through 2015, of which \$4.8 billion is toward its electric and gas utilities (mainly in BC and Alberta). This should help provide relatively steady growth in earnings throughout the period. The company's Caribbean operations continue to face challenges which have limited the segment's contribution in recent years. Fortis has not received compensation for the Belize Electric assets expropriated in June this year. Proceedings to determine a value are ongoing and we note that the potential loss is limited to its book value (\$112 million net asset value or \$0.60 per share). While we believe the company will receive some compensation for Belize Electric, we do not expect a resolution in the near-term.

In addition to organic growth projects, the company continues to seek potential acquisitions. Although the company's recent offer for Central Vermont Public Service was not consummated, earnings and cash flow benefited from the \$18.8 million (US\$17.5 million) termination fee. More important, we were pleased to see management remain focused and disciplined and withdraw from the process when the transaction price was bid higher. Management continues to look for regulated natural gas and electric operations in the United States and believes it has the capability to finance up to a \$5 billion acquisition (enterprise value) on its balance sheet, but would consider a financial partner for larger acquisitions.

Third quarter earnings summary

Fortis reported third quarter recurring earnings per share of \$0.24, in line with both our and the consensus estimate of \$0.23. Regulated earnings were \$5 million (\$0.03 per share) higher compared to the same period last year. A bulk of the improvement was driven by rate base capital expenditures at FortisBC Energy (formerly Terasen) and Fortis Alberta. The increases were partially offset by the loss of ~\$2 million (\$0.01 per share) of earnings from the expropriation of Belize Electric. The company's non-regulated operations performed in line with last year during the same period. Note that we removed the one-time \$18.8 million (\$11 million after-tax) payment received from the termination of the CVPS Merger Agreement and \$2.5 million on unrealized non-cash foreign exchange gains. For the third quarter, the company reported net earnings per share of \$0.31 versus \$0.26 last year. For the first nine months of the year, the recurring earnings per share was \$1.30, ahead of the \$1.16 recorded last year. For additional details on third quarter results, please refer to Figure 1.

Noteworthy items

- CVPS termination fee CAD\$18.8 million
 - US\$17.5 million
 - Also received US\$2 million for transaction expenses
 - Acquired 160-room full-service Hilton Suites Winnipeg Airport hotel for \$25 million
 - Received municipal approval to construct \$50 million office building
 - 12-storeys in downtown St. John
 - Construction expected to be complete in 2H/13
 - Regulatory
 - Fortis BC Energy gas companies
 - Filed updated 2012-2013 rate applications in September 2011
 - Decision expected in late Q1/12
 - Filed application to amalgamate the three FortisBC Energy gas companies
 - Newfoundland Power completed the sale of joint-use poles back to Bell Aliant (BA : TSX | HOLD)
 - Will use funds to pay down debt
 - Caribbean Utilities
 - Expects to file 2012-2016 capital investment plan in Q4/11
 - Will sign PPAs to accept up to 13 MW of renewable power from IPPs
 - Fortis Turks and Caicos
 - Filed a request for a change in the rate structure and a 6% increase in base rates
 - Carbon tax expected to be implemented September 2011
 - Has not yet been implemented
-

Figure 1: Fortis' third quarter earnings details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
FortisBC Energy Companies	(\$9)	(\$3)	66.7%	Rate base growth and lower-than-expected operating expenses. Mostly quarterly timing issues.
Newfoundland Power	\$8	\$8	0.0%	
FortisAlberta	\$19	\$19	0.0%	Higher effective tax rate due to lower income tax deductions.
FortisBC Electric	\$11	\$10	(9.1%)	
Other Canadian Regulated Utilities	\$5	\$6	20.0%	
Total Canadian Earnings	\$34	\$40	17.6%	Higher ROE allowed at Algoma Power and strong electricity sales growth.
Regulated Utilities - Caribbean	\$7	\$6	(14.3%)	No earnings from Belize Electricity due to government expropriation in June.
Non-Regulated				
Fortis Generation	\$9	\$8	(11.1%)	
Fortis Properties	\$9	\$9	0.0%	
Total Non-Regulated Earnings	\$18	\$17	(5.6%)	
Corporate and Consolidated Adjustments	(\$19)	(\$19)	(2.6%)	
Recurring Earnings	\$40	\$45	11.3%	\$11 M due to CVPS break-up fee and \$2.5 M non-cash FX hedging gain.
Non-recurring items	\$5	\$14		
Reported Net Earnings	\$45.0	\$58.0	28.9%	
EPS:				
Recurring	\$0.23	\$0.24	3.3%	
Non-recurring items	\$0.03	\$0.07	n.m.	
Reported	\$0.26	\$0.31	19.7%	
Cash Flow Per Share	\$0.94	\$0.75	(19.5%)	
Average Shares Outstanding (mln)	173.2	186.5	7.7%	
Regulated				
Earnings	\$41	\$46	12.2%	
% of total	103%	103%		
Non-Regulated				
Earnings	\$18	\$17	(5.6%)	
% of total	45%	38%		
Corporate				
Earnings	(\$19)	(\$19)	2.6%	
% of total	(47.5%)	(41.6%)		

Source: Fortis Inc., Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to our projected 12-month stock price target for Fortis include, but are not limited to: (1) price movement in electricity rates and commodities used for electricity generation could potentially impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could potentially impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in the regulatory or political climate could potentially impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

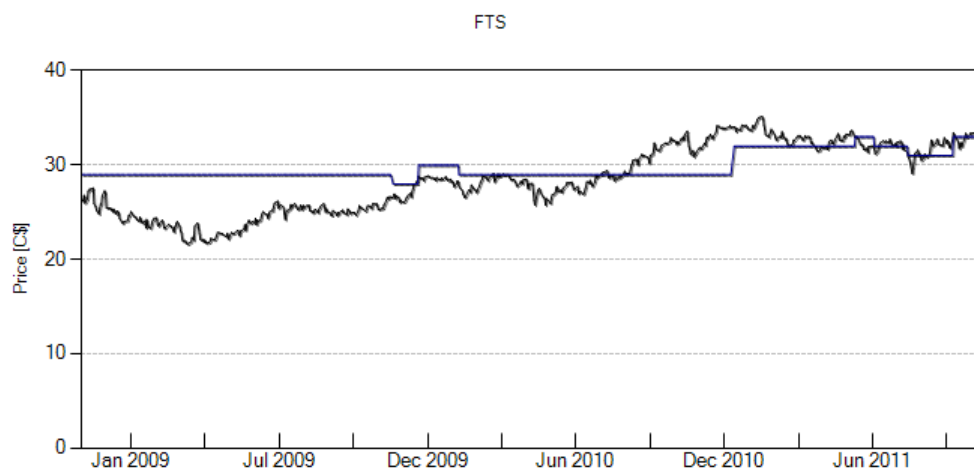
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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

An analyst has not visited Bell Aliant's material operations.

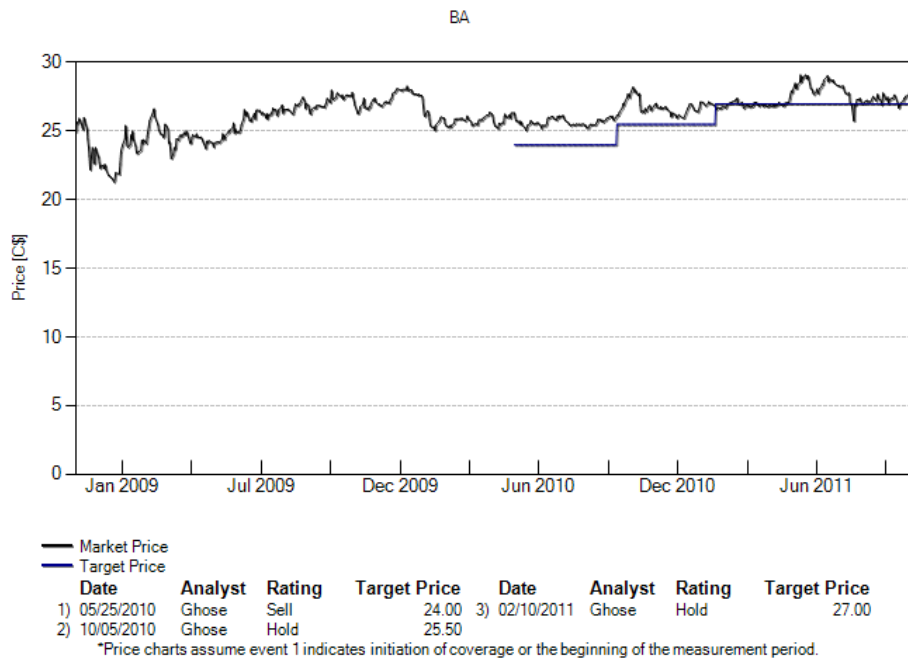
Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/23/2009	Hastings	Buy	29.00	6) 05/31/2011	Plessis	Hold	33.00
2) 11/16/2009	Hastings	Hold	28.00	7) 06/23/2011	Plessis	Hold	32.00
3) 12/17/2009	Hastings	Hold	30.00	8) 08/03/2011	Plessis	Hold	31.00
4) 02/04/2010	Hastings	Hold	29.00	9) 09/27/2011	Plessis	Hold	33.00
5) 01/04/2011	Plessis	Hold	32.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

3 November 2011

**Distribution of Ratings:**Global Stock Ratings
(as of 3 October 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	509	63.5%	35	35.6%
Speculative Buy	86	10.7%	42	64.0%
Hold	194	24.2%	11	17.0%
Sell	12	1.5%	3	25.0%
	801	100%		

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Company	Disclosure
Fortis Inc.	7
Bell Aliant Inc.	1A, 2, 7

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Fortis Inc.

FTS : TSX : C\$33.90

HOLD**Target: C\$33.00****Juan Plessis, MBA, CFA**

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COMPANY STATISTICS:

52-week Range:	C\$28.24 - 34.82
Avg. Daily Vol. (000s):	502.5
Market Cap (M):	C\$6,407
Shares Out (M):	189.0
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.5

EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.75	C\$1.80
P/E (x):	21.1	20.3	19.4	18.8
CFPS:	C\$4.23	C\$4.44	C\$4.57	C\$4.67
P/CF (x):	8.0	7.6	7.4	7.3

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**Q4 RESULTS IN LINE; 2012 GROWTH POTENTIALLY HAMPERED BY COST OF CAPITAL REVIEW IN BC****Investment recommendation**

Fortis Inc. reported fourth quarter earnings per share of \$0.46, in line with the consensus estimate. The company's earnings continue to benefit from a high level of capital spending (about \$1 billion) at its utility operations in 2011, particularly at its Western Canadian utilities. While continued capital spending in 2012 should help improve earnings, the growth profile may be muted in the near term by the dilutive impact of its June 2011 10.3-million-share issuance and the November 2011 debenture conversion for 1.3 million shares. In addition, the British Columbia Utilities Commission (BCUC) is initiating a Generic Cost of Capital review that could potentially negatively impact the allowed return at its natural gas utility. Our \$1.75 EPS estimate for 2012 does not reflect a lower return that could arise from the BCUC's review. With its five-year capital budget of \$5.5 billion (most of which is anticipated to be spent at the company's electric utility operations), we expect to see consistent and stable growth in earnings and dividends over the medium term. The company continues to seek out acquisitions of US-based electric utility assets which could have an impact on future earnings growth. We are maintaining our HOLD rating and C\$33.00 target price.

Investment highlights

- HOLD rating and C\$33.00 target price maintained
- No change to 2012 and 2013 earnings estimates of \$1.75 and \$1.80, respectively
 - But possibility of lower returns on BC utilities could reduce 2012 EPS expectation
- Reported Q4/11 EPS of \$0.46 and full-year 2011 of \$1.67

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Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

Outlook

We are maintaining our 2012 and 2013 earnings estimates of \$1.75 and \$1.80 per share, respectively. A majority of the company's growth over the next few years will likely come from its regulated utility businesses, where the company plans to spend \$3.5 billion towards its electric utilities and \$1.3 billion towards its gas utilities through 2016. The remaining \$0.7 billion of its \$5.5 billion capital program is scheduled to be invested in non-regulated businesses (including the 335 MW, \$900 million Waneta Expansion Project – 51%-owned by Fortis). In addition, the company continues to look for US-based regulated electric acquisition opportunities. Fortis believes that it could manage an acquisition with an enterprise value up to \$5 billion, and would consider financial partners for larger acquisitions. While more recent transactions have occurred at higher valuations, we note that management maintains a disciplined approach, as evidenced by its refusal to enter a bidding war to acquire Central Vermont Public Service. With approximately 90% of its earnings generated from utility operations, Fortis holds a stable asset portfolio with modest earnings and dividend growth.

Earnings summary

Fortis reported fourth quarter earnings of \$0.46 per share, versus \$0.49 last year and in line with the consensus estimate. Regulated earnings were \$5 million (\$0.03 per share) higher compared to the same period last year. Most of the regulated earnings improvement was due to rate base additions at FortisBC Energy and Fortis Alberta. The increases were partially offset by unfavourable foreign exchange movements, as well as higher amortization expense at the company's Caribbean operations, which reduced earnings by \$2 million in the quarter. The company's non-regulated operations were lower due to higher taxes in the Properties division. While recurring earnings were slightly better than last year, the impact of a share issue in the second quarter of 2011 had a dilutive impact on the per-share results. For the full year, recurring earnings per share was \$1.67, ahead of \$1.61 recorded for the previous year. For additional details on the fourth quarter and full-year results, please refer to Figures 1 and 2.

Noteworthy items

- Capital expenditures
 - \$1.2 billion capex in 2011
 - \$1.3 billion to be spent in 2012
 - ~\$1 billion in regulated operations
 - \$5.5 billion expected from 2012 through 2016
 - Regulatory
 - Fortis Alberta
 - Lower allowed ROE for 2011 – 8.75%, down from 9% in 2010
 - Retroactive adjustment made in Q4/11 for \$2 million
-

- 2012 rate decision expected in first half of 2012
 - “Performance-base regulation” decision expected in 2012
 - Newfoundland Power
 - Suspended use of formula approach to calculate ROE
 - 2012 interim rate of 8.38%; pending review of actual cost of capital and risk profile
 - Could provide modest improvement in returns
 - FortisBC
 - Regulator announced a Generic Cost of Capital proceeding in November 2011
 - Gas and electric utility ROEs maintained pending outcome of the proceeding
 - Process expected to be outlined in the coming months
 - Potential for lower returns
 - Converted US\$40 million of convertible debentures into 1.4 million shares
 - Submitted compensation claim to Belize Government for expropriated Belize Electricity assets.
 - Received appraisal from government that was materially lower than Fortis’ independent valuation
 - No current plans to expropriate BECOL
 - Book value of \$154 million (\$0.82 per share)
-

Figure 1: Fortis' fourth quarter earnings details

Millions of dollars (except per share data)	Fourth Quarter Earnings		
	2010	2011	Change Favourable (Unfavourable)
Regulated Utilities - Canadian			
FortisBC Energy Companies	\$45	\$51	13.3%
Newfoundland Power	\$9	\$9	0.0%
FortisAlberta	\$17	\$18	4.6%
FortisBC Electric	\$10	\$11	10.0%
Other Canadian Regulated Utilities	\$5	\$4	(20.0%)
Total Canadian Earnings	\$86	\$93	7.9%
Regulated Utilities - Caribbean	\$5	\$3	(33.3%)
Non-Regulated			
Fortis Generation	\$5	\$5	0.0%
Fortis Properties	\$7	\$5	(28.6%)
Total Non-Regulated Earnings	\$12	\$10	(16.7%)
Corporate and Consolidated Adjustments	(\$18)	(\$19)	5.6%
Recurring Earnings	\$85	\$87	2.7%
Non-recurring items	\$0	(\$1)	
Reported Net Earnings	\$85	\$86	1.4%
EPS:			
Recurring	\$0.49	\$0.46	(5.0%)
Non-recurring items	\$0.00	(\$0.01)	n.m.
Reported	\$0.49	\$0.46	(6.2%)
Cash Flow Per Share	\$1.20	\$1.23	2.3%
Average Shares Outstanding (mln)	173.9	188.1	8.2%
Regulated			
Earnings	\$91	\$96	5.8%
% of total	107%	110%	
Non-Regulated			
Earnings	\$12	\$10	(16.7%)
% of total	14%	11%	
Corporate			
Earnings	(\$18)	(\$19)	(5.6%)
% of total	(21.2%)	(21.8%)	

Result of continued rate base growth and lower than expected tax, financing and amortization expenses.

Unfavourable FX impact and higher amortization expense. No contribution from Belize Electricity - (its contribution in Q4/10 was a loss of \$0.5 M).

Higher corporate income tax partly offset by incremental earnings contribution from Winnipeg hotel acquisition in October 2011.

\$2 M accrual recognized in Q4 related to lower allowed return for 2011 at FortisAlbertra.

In line with 46¢ consensus estimate and slightly below our 49¢ estimate.

Source: Fortis Inc., Canaccord Genuity

Figure 2: Fortis' 2011 earnings details

Millions of dollars (except per share data)	Full Year Earnings		
	2010	2011	Change Favourable (Unfavourable)
Regulated Utilities - Canadian			
FortisBC Energy Companies	\$126	\$139	10.3%
Newfoundland Power	\$35	\$35	0.0%
FortisAlberta	\$67	\$74	9.9%
FortisBC Electric	\$42	\$49	16.7%
Other Canadian Regulated Utilities	\$19	\$22	15.8%
Total Canadian Earnings	\$289	\$319	10.3%
Regulated Utilities - Caribbean	\$23	\$20	(11.1%)
Non-Regulated			
Fortis Generation	\$19	\$18	(5.3%)
Fortis Properties	\$26	\$22	(16.7%)
Total Non-Regulated Earnings	\$45	\$40	(11.8%)
Corporate and Consolidated Adjustments	(\$78)	(\$76)	(3.2%)
Recurring Earnings	\$278	\$303	8.7%
Non-recurring items	\$6	\$15	
Reported Net Earnings	\$285	\$318	11.8%
EPS:			
Recurring	\$1.61	\$1.67	3.5%
Non-recurring items	\$0.04	\$0.08	n.m.
Reported	\$1.65	\$1.75	6.4%
Cash Flow Per Share	\$4.23	\$4.44	5.1%
Average Shares Outstanding (mln)	172.9	181.6	5.0%
Regulated			
Earnings	\$312	\$339	8.7%
% of total	112%	112%	
Non-Regulated			
Earnings	\$45	\$40	(11.8%)
% of total	16%	13%	
Corporate			
Earnings	(\$78)	(\$76)	3.2%
% of total	(28.0%)	(24.9%)	

Increased earnings from rate base growth including assets under construction; offset slightly from lower allowed ROE retroactively enacted for the full year in Q4 2011.

Increased rate base and increased contribution from non-regulated operations. Also includes favourable quarterly timing issues.

Does not include contribution from Belize Electricity which was expropriated in Q2 2011.

Includes, \$11 M after tax break-up fee for CVPS acquisition attempt; \$1.5 M earnings recognized in 2011 related to 2010 period; \$1.5 M of gain on sales.

Slightly below the consensus estimate and our estimate of \$1.70 per share.

Source: Fortis Inc, Canaccord Genuity

Investment risks

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have

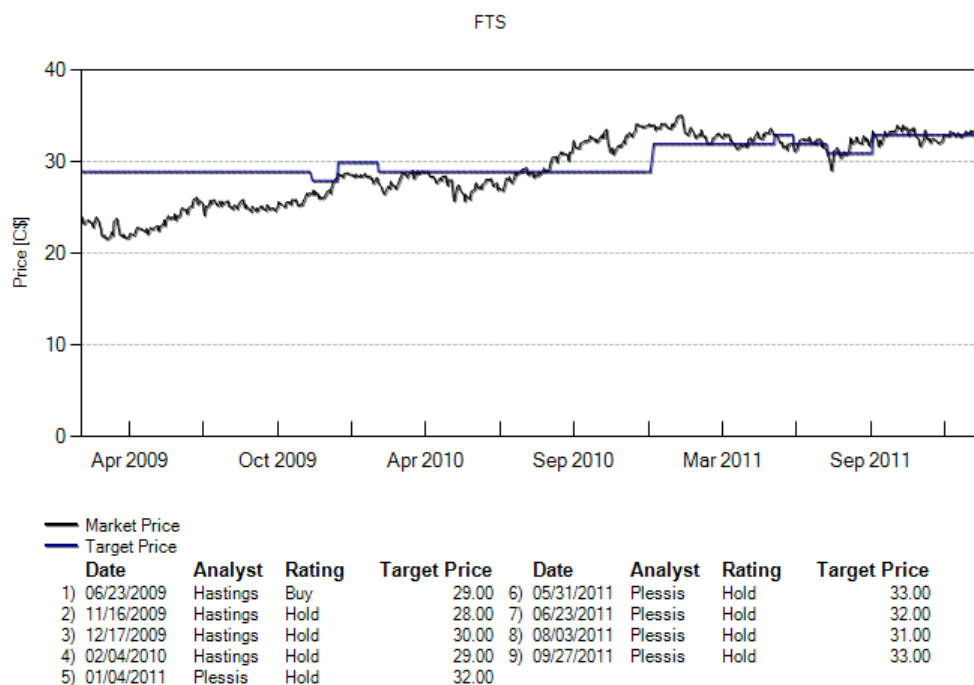
currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 2 February 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	60.2%	34	34.9%
Speculative Buy	87	10.9%	7	73.6%
Hold	215	26.9%	10	20.9%
Sell	16	2.0%	2	25.0%
	799	100%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Fortis Inc.

FTS : TSX : C\$32.67

HOLD**Target: C\$33.00****Juan Plessis, MBA, CFA**

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jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$28.24 - 34.39
Avg. Daily Vol. (000s):	519.2
Market Cap (M):	C\$6,151
Shares Out (M):	188.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.7

EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.75	C\$1.80
P/E (x):	20.3	19.6	18.7	18.1
CFPS:	C\$4.23	C\$4.42	C\$4.55	C\$4.65
P/CF (x):	7.7	7.4	7.2	7.0

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**SECOND TIME'S A CHARM? TO ACQUIRE NEW YORK-BASED UTILITY****Investment recommendation**

Fortis announced the acquisition of CH Energy Group (CHG : NYSE | Not Rated) for US\$1.5 billion, including the assumption of about US\$500 million of debt. The purchase price of US\$65/share in cash represents a 10.5% premium to the closing price of CH Energy's common shares on Friday, February 17, 2012. We believe that the acquisition could contribute \$0.02 or more per share to full-year earnings, depending on the final financing structure. The acquisition does not come as a major surprise since management has long indicated that it is seeking to expand into the US, where regulatory returns have generally been more attractive. We are maintaining our C\$33.00 target price and EPS estimates of \$1.75 and \$1.80 per share for 2012 and 2013, respectively, until further details are provided on permanent financing. Our HOLD rating is maintained.

Investment highlights

- Maintaining HOLD rating and C\$33.00 target price
- Acquiring CH Energy Group for US\$ 1.5 billion
 - Includes US\$500 million of debt
 - Represents ~1.45x regulated rate base; ~2x deemed equity
 - Expected to close in Q1/13
- 2012 and 2013 estimates unchanged
 - Depending on permanent financing, expected to be accretive by \$0.02 or more to annual EPS.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

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Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Summary

CH Energy Group is an electric and gas utility based in New York State with a regulated rate base of approximately \$1 billion, as well as non-regulated assets of approximately \$90 million. The \$1.5 billion consideration paid by Fortis represents a ~45% premium to the 2013 regulated rate base. We note that the premium to rate base, although rich, is in line with recent utility transactions in the United States. In addition, equity returns afforded in the US are relatively higher than those in Canada. CH Energy's current three-year rate plan ending 2013 provides for a 10% return on a 48% equity base. Depending on the permanent financing structure, we believe that the acquisition will be modestly accretive by \$0.02 or more to annual EPS. We note that, with the \$340 million common equity issue in 2011 (which was partly to be used to finance the failed Central Vermont Public Service acquisition), Fortis can take on a bit more leverage to finance the CH Energy purchase. However, we expect that Fortis would need to raise about \$500 million of equity to fund the acquisition, which could overhang the stock in the near term.

CH Energy's regulated utility has planned capital expenditures in excess of US\$100 million on average per year through 2016, although management expects capital expenditures could be modestly higher on average, which would represent an average annual 7.5% growth to rate base. Depending on interest rates used to finance a portion of the acquisition, we estimate that the returns could initially be around 6.5%, rising with rate base growth. The non-regulated assets represent a small portion of the business, and its earnings contributions are expected to be a couple of million dollars annually.

Fortis is very familiar with regulated assets, with almost 90% of its earnings generated from regulated operations in Canada and the Caribbean. The acquisition of CH Energy does not come as a surprise and is in line with the company's stated strategy to enter the US regulated utility arena (recall its interest in acquiring Central Vermont Public Service last year). If successful, this acquisition will be Fortis' first foray into the US, and may be a beachhead for additional US utility purchases in the future. Given the company previously indicated that it could complete US acquisitions with an enterprise value of up to \$5 billion on its own (and larger acquisitions with a financial partner), we do not rule out the possibility that Fortis could make further acquisitions of US-based utilities.

Acquisition details

- Acquiring CH Energy Group for US\$1.5 billion
 - Includes the assumption of US\$500 million debt
 - Purchasing CH Energy common shares at US\$65/share in cash
 - 10.5% premium to last close
 - ~\$20 million break fee
 - Regulated rate base ~US\$1 billion expected in 2013
 - Three-year rate settlement ending June 2013
 - 48% equity portion
 - 10% ROE through 2013
 - The assets:
 - Central Hudson Gas & Electric Corp.
 - Regulated electric and gas transmission and distribution utility
 - Operates in eight counties in the Mid-Hudson River Valley, NY
 - Regulated by the New York Public Service Commission
 - Debt rating/outlook
 - S&P: A/stable
 - Fitch: A/stable
 - Moody's: A3/stable
 - Electric business
 - 300,000 electric customers
 - 9,600 miles of distribution lines
 - 600 miles of transmission lines
 - 1,225 MW peak demand in 2011
 - 77% of regulated assets
 - Gas business
 - 75,000 natural gas customers
 - 1,900 miles of distribution pipelines
 - 160 miles of transmission pipelines
 - 115,807 Mcf peak demand in 2011
 - 23% of regulated assets
 - Griffith Energy Services
 - Fuel distribution company
 - Operates in 10 Mid-Atlantic states
 - US\$90 million assets
 - Closing subject to:
 - CH Energy shareholder approval
 - Regulatory approval
 - New York Public Service
 - Federal Energy Regulatory Commission
 - Hart-Scott Rodino Act waiting period
 - Customary closing conditions
-

Investment risks

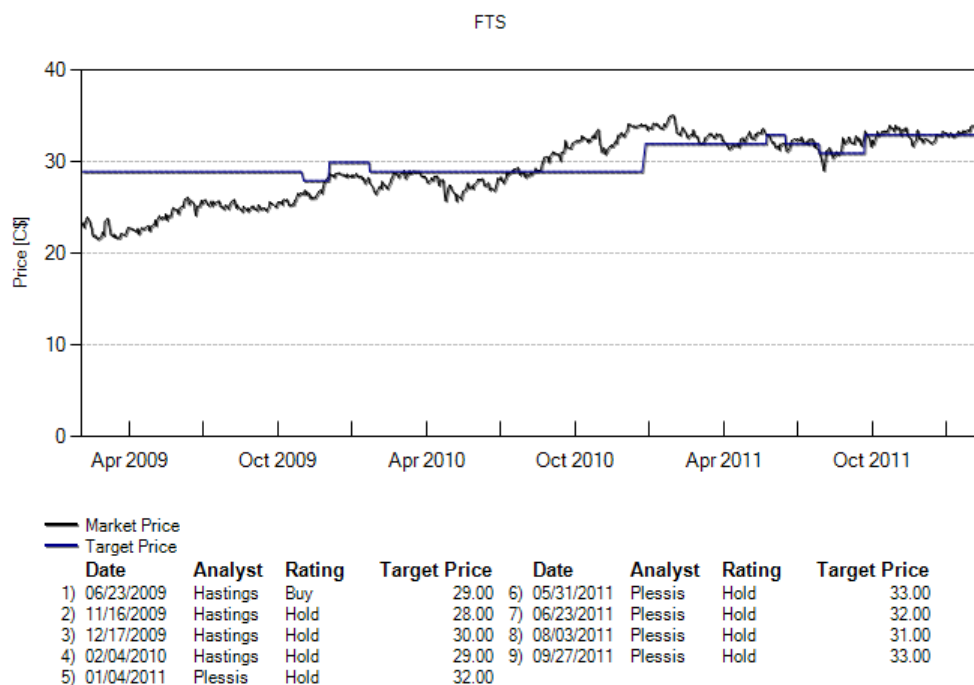
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Fortis Inc.

FTS : TSX : C\$34.42

HOLD**Target: C\$33.00****Juan Plessis, MBA, CFA**

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Zayem Lakhani

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COMPANY STATISTICS:

52-week Range:	C\$28.24 - 34.39
Avg. Daily Vol. (000s):	552.2
Market Cap (M):	C\$6,516
Shares Out (M):	189.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.5

EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.70	C\$1.80
P/E (x):	21.4	20.6	20.2	19.1
CFPS:	C\$4.23	C\$4.42	C\$4.50	C\$4.65
P/CF (x):	8.1	7.8	7.7	7.4

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**OPERATIONS PERFORMING WELL, BUT SOME EARNINGS UNCERTAINTY EXISTS****Investment recommendation**

We are maintaining our HOLD rating and C\$33.00 target price on the shares of Fortis. The company reported first quarter recurring earnings of \$0.66 per share, in line with our expectations and the consensus estimate. Overall, Fortis's businesses continue to perform well, with minor give and takes within the various operating segments during the quarter. We are lowering our 2012 earnings estimate by \$0.05 per share to \$1.70 to reflect lower expected earnings at FortisBC Electric due to the elimination of incentive earnings from the discontinuation of the performance-based, rate-setting (PBR) mechanism. We note that, although still achievable, EPS of \$1.75 this year would be at the high range of expectations. Our 2013 EPS estimate is unchanged at \$1.80. Beyond 2013, earnings should continue to benefit from the company's planned \$5.5 billion capital expenditure program (2012-2016), primarily in utility operations.

Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Investment highlights

- Q1 EPS of \$0.66, in line with \$0.67 consensus estimate
 - Higher rate base and strong hydrology at non-regulated Belize assets helped results
 - Absence of incentive earnings at FortisBC Electric and higher shares outstanding weighed on earnings
- Maintain HOLD rating and C\$33.00 target price
 - 2012 EPS estimate lowered to \$1.70 from \$1.75 due to the impact of elimination of PBR at FortisBC
 - 2013 EPS estimate unchanged at \$1.80
- BCUC Generic Cost of Capital Proceeding introduces 2013 EPS risk

Outlook

We are lowering our 2012 estimate to \$1.70 from \$1.75 to reflect slightly lower earnings expectations from the discontinuation of the PBR mechanism at FortisBC Electric. The PBR mechanism had allowed Fortis to share with ratepayers any cost savings the company achieved to allow it to earn above its regulated return. Note that we do not include any acquisition-related costs related to the pending \$1.5 billion purchase of CH Energy in our 2012 and 2013 EPS estimates.

Overall, Fortis's operations continue to perform in line with expectations. The company derives the majority of its earnings from regulated operations that can be influenced by changes in deemed returns and capital structure from regulatory decisions. While we are maintaining our 2013 EPS estimate of \$1.80, we note that there remains some uncertainty surrounding the British Columbia Utilities Commission's (BCUC) Generic Cost of Capital Proceeding. A decision from the BCUC is expected late in the year and could result in a lower allowed ROE at Fortis's BC operations beginning in 2013 (not retroactively). We estimate that the impact of a 100 bps decline at Fortis' BC utilities could reduce earnings by up to \$0.10 per share.

Fortis has a \$5.5 billion capital expenditure program through 2016, which should continue to drive earnings and dividend growth. In addition, the acquisition of CH Energy Group Inc. is expected to be immediately (albeit likely modestly) accretive once it closes (expected by the end of Q1/13). Although the company's balance sheet is strong with debt to total capital at ~55% (below its 60% target), the company will need to issue common equity to partially fund the purchase. We expect the company to access the equity market in late 2012 or early 2013, when the close of its acquisition of CH Energy becomes more certain.

First quarter earnings summary

Fortis reported first quarter recurring earnings of \$0.66, in line with our estimate and the consensus estimate. Note that our recurring earnings calculation does not include \$4 million of pre-tax costs related to the company's proposed acquisition

of CH Energy, or \$1.5 million of non-cash foreign exchange translation losses associated with the company's expropriated Belizean assets. Compared to Q1/11, earnings were flat. Rate-based growth in the western utility operations, and the timing of certain expenses at FortisBC Energy Companies, improved earnings; a return to normal hydrology in Belize also boosted the contribution from Fortis' non-regulated power generation segment. These factors were offset by lower earnings from FortisBC Electric due to the discontinuation of the PBR, the Caribbean utility operations that no longer receive contributions from Belize Electricity, which was expropriated by the Belize government in the second quarter of last year, and the dilutive impact of an 8% increase in the shares outstanding. For additional details on first quarter results, please refer to Figure 1.

Noteworthy items*Regulatory*

- BCUC Generic Cost of Capital decision expected in late 2012
 - Will not be retroactive
- Applications filed with state and federal regulators seeking approval of CH Energy acquisition
 - Expected close end of Q1/13
- FortisBC Electric – written hearing process to review prudence of ~\$29 million of capex
- Caribbean Utilities - US\$122 million of non-generation capex approved

Financing

- \$2 billion of unused credit facilities available for consolidated entity
- Newfoundland Power extended term of \$100 million credit facility by two years to August 2017
- FortisBC Electric extended term of \$150 million credit facility
 - \$100 million maturing in May 2015
 - \$50 million maturing in May 2013
- Requested increase for Corporate credit facility to \$1 billion from \$800 million, as per credit facility agreement
 - Increase expected in May 2012

Other

- No new developments in matters related to expropriated Belize assets
-

Figure 1: Fortis first quarter earnings breakdown

	First Quarter Earnings			
Millions of dollars (except per share data)	2011	2012	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
FortisBC Energy Companies	\$76	\$82	7.9%	Increase due to the timing of certain expenses not recognized this quarter and growth in rate base.
Newfoundland Power	\$7	\$7	0.0%	
FortisAlberta	\$19.7	\$21.0	6.6%	Experienced lower power purchase costs but cost sharing mechanism no longer in place.
FortisBC Electric	\$19	\$16	(15.8%)	
Other Canadian Regulated Utilities	\$6	\$7	16.7%	Lower effective income taxes due to lower statutory tax rates.
Total Canadian Earnings	\$128	\$133	4.2%	
Regulated Utilities - Caribbean	\$4	\$3	(25.0%)	
Non-Regulated				
Fortis Generation	\$3	\$5	66.7%	Return to normal hydrology in Belize.
Fortis Properties	\$1	\$1	n.m.	
Total Non-Regulated Earnings	\$4	\$6	71.4%	
Corporate and Consolidated Adjustments	(\$20)	(\$17)	(15.0%)	\$4 M pre-tax expenses related to acquisition of CH Energy Group. \$1.5 M pre-tax negative FX adjustment related to expropriated asset, Belize Electricity.
Recurring Earnings	\$115	\$125	8.5%	
Non-recurring items	\$1.5	(\$4.5)	n.m.	
Reported Net Earnings	\$117	\$121	3.3%	
EPS:				
Recurring	\$0.66	\$0.66	0.5%	In line with both our estimate and the consensus 67¢ estimate.
Non-recurring items	\$0.01	(\$0.02)	n.m.	
Reported	\$0.67	\$0.64	(4.4%)	
Cash Flow Per Share	\$1.38	\$1.32	n.m.	Public offering of 10.3 M common shares in June 2011.
Average Shares Outstanding (mln)	175.0	189.0	8.0%	
Regulated				
Earnings	\$132	\$136	3.3%	Very stable earnings.
% of total	114%	109%		
Non-Regulated				
Earnings	\$4	\$6	71.4%	
% of total	3%	5%		
Corporate				
Earnings	(\$20.0)	(\$17.0)	15.0%	
% of total	(17.4%)	(13.6%)		
Capital Structure				
	March 31, 2012			
Debt & working capital	\$6,284	55%	Some room for additional leverage.	
Equity	\$3,901	34%		
Preferred shares	\$912	8%		
Non-controlling interests	\$246	2%		
Total capital	\$11,343	100%		

Source: Fortis Inc., Canaccord Genuity

Investment risks

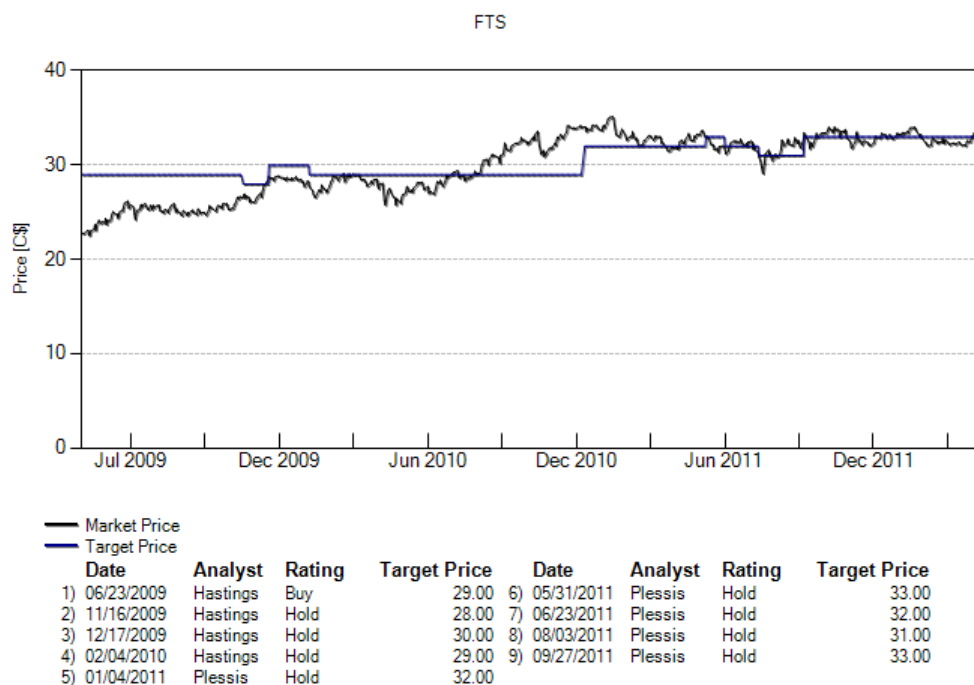
Some of the specific risk factors that pertain to the projected stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties that are subject to operating risks associated with the industry.

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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 2 April 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	503	59.3%	31	31.0%
Speculative Buy	91	10.7%	74	73.6%
Hold	232	27.4%	19	18.5%
Sell	22	2.6%	2	9.1%
	848	100%		

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

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Fortis Inc.	7
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Fortis Inc.

FTS : TSX : C\$33.08

HOLD**Target: C\$33.00**

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Zayem Lakhani 1.604.643.7506

zlakhani@canaccordgenuity.com

COMPANY STATISTICS:

52-week Range:	C\$28.24 - 34.98
Avg. Daily Vol. (000s):	546.3
Market Cap (M):	C\$6,262
Shares Out (M):	189.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.6

EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.70	C\$1.80
P/E (x):	20.5	19.8	19.5	18.4
CFPS:	C\$4.23	C\$4.42	C\$4.50	C\$4.65
P/CF (x):	7.8	7.5	7.4	7.1

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.
 Refer to page 2 for target price valuation methodology.

Infrastructure -- Utilities**RAISES EQUITY FOLLOWING CH ENERGY SHAREHOLDER APPROVAL OF ACQUISITION****Investment recommendation**

The shareholders of CH Energy voted 92% in favour of Fortis' acquisition of the New York natural gas and electric transmission and distribution utility at US\$65 per share. Also, Fortis announced a \$601 million bought deal offering of subscription receipts (\$691 million if the over-allotment is exercised) to fund a portion of the acquisition. Both announcements were expected and were previously factored into our financial analysis. The acquisition is expected to close in Q1/13 and is subject to approval by the Federal Energy Regulatory Commission, the Federal Trade Commission, and the Public Service Commission, along with other normal closing conditions. As announced in February, Fortis is paying \$1.5 billion (including the assumption of ~US\$500 million of debt), which we calculate to be about a 45% premium to rate base and 96% premium to equity. While we expect the acquisition to be accretive to annual earnings per share beginning in 2013, given the full price being paid for CH Energy, we estimate the accretion to be only a few cents per share on an annual basis (depending on the cost of permanent debt financing). With planned capital investments of \$100 million annually through 2016 into CH Energy's rate base, we expect the forecast return to improve over time.

Investment highlights

- Receives CH Energy shareholder approval for acquisition
 - US\$1.5 billion, includes US\$500 million debt assumption
 - Expected to close in Q1/13
- Acquisition expected to be slightly accretive to full year earnings
- \$601 million subscription receipt offering to partially fund the acquisition
- HOLD rating and C\$33.00 target price unchanged

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Valuation

Our 12-month target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

Investment risks

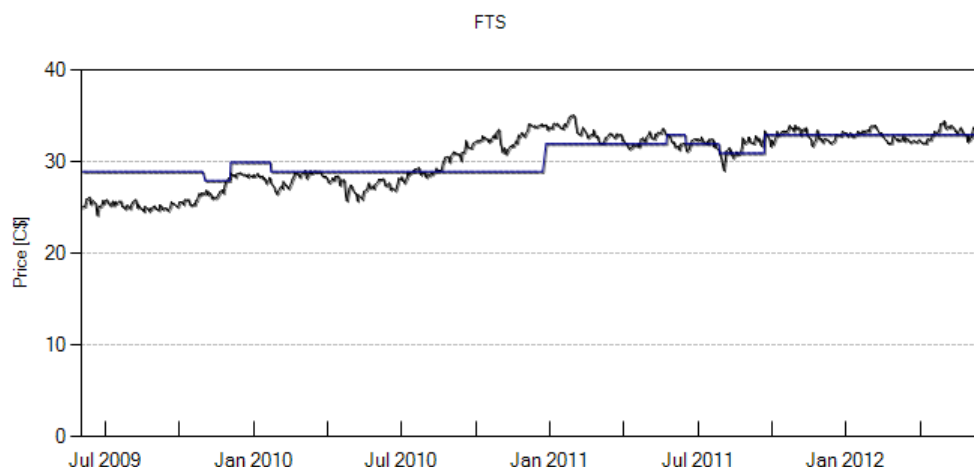
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Site Visit:

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

Price Chart:*

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/23/2009	Hastings	Buy	29.00	6) 05/31/2011	Plessis	Hold	33.00
2) 11/16/2009	Hastings	Hold	28.00	7) 06/23/2011	Plessis	Hold	32.00
3) 12/17/2009	Hastings	Hold	30.00	8) 08/03/2011	Plessis	Hold	31.00
4) 02/04/2010	Hastings	Hold	29.00	9) 09/27/2011	Plessis	Hold	33.00
5) 01/04/2011	Plessis	Hold	32.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 7 June 2012)

Coverage Universe			IB Clients	
Rating	#	%	%	
Buy	589	60.7%	29.4%	
Speculative Buy	87	9.0%	51.7%	
Hold	264	27.2%	12.5%	
Sell	30	3.1%	3.3%	
	970	100.0%		

Canaccord Genuity Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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Fortis Inc.

FTS : TSX : C\$33.54

HOLD**Target: C\$34.00****Juan Plessis, MBA, CFA**

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Zayem Lakhani

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COMPANY STATISTICS:

52-week Range:	C\$28.24 - 34.98
Avg. Daily Vol. (000s):	549.8
Market Cap (M):	C\$6,349
Shares Out (M):	189.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.6

EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.70	C\$1.80
P/E (x):	20.8	20.1	19.7	18.6
CFPS:	C\$4.23	C\$4.42	C\$4.50	C\$4.65
P/CF (x):	7.9	7.6	7.5	7.2

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Infrastructure -- Utilities**STEADFAST OPERATIONS DELIVER ANOTHER STABLE QUARTER****Investment recommendation**

Fortis reported second quarter recurring earnings of \$0.32 per share, in line with our estimate as well as the consensus estimate of \$0.33. The company's operations are performing in line with no material surprises in the quarter. Approximately 90% of Fortis' earnings are provided by stable utility operations. Currently, the company is in the midst of a regulatory approval process for its acquisition of New York based utility, CH Energy. The \$1.5 billion acquisition is expected to close in the first quarter of 2013 and should be immediately accretive to earnings per share, excluding acquisition-related costs. Going forward, Fortis' earnings are expected to continue to grow through its utility businesses, mainly in western Canada where the bulk of its \$5.5 billion capital expenditure program is to be implemented through 2016. Note that the program increases to \$6 billion with the addition of CH Energy's capital expenditures if the acquisition is approved. We believe the shares are currently fairly valued and are maintaining our C\$34.00 target price and HOLD rating.

Investment highlights

- Q2 recurring earnings per share of \$0.32
 - In-line with expectations
- Operations in line
 - No change to 2012 and 2013 EPS estimates
- \$5.5 billion capital expenditure program expected to drive earnings growth through 2016
 - Integration of CH Energy could potentially add another \$500 million
- No change to C\$34.00 target price and HOLD rating

Valuation

Our 12-month target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and the company's utility and pipeline peers.

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Outlook

We are making no changes to our 2012 and 2013 earnings estimates of \$1.70 and \$1.80 per share, respectively. The company continues to progress with its \$5.5 billion capital expenditure program (for the 2012-2016 period) with \$511 million spent to date. Note that a majority (~85%) of the capital program will be invested in the company's Canadian utility operations, primarily in western Canada. This large capital spending program is expected to provide the bulk of EPS and dividend growth for the medium term.

On the regulatory front, Fortis currently faces a Generic Cost of Capital hearing at its BC utilities. Although the final outcome is uncertain, we suspect that the company's allowed return on equity may be adjusted downwards beginning in January 2013. A decision from the British Columbia Utilities Commission on the generic cost of capital is expected early next year, but the impact of the decision would likely be retroactive to January 1, 2013. Our estimates do not factor in lower allowed returns at Fortis' BC utilities, but we estimate that a 100 bps decline in the allowed ROE may impact 2013 earnings by up to \$0.07 per share.

The \$1.5 billion acquisition of CH Energy is currently under review by the Federal Energy Regulatory Commission, the Federal Trade Commission and the New York Public Service Commission, and is expected to close in Q1/13. We estimate the acquisition to be accretive by a few cents per share to annual earnings, excluding acquisition-related costs. If approved, the unit could potentially add another \$500 million of growth capex to Fortis' current \$5.5 billion capital expenditure program over the next five years.

Second quarter earnings summary

Fortis reported second quarter recurring earnings of \$0.32 per share, in line with both our estimate and the consensus estimate. Our calculation of recurring earnings adjusts for \$3 million of after tax acquisition costs as well as \$4.5 million of earnings from regulatory decisions related to Q1/12, but accrued in the second quarter. EPS in Q2/11 was \$0.31. The improvement was largely due to a \$6 million (\$0.03 per share) increase in earnings at FortisAlberta driven by rate base growth. In addition, the company's non-regulated hydro generation business in Belize benefitted from improved hydrology, increasing the segment's contribution by \$3 million compared to last year (although only modestly above the long term average). These increases were offset by mildly lower contributions from FortisBC energy companies, as well as the dilutive effect of the 10.3 million share issue in June 2011. All other operations were comparable y/y. YTD, the company has reported recurring earnings per share of \$1.00 compared to \$0.97 for the first half of 2011. For additional details on second quarter results, please refer to Figure 1.

Noteworthy items

- Capital expenditure plan
 - \$5.5 billion of capex from 2012 through 2016
 - Potential for \$500 million more if CH Energy acquisition is closed
 - 65% to be spent at regulated electricity operations
 - Mainly FortisAlberta and FortisBC Electric
 - 21% to be spent at regulated natural gas companies
 - 14% towards non-regulated operations
 - Utility acquisitions
 - In discussions with City of Kelowna to purchase the city's electricity distribution utility for >\$50 million
 - Fortis has been operating and maintaining the assets since 2000 and sells wholesale electricity to the utility already
 - Approximately 15,000 customers
 - Expected to close in Q1/13
 - Close subject to negotiation of definitive agreements and regulatory as well as municipal approvals
 - Exercised its option to acquire City of Port Colborne's electricity distribution assets for \$7 million in April 2012
 - Regulatory
 - FortisAlberta received a positive decision from the AUC denying the Central Alberta Rural Electrification Association's request to be entitled to service customers in overlapping service areas
-

31 July 2012

Figure 1: Fortis second quarter earnings details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2011	2012	Change	
			Favourable (Unfavourable)	
Regulated Utilities - Canadian				
FortisBC Energy Companies	\$15	\$13	(13.3%)	Lower capitalized allowance for funds used during construction due to lower assets under construction.
Newfoundland Power	\$10	\$12	15.0%	Higher allowed ROE.
FortisAlberta	\$16	\$22	35.8%	
FortisBC Electric	\$9	\$9	0.0%	Reflects rate base growth due to continued investment in energy infrastructure offset partially by a lower allowed ROE.
Other Canadian Regulated Utilities	\$6	\$5	(16.7%)	
Total Canadian Earnings	\$56	\$61	7.7%	
Regulated Utilities - Caribbean	\$6	\$6	0.0%	
Non-Regulated				
Fortis Generation	\$2	\$5	150.0%	Stronger hydro generation at Belize.
Fortis Properties	\$8	\$8	0.0%	Excludes acquisition related costs of \$3 million after tax.
Total Non-Regulated Earnings	\$10	\$13	30.0%	
Corporate and Consolidated Adjustments	(\$17)	(\$19)	11.8%	
Recurring Earnings	\$55	\$61	9.6%	\$4.5 million of earnings recorded in Q2 2012 related to Q1 2012; \$3 million acquisition related costs.
Non-recurring items	\$2	\$2	n.m.	
Reported Net Earnings	\$57	\$62	9.3%	
EPS:				
Recurring	\$0.31	\$0.32	2.4%	In line with 33¢ consensus estimate as well as our 33¢ estimate.
Non-recurring items	\$0.01	\$0.01	n.m.	
Reported	\$0.33	\$0.33	0.0%	
Cash Flow Per Share	\$1.19	\$0.98	n.m.	Public offering of 10.3 M common shares in June 2011.
Average Shares Outstanding (mln)	177.1	189.6	7.1%	
Regulated				
Earnings	\$62	\$67	6.9%	
% of total	113%	110%		
Non-Regulated				
Earnings	\$10	\$13	30.0%	
% of total	18%	21%		
Corporate				
Earnings	(\$17.0)	(\$19.0)	(11.8%)	
% of total	(31%)	(31%)		

Source: Fortis Inc., Canaccord Genuity

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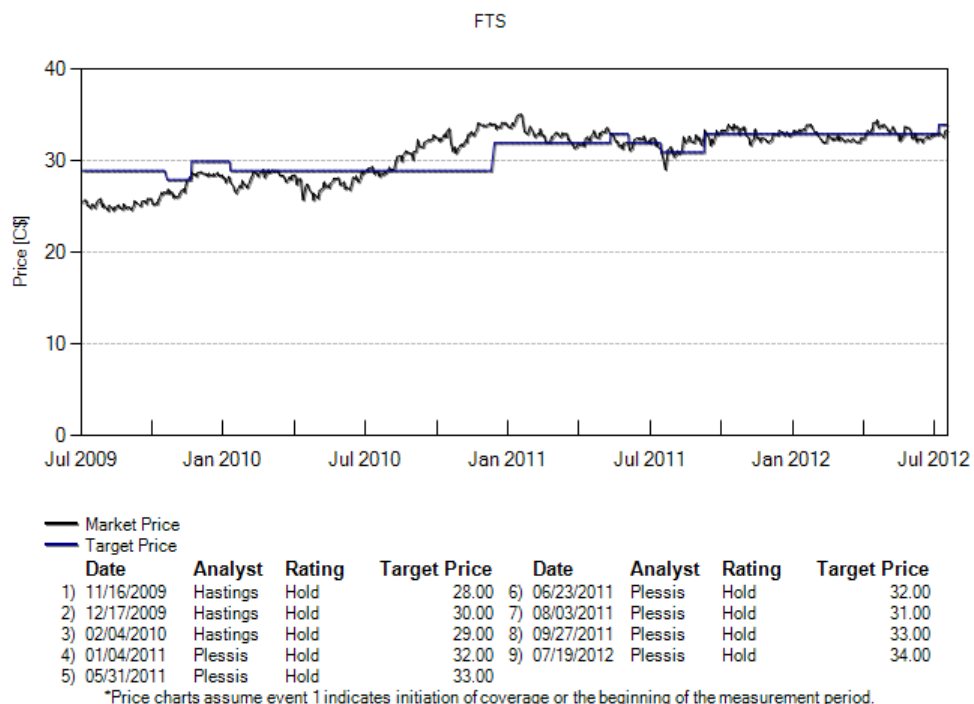
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Price Chart:***Distribution of Ratings:**

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(as of 3 July 2012)

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February 8, 2006

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$25.00
FTS-TSX (2/7/06) \$22.96

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$17.25-\$25.64
Shares Outstanding 103.1M
Float 103.1M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,366.5M
Dividend/Div Yield \$0.64 / 2.8%
Fiscal Year Ends December
Book Value \$11.64 per Shr
2006 ROE (E) 9.8%
LT Debt \$2.1B
Preferred \$319.49M
Common Equity \$1.2B
Convertible Available No

Earnings per Share	Prev	Current
2005	\$1.18E	\$1.16A
2006		\$1.20E
2007		\$1.30E

P/E		
2005	19.5x	19.8x
2006		19.1x
2007		17.7x

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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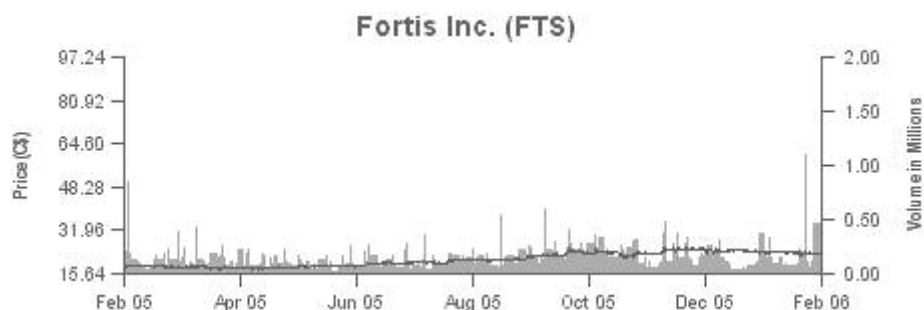
Pipelines, Utilities, & Power

Fortis Inc.

Q4 Result Shows Growth Slowing Near-Term

- Fortis reported Q4'05 EPS of \$0.22 vs. our estimate of \$0.24 and \$0.22 in Q4'04. Growth is slowing in the near-term due to lower allowed returns and power prices. We are maintaining our Sector Performer rating and \$25 target price.
- The year 2005 was solid overall with normalized earnings up about 8% from the prior year. This year, Fortis faces headwinds as regulated ROEs fall by about 60 basis points. We are forecasting 2006 earnings in line with 2005.
- Growth should resume in 2007 due to major capital investments in regulated electrical utilities in Western Canada. Fortis will invest about \$450 million again in 2006.
- In our view, Fortis shares are now mostly reflecting the near-term pause in earnings growth. The P/E multiple has backed off to sector average. We recommend buying the stock on any further share price weakness.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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Investment Summary

Fortis reported Q4'05 EPS of \$0.22 vs. our estimate of \$0.24 and \$0.22 in Q4'04. Growth is slowing in the near term due to lower allowed returns and power prices. We are maintaining our Sector Performer rating and \$25 target price.

For a full breakdown and analysis of earnings by segment, please see the following appendix to this comment.

In summary, the Q4 result was slightly weak primarily due to the timing of expenses and revenue recognition in the Alberta electrical utility. The company was tracking to an achieved ROE far above the allowed ROE. As we anticipated, this run-rate was unsustainable and Q4 results came in below most expectations.

On the other hand, the year 2005 was solid overall with normalized earnings up about 8% from the prior year. We estimate Fortis earned attractive returns on equity of about 11% on the Alberta and British Columbia utilities. Also, abnormally high Ontario power prices drove earnings up in the generation segment.

This year Fortis faces headwinds as regulated ROEs and power prices will fall:

- Allowed returns on equity in Alberta and B.C. have fallen by about 60 basis points to 8.93% and 8.69%. Rate base growth will offset much of the reduction in return, but we are forecasting earnings flat for the Western utilities in 2006.
- Allowed returns on equity will also fall in the Maritimes. This will impact Newfoundland Power and Maritime Electric. Earnings in these divisions may remain flat in 2006 at best.
- Ontario power prices have fallen due to unusually warm weather. Fortis does not break out its Ontario power operations but we estimate the hydroelectric assets contributed \$45 million in revenue or \$0.28 in EPS in 2005. The contribution may decline by as much as \$0.05 this year.

Growth should resume in 2007 primarily due to major capital investments in regulated electrical utilities in Western Canada:

- Fortis will invest about \$450 million again in 2006, mostly on rate base additions in regulated utilities. Capital budgets in Alberta and B.C. are about \$190 million and \$110 million. On this basis, Western Utility rate base should grow by more than 14% in each of the next two years. Unless returns fall further, rate base growth will drive earnings growth.
- Belize is showing promise for growth in the generation and distribution segments. In generation, Fortis has completed a 7 MW dam that should double production. In distribution, we see annual sales growth of about 6%. The guaranteed rate reductions that offset this growth in the past have now ceased.

Fortis shares have weakened in recent months slightly more than the rest of the utility sector. In our view, Fortis shares are now mostly reflecting the near-term pause in earnings growth. The P/E multiple has backed off to sector average. Yet, we believe the medium and long-term earnings and dividend growth outlook is superior to most of the comparable stocks. We are maintaining our \$25 target price and recommend buying the stock on any further share price weakness.

Appendix: Summary of Q4'05 Results

Exhibit 1. Segmented Earnings for Fortis (financials in C\$ millions)

	Q4/05	Q4/04	2005	2004
Newfoundland Power	\$2.9	\$3.3	\$29.4	\$31.1
Maritime Electric	\$1.7	\$1.8	\$9.1	\$8.2
FortisAlberta & FortisBC	\$9.9	\$19.1	\$53.7	\$36.3
FortisOntario	\$0.2	\$0.9	\$2.7	\$4.2
Belize Electricity	\$2.0	\$1.6	\$8.0	\$7.2
Caribbean Utilities	\$2.8	(\$5.8)	\$11.4	\$0.8
Fortis Generation	\$8.5	\$4.7	\$21.6	\$12.8
Fortis Properties	\$2.9	\$2.8	\$14.1	\$11.8
Corporate	(\$8.6)	(\$7.2)	(\$32.4)	(\$21.6)
Operating Earnings for Common	\$22.3	\$21.2	\$117.6	\$90.8
Unusual Items	\$0.0	\$0.0	\$19.4	\$0.0
Reported Earnings	\$22.3	\$21.2	\$137.0	\$90.8
Average Shares Outstanding (mln)	103.1	95.5	101.8	84.7
Operating EPS	\$0.22	\$0.22	\$1.16	\$1.07
Reported EPS	\$0.22	\$0.22	\$1.35	\$1.07

Note:

1. Unusual items in 2005 include \$8.6 million positive adjustment for tax-related matters at Fortis Alberta, and Cornwall Electric, \$1.4 million interest recovery from Newfoundland Power's tax settlement, \$2 million non-cash foreign exchange gain, and \$0.5 million restructuring charge in Corporate costs.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power's Q4 earnings came in lower than last year, largely as a result of the change in the purchased power rate structure and 0.5% decrease in customer rates.

Maritime Electric

Maritime Electric's Q4 earnings were essentially flat compared to last year but full-year results increased by almost \$1 million. The improved results were primarily attributable to higher electricity rates (2% increase effective July 1, 2005) and lower interest costs (capitalized financed costs associated with 50 MW generating facility). The utility has filed a rates application, asking for 1.6% average increase effective July for rate base additions. This could offset any reduction in allowed ROE.

FortisOntario (Canadian Niagara Power, Cornwall Electric and Granite)

Higher operating costs (reallocated shared service costs from the non-regulated generation operations) were the main contributing factor behind FortisOntario's lower earnings in Q4 and full-year 2005. In September 2005, FortisOntario filed a rates application to increase T&D rates starting May 2006. The new rates are based on a 50%/50% debt/equity split with an allowed ROE of 9.0%. We believe the core utility has about \$40 million rate base.

FortisAlberta

The Alberta electric distribution utility's Q4 earnings were down by \$3.3 million y/y due to higher operating and amortization costs. The higher 2005 earnings primarily reflect a full year contribution. In mid-December 2005, FortisAlberta filed its 2006/7 rates application with forecasted capital expenditures of \$193 million.

FortisBC

Q4 earnings from the B.C. utility were down year-over-year due to lower accrued unbilled revenue and higher operating costs. On November 24, 2005,

FortisBC filed its 2006 rates application seeking a 5.9% rate increase. The application will be reviewed with the BCUC in February.

Regulated Utilities - Caribbean

Full-year earnings from Belize Electricity were up as a result of higher electricity rates (11% increase, effective July 1) and load sales (up 6% y/y). Foreign exchange rate impacts were also slightly favourable during the year.

Caribbean Utilities' (CUP.U-TSX, Not Rated) Q4 equity earnings were significantly up to operational and financial recovery from Hurricane Ivan (including \$8.2 million BI insurance claim).

The Cayman Islands Government and CUP have agreed to implement a surcharge of US\$0.89/KW-hr, (or a 4.68% base rates increase) to recover hurricane-related costs over a 3-year period (effective August). In addition, CUP has agreed to absorb about US\$3.6 million (including US\$0.5 million not covered by insurance).

License renewal discussions between the Government, Electrical Regulatory Authority and CUP resumed in November 2005 with the objective of obtaining a new license by the summer of 2006.

Fortis Generation

Earnings from Fortis' non-regulated generation segment were up by \$3.8 million in Q4 primarily as a result of higher wholesale power prices in Ontario and Upstate NY. The full-year results benefited from higher rainfall levels positively impacting production.

Fortis Properties

Earnings from Fortis' real estate operations in 2005 benefited from acquisitions (Western Canada hotels acquired in February) and organic expansion of the Delta Hotel St. John's (completed June 1).

Corporate

Full-year corporate costs were up over \$9 million year-over-year, mainly from higher financing charges and operating expenses.

Price Target Calculation

Our \$25 target price is based on a 19.2x multiple of our 2007 EPS forecast of \$1.30. It also implies a 2.6% dividend yield. The target P/E multiple is found at the higher end of the stock's historical trading range (10x-20x) but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1-2x earnings multiple point discount to the Canadian utilities group but is now trading at a premium to the Canadian utility group.

Key Risks to Price Target

Fortis could fall short of our 2006 and 2007 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Prior	\$0.32A	\$0.30A	\$0.32A	\$0.24E	\$1.18E
2005 Current	\$0.32A	\$0.30A	\$0.03A	\$0.22A	\$1.16A
2006 Current	\$0.32E	\$0.32E	\$0.29E	\$0.26E	\$1.20E
2007 Current	--	--	--	--	\$1.30E

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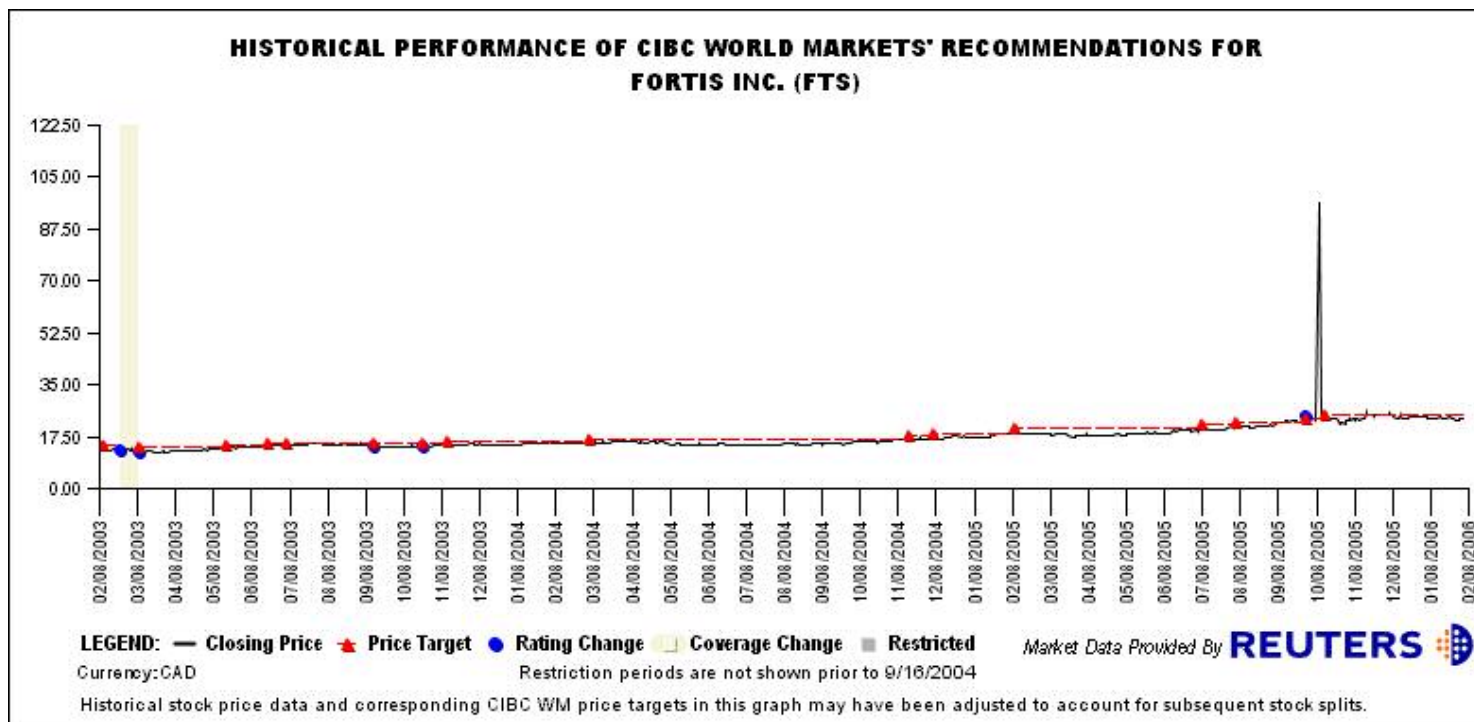
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Stock Prices as of 02/07/2006:

Caribbean Utilities Company Ltd. (CUP.U-TSX, \$12.17, Not Rated)

CIBC World Markets Price Chart



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Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/11/2003	▲	13.10	SP	14.50	Peter Case
02/24/2003	▲ ● ■	13.05	S	None	CIBC World Markets Corp.
03/12/2003	▲ ● ■	12.25	SP	13.75	Matthew Akman
05/21/2003	▲	14.00	SP	14.50	Matthew Akman
06/23/2003	▲	14.50	SP	15.00	Matthew Akman
07/08/2003	▲	14.56	SP	15.50	Matthew Akman
09/16/2003	▲ ●	13.94	SU	15.00	Matthew Akman
10/24/2003	▲ ●	14.19	SO	15.50	Matthew Akman
11/13/2003	▲	14.88	SO	16.25	Matthew Akman
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲ ●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman

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M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

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Sector Performer (Hold/Neutral)	392	48.2%	Sector Performer (Hold/Neutral)	182	46.4%
Sector Underperformer (Sell)	105	12.9%	Sector Underperformer (Sell)	50	47.6%
Restricted	9	1.1%	Restricted	9	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 07 Feb 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	20.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	7	70.0%	Sector Performer (Hold/Neutral)	4	57.1%
Sector Underperformer (Sell)	1	10.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

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May 2, 2006

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$25.00
FTS-TSX (5/1/06) \$21.42

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$17.81-\$25.64
Shares Outstanding 103.3M
Float 103.3M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,212.7M
Dividend/Div Yield \$0.64 / 3.0%
Fiscal Year Ends December
Book Value \$11.62 per Shr
2006 ROE (E) 10.3%
LT Debt \$2.1B
Preferred \$319.49M
Common Equity \$1.2B
Convertible Available No

Earnings per Share	Prev	Current
2005		\$1.16A
2006	\$1.20E	\$1.25E
2007	\$1.30E	\$1.35E

P/E		
2005		18.5x
2006	17.9x	17.1x
2007	16.5x	15.9x

Dividends per Share	
2004	\$0.54
2005	\$0.59
2006E	\$0.64
2007E	\$0.74

Debt to Total Capital	
2004	61.5%
2005	59.0%
2006E	60.0%

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Raising Estimates On Belize Hydro Strength

- Fortis reported Q1'06 EPS of \$0.35 vs. our estimate of \$0.32 and \$0.32 in Q1'05. Earnings from a new hydro dam in Belize are higher than expected. We are raising our 2006/7 estimates by \$0.05 and maintaining our \$25 price target.
- Our view was that Fortis earnings would be relatively flat this year due to declining allowed returns and lower Ontario power prices. However, strong electricity sales growth in Alberta and a return to normal hydro levels in Belize are offsetting lower regulated returns.
- Looking forward to 2007 similar trends should drive more upside. Western utility rate base is rising by about 15% and Belize sales are still growing by about 6% annually.
- The consistent EPS growth means dividends will likely rise by 8% - 10% in the coming years. Dividend growth should slightly exceed earnings growth until the payout reaches about 60% in 2010. On this basis Fortis is one of the more attractive investments in our coverage universe.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis reported Q1'06 EPS of \$0.35 vs. our estimate of \$0.32 and \$0.32 in Q1'05. Earnings from a new hydro dam in Belize are higher than expected. We are raising our 2006/7 estimates by \$0.05 and maintaining our \$25 target price.

For a full breakdown and analysis of earnings by segment, please see the appendix to this comment.

Alberta Sales; Belize Hydro Driving Small '06 Growth

Our view was that Fortis earnings would be relatively flat this year due to declining allowed returns and lower Ontario power prices. Two key factors are now pointing to modest growth this year:

- **Strong Alberta electricity sales** – Last week FortisAlberta reported earnings of \$9.5 million vs. only \$7.8 million in Q1'05. Under circumstances where sales growth continues to track above expectations, the company can earn a return that is higher than the regulated ROE.
- **Return to normal hydro in Belize** – Belize has experienced a few dry years but a return to normal hydro flows combined with the new Chalillo dam have driven sales from 7 GW-hrs in Q1'05 to 27 GW-hrs in Q1'06. Management expects the higher sales level to sustain going forward.

These factors cause us to raise our 2006 EPS estimate from \$1.20 to \$1.25. Weather is the only significant risk we see to these numbers. The Caribbean Utilities (CUP.U – TSX) and Belize Electricity earnings could be impacted by hurricane activity this summer/fall.

2007/8 Growth on Track Across the Board

Looking forward to 2007 and beyond, similar trends should drive more upside. We see improved earnings across most of the Fortis divisions starting next year:

- **Rate base growth in Alberta and B.C.** – We are forecasting annual rate base growth of about 15% in Alberta and B.C. Regulatory risks to achieving returns on this rate base appear manageable. Fortis is negotiating an operating cost incentive for British Columbia but capital investments and returns on those investments have largely been approved. Returns are formula-driven in Alberta and generally not controversial.
- **Sales growth in Belize** – Rates have stabilized in Belize but sales continue to grow. Our models show that with 5% - 6% sales growth, Belize Electricity should deliver annual earnings growth of almost \$2 million.
- **Improved returns in Ontario** – Fortis has applied for a 9.0% ROE on its regulated Ontario electricity utility (Canadian Niagara Power). We understand the achieved ROE has only been 5% - 6%. We believe the Ontario Energy Board will approve a higher return in the coming weeks. The increase could add \$1 - \$2 million in earnings starting in 2007.
- **Maritime Electric expanded rate base** – Maritime Electric constructed a \$50 million power plant that has been approved for rate base but not yet reflected in earnings. The utility's earnings should move up later this year with the plant making a full year contribution of almost \$2 million in 2007.

The consistent EPS growth we are forecasting at Fortis means dividends will likely rise by 8% - 10% later this year and in the coming years. Dividend growth should slightly exceed earnings growth until the payout reaches about 60% in 2010. On this basis Fortis is one of the more attractive investments in our coverage universe.

Appendix: Summary of Q1'06 Results

Exhibit 1. Segmented Earnings for Fortis (financials in C\$ millions)

	Q1/06A	Q1/05A	2006E	2005A
Newfoundland Power	\$10.7	\$13.0	\$29.6	\$29.4
Maritime Electric	\$2.1	\$2.1	\$9.5	\$9.1
FortisAlberta & FortisBC	\$21.3	\$16.7	\$58.8	\$53.7
FortisOntario	\$1.0	\$1.1	\$3.5	\$2.7
Belize Electricity	\$1.5	\$1.0	\$10.9	\$7.9
Caribbean Utilities	\$1.6	\$2.5	\$11.0	\$11.4
Fortis Generation	\$5.4	\$2.1	\$24.4	\$21.6
Fortis Properties	\$1.5	\$1.5	\$15.0	\$14.1
Corporate	(\$8.5)	(\$8.7)	(\$34.0)	(\$32.4)
Operating Earnings for Common	\$36.6	\$31.2	\$128.7	\$117.6
Unusual Items	\$0.0	\$7.9	\$0.0	\$19.4
Reported Earnings	\$36.6	\$39.1	\$128.7	\$137.0
Average Shares Outstanding (mln)	103.3	98.0	103.3	101.6
Operating EPS	\$0.35	\$0.32	\$1.25	\$1.16
Reported EPS	\$0.35	\$0.40	\$1.25	\$1.35

Note:

1. Unusual items in 2005 include \$8.6 million positive adjustment for tax-related matters at Fortis Alberta, and Cornwall Electric, \$1.4 million interest recovery from Newfoundland Power's tax settlement, \$2 million non-cash foreign exchange gain, and \$0.5 million restructuring charge in Corporate costs.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$10.7 million, down \$2.3 million from the same period in 2005. The company changed to its revenue recognition policy to an accrual basis, and this reduced earnings by \$2 million compared to Q1/05. However, full year earnings should be comparable on a year-over-year basis.

Maritime Electric

Earnings for Maritime Electric were flat compared to Q1/05 at \$2.1 million. Electricity sales were down slightly, but were mainly offset by revenue increases due to a 2 percent basic electricity rate increase (effective July 1, 2005).

FortisOntario (Canadian Niagara Power, Cornwall Electric and Granite)

Earnings for FortisOntario were slightly lower than Q1/05 (\$1.0 million versus \$1.1 million last year). This was mainly the result of lower energy sales (due to milder temperatures) and higher reallocation of shared service costs from non-regulated generation operations. This was partially offset by savings from an early retirement program completed in Q4/05.

FortisAlberta

FortisAlberta reported earnings of \$9.5 million for the quarter, an increase of \$1.7 million compared to Q1/05. Sales were higher from consumption growth in the residential, commercial and industrial customer base as a result of the strong Alberta economy. This was partially offset by increasing expenses due to inflationary pressures on labour rates in the province.

FortisBC

First quarter earnings for FortisBC were \$2.9 million higher compared to the same period last year. The increase came primarily from a 5.9% interim refundable rate increase and customer growth. Lower operating costs came primarily from increased capitalized overhead of \$2.4 million, resulting from a change in estimating capitalized overhead (effective January 1, 2006).

Regulated Utilities – Caribbean

First quarter earnings for Belize Electricity increased by \$0.5 million quarter-over-quarter, primarily due to an 11 per cent increase in electricity rates (effective July 1, 2005) and higher electricity sales. Rates will now stabilize going forward.

Equity income from Caribbean Utilities fell by \$0.9 million, primarily due to an increase in fuel expense associated with the timing of previously deferred fuel costs.

Caribbean Utilities is currently meeting pre-Hurricane Ivan generation and sales levels, and expects to maintain or exceed these levels along with pre-Ivan customer base numbers by the end of 2006.

Fortis Generation

Earnings from Fortis' non-regulated generation segment were down \$4.6 million in Q1/06 as first quarter 2005 earnings included a \$7.9 million gain from the OPG settlement. Excluding this gain, earnings were \$3.3 million higher over Q1/05 as a result of increase production (largely in Belize) and lower finance charges and operating costs.

Fortis Properties

Earnings from Fortis' real estate division were flat compared to last year. Higher real estate and hospitality revenues were offset with higher operating, amortization and finance charges

Corporate

First quarter corporate expenses were slightly lower (\$0.2 million) compared to Q1/05. The reduction primarily came from lower finance charges (due to a repayment in March 2005) and reduced net unrealized foreign exchange losses. Fortis has minimal exposure to short-term interest rates.

Price Target Calculation

Our \$25 price target is based on a 18.5x multiple of our 2007 EPS forecast of \$1.35. It also implies a 2.9% dividend yield. The target P/E multiple is found at the higher end of the stock's historical trading range (10x-20x) but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1-2x earnings multiple point discount to the Canadian utilities group but is now trading at a premium to the Canadian utility group.

Key Risks To Price Target

Fortis could fall short of our 2006 and 2007 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.32A	\$0.30A	\$0.32A	\$0.22A	\$1.16A
2006 Prior	\$0.32E	\$0.32E	\$0.29E	\$0.26E	\$1.20E
2006 Current	\$0.35A	\$0.32E	\$0.31E	\$0.27E	\$1.25E
2007 Prior	--	--	--	--	\$1.30E
2007 Current	--	--	--	--	\$1.35E

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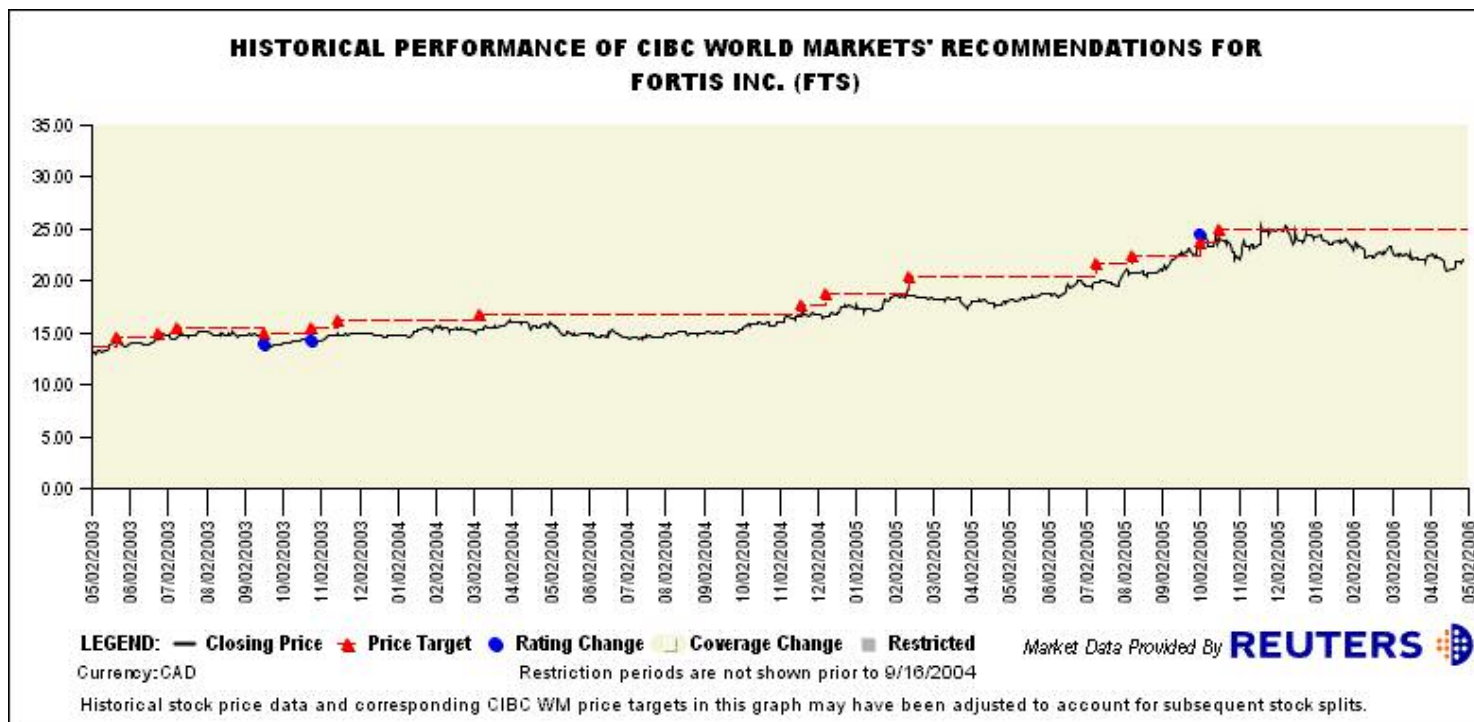
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- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
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Stock Prices as of 05/01/2006:

Caribbean Utilities Company Ltd. (CUP.U-TSX, \$11.75, Not Rated)

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/21/2003	▲	14.00	SP	14.50	Matthew Akman
06/23/2003	▲	14.50	SP	15.00	Matthew Akman
07/08/2003	▲	14.56	SP	15.50	Matthew Akman
09/16/2003	▲ ●	13.94	SU	15.00	Matthew Akman
10/24/2003	▲ ●	14.19	SO	15.50	Matthew Akman
11/13/2003	▲	14.88	SO	16.25	Matthew Akman
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲ ●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 01 May 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	313	38.7%	Sector Outperformer (Buy)	166	53.0%
Sector Performer (Hold/Neutral)	377	46.7%	Sector Performer (Hold/Neutral)	173	45.9%
Sector Underperformer (Sell)	90	11.1%	Sector Underperformer (Sell)	47	52.2%
Restricted	17	2.1%	Restricted	17	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 01 May 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	2	66.7%
Sector Performer (Hold/Neutral)	7	70.0%	Sector Performer (Hold/Neutral)	3	42.9%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, RRI, TA, TRP.

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August 8, 2006

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target \$25.00
FTS-TSX (8/4/06) \$22.65

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$20.33-\$25.64
Shares Outstanding 103.4M
Float 103.3M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,342.5M
Dividend/Div Yield \$0.64 / 2.8%
Fiscal Year Ends December
Book Value \$12.57 per Shr
2006 ROE (E) 10.3%
LT Debt \$2.2B
Preferred \$319.49M
Common Equity \$1.3B
Convertible Available No

Earnings per Share	Prev	Current
2005		\$1.16A
2006	\$1.25E	\$1.25E
2007		\$1.35E

P/E		
2005		19.5x
2006	18.1x	18.1x
2007		16.8x

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Normalized Q2 Results In Line

- Fortis reported normalized Q2/06 EPS of \$0.33 vs. our estimate of \$0.32 and \$0.30 in Q2/05. Hydro assets in Belize and Properties drove the improvement over last year. We are maintaining our estimates and Sector Performer rating.
- The Q2 results were somewhat tempered by the seasonality of earnings at Newfoundland Power. But the unregulated power generation (Belize hydro) and real estate (hotel expansions) businesses are driving modest earnings growth this year.
- Our normalized result could have been slightly lower (\$0.01 - \$0.02) had we excluded benefits in Properties from the reduction of future income tax liabilities. However, more normal Ontario power prices could have added the same amount back to earnings.
- This solid organic growth in earnings and dividends at Fortis should continue in to 2007. Trading at an 18.1x P/E multiple, however, the stock is fairly valued. Our \$25 target price and Sector Performer rating are unchanged.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis reported normalized Q2/06 EPS of \$0.33 vs. our estimate of \$0.32 and \$0.30 in Q2/05. Hydro generation assets in Belize and Properties segment results drove the improvement over last year. We are maintaining our estimates and Sector Performer rating.

For a full breakdown and analysis of earnings by segment, please see the appendix to this comment.

Belize Hydro and Real Estate Driving Modest '06 Growth

The Q2 results were somewhat tempered by new seasonality of earnings at Newfoundland Power that should balance out on a full-year basis. The unregulated power generation and real estate businesses more than offset the change in regulated utility reporting:

- **Fortis Generation** made a strong contribution, with normalized earnings of \$6 million, up from only \$3.2 million last year. Higher output in Belize is driving most of this year's earnings improvement due to a return to normal hydro flows and the operation of the Chalillo dam. With the Chalillo reservoir currently full, the higher sales level in Belize appears sustainable and should be able to offset near-term weakness from NY State production and lower Ontario power prices in 2H/06.
- We normalized the **Properties earnings** to \$6.5 million vs. \$4.8 million in Q2/06. Much of the upside in Q2 comes from lower future taxes. But we should see Hospitality revenues move up in the second half with recently completed hotel expansions.
- **Western utilities'** normalized earnings were slightly weak primarily due to the timing of rates adjustments and operating expenses associated with the approved settlements in Alberta and BC. However, sales continue to be strong (up 3% - 4% y/y), demonstrating the premium growth of the Western utility assets.

In summary, Fortis appears to be on track to deliver solid earnings growth in 2006. The Caribbean operations are recovering well in both Grand Cayman and Belize, although these earnings are still susceptible to hurricane risk in late Q3. So, weather may be a small risk to achieving our \$1.25 EPS estimate for 2006.

Outlook Intact for 2007 with Regulatory Certainty

Looking forward to 2007, we see improved earnings from most of Fortis' regulated utilities, as rate base growth and potentially higher returns deliver modest growth:

- **Alberta/B.C. Settlements Improve Earnings Visibility**– Recent rate settlements approved for 2006/7 should largely solidify earnings growth into 2007. Capital spending in Alberta (about \$200 million annually) over the next 2 years has been approved, with returns on those investments formula driven. The B.C. utility may boost its achieved returns with PBR cost-sharing beginning in 2007.
- **Higher Returns from FortisOntario** – Canadian Niagara Power earnings should rise with a higher allowed ROE (9%). We believe that the approved rates increase could add \$1- \$2 million in annual earnings for 2007.
- **Rate Base Growth in Maritime Electric** – The utility's earnings should move up next year, as rate-base growth (\$50 mln plant addition) should more than offset flat 10% allowed returns.

Slowing growth in Belize is the only area of new concern for 2007. With the economy moderating, regulated electric utility Belize Electricity saw only 1% sales growth in Q2 vs. about 5% growth in recent years. We are hopeful that improved sales and cost savings in the western Canadian utilities can offset any downside to our 2007 Belize Electricity forecast.

Stock Fairly Valued Given Visible Growth and Risks

We see steady earnings growth from Fortis, as capital re-investment, particularly in the western utilities, translates into additional earnings. This visible earnings growth profile should support annual dividend growth of about 10% until Fortis' payout ratio reaches the 60% level in 2009 or 2010 at the latest. We believe that the dividend growth will result in steady share price appreciation.

On the other hand, Fortis stock is not cheap given its asset base. The stock trades in line with the Canadian utility group at a P/E multiple of about 18.1x. Given organic growth, Fortis could ultimately trade at a premium to the group. However, this premium may already be reflected in the company's sustainable earnings. In April 2009 FortisOntario loses water rights to 75MW of capacity at the Rankine generating station. Excluding the \$0.10 - \$0.20 in EPS we believe Rankine contributes now, the stock trades at more like 20x earnings.

Meanwhile, aggressive growth plans continue to challenge the Fortis balance sheet. Including preference shares, the balance sheet stands at about 67% debt compared to most utilities at about 60%. We believe rating agencies will tolerate a relatively high debt level while the company expands its western asset base. However, in our opinion a common equity issuance in 2007 is likely.

Following the Q2 earnings report, our \$25 target price is unchanged. It is based on an 18.5x multiple of our 2007 EPS estimate of \$1.35. This valuation metric is in line with a Canadian utility group that is mostly in good financial condition and with visible growth in the coming years.

Appendix: Summary of Q2'06 Results

Exhibit 1. Segmented Earnings for Fortis (financials in C\$ millions)

	Q2/06A	Q2/05A	2006E	2005A
Newfoundland Power	\$8.0	\$10.1	\$29.4	\$29.4
Maritime Electric	\$2.2	\$2.3	\$9.5	\$9.1
FortisAlberta & FortisBC	\$14.7	\$13.2	\$59.2	\$53.7
FortisOntario	\$0.5	\$0.9	\$3.5	\$2.7
Belize Electricity	\$2.3	\$1.9	\$9.2	\$7.9
Caribbean Utilities	\$2.1	\$3.1	\$8.5	\$11.4
Fortis Generation	\$6.0	\$3.2	\$25.3	\$21.6
Fortis Properties	\$6.5	\$4.8	\$18.5	\$14.1
Corporate	(\$8.3)	(\$8.1)	(\$33.6)	(\$32.4)
Operating Earnings for Common	\$34.0	\$31.4	\$129.5	\$117.6
Unusual Items	\$3.9	\$6.8	\$3.9	\$19.4
Reported Earnings	\$37.9	\$38.2	\$133.4	\$137.0
Average Shares Outstanding (mln)	103.4	103.2	103.5	101.6
Operating EPS	\$0.33	\$0.30	\$1.25	\$1.16
Reported EPS	\$0.37	\$0.37	\$1.29	\$1.35

Note:

1. Unusual items in Q2/06 include a \$1.6 million after-tax gain on the sale of Days Inn Sydney, a \$1.6 million unrealized FX gain and a \$0.7 million after-tax gain on insurance.
2. Unusual items in 2005 include \$8.6 million positive adjustment for tax-related matters at Fortis Alberta, and Cornwall Electric, \$1.4 million interest recovery from Newfoundland Power's tax settlement, \$2 million non-cash foreign exchange gain, and \$0.5 million restructuring charge in Corporate costs.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$8 million in Q2/06, down \$2.1 million from the same period in 2005. This decrease was mainly due to a change in revenue recognition policy from a billed basis to an accrual basis (initiated in January 2006). The impact of this change was \$3.2 million in Q2. While first half earnings have been reduced by the policy change, second half earnings are expected to increase by a similar amount.

Maritime Electric

Earnings for Maritime Electric in Q2/06 were essentially flat compared to the same period in 2005. Higher revenues from a basic electricity rate increase were offset by higher finance charges in the quarter.

FortisOntario

Earnings for FortisOntario were \$0.5 million, a decrease of \$0.4 million compared to Q2/05. Improved revenues from higher electricity rates were offset by higher operating costs (reallocation costs) and corporate taxes.

FortisAlberta

Second quarter normalized earnings were down \$4.8 million compared to Q2/05, primarily due to a 1.9 percent decrease in electricity rates (2006/07 Negotiated Settlement Agreement) and higher finance costs to fund the capital-expenditure program. We expect the utility will resume growth in 2007.

FortisBC

Normalized earnings at FortisBC for the second quarter were \$3.6 million, down from the same period in 2005, mainly due to higher energy supply costs, amortization and finance charges.

Regulated Utilities – Caribbean

Q2/06 earnings for Belize Electricity were up \$0.4 million from the same period in 2005, primarily due to an 11 per cent increase in electricity rates (effective July 1, 2005) and modestly higher electricity sales, partially offset by higher energy supply costs and foreign currency impacts.

Equity income from Caribbean Utilities were \$2.1 million in Q2/06, down \$1 million from Q2/05 due to a positive adjustment in 2005 related to a change in revenue recognition policy. Excluding this item, earnings were essentially flat year over year.

Fortis Generation

Second quarter normalized earnings from Fortis' non-regulated generation segment were up \$2.8 million from the same period in 2005. Higher energy sales (Belize and Upper New York State hydro flows) and lower finance costs more than offset the impact of lower average wholesale energy prices in Ontario.

Fortis Properties

Excluding the gain on the sale of Days Inn Sydney, earnings for Q2/06 were \$1.7 million higher than Q2/05, primarily due to lower corporate taxes (from a reduction of future income tax liability balances). Higher hospitality revenues were offset by acquisition/expansion costs.

Corporate

Normalizing for foreign exchange impacts, corporate expenses were essentially flat year over year (\$8.3 million in Q2/06 versus \$8.1 million in Q2/05). For the quarter, lower inter-company interest revenue was partially offset by higher corporate income tax recovery.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.32A	\$0.30A	\$0.32A	\$0.22A	\$1.16A
2006 Prior	\$0.35A	\$0.32E	\$0.31E	\$0.27E	\$1.25E
2006 Current	\$0.35A	\$0.33A	\$0.31E	\$0.26E	\$1.25E
2007 Current	--	--	--	--	\$1.35E

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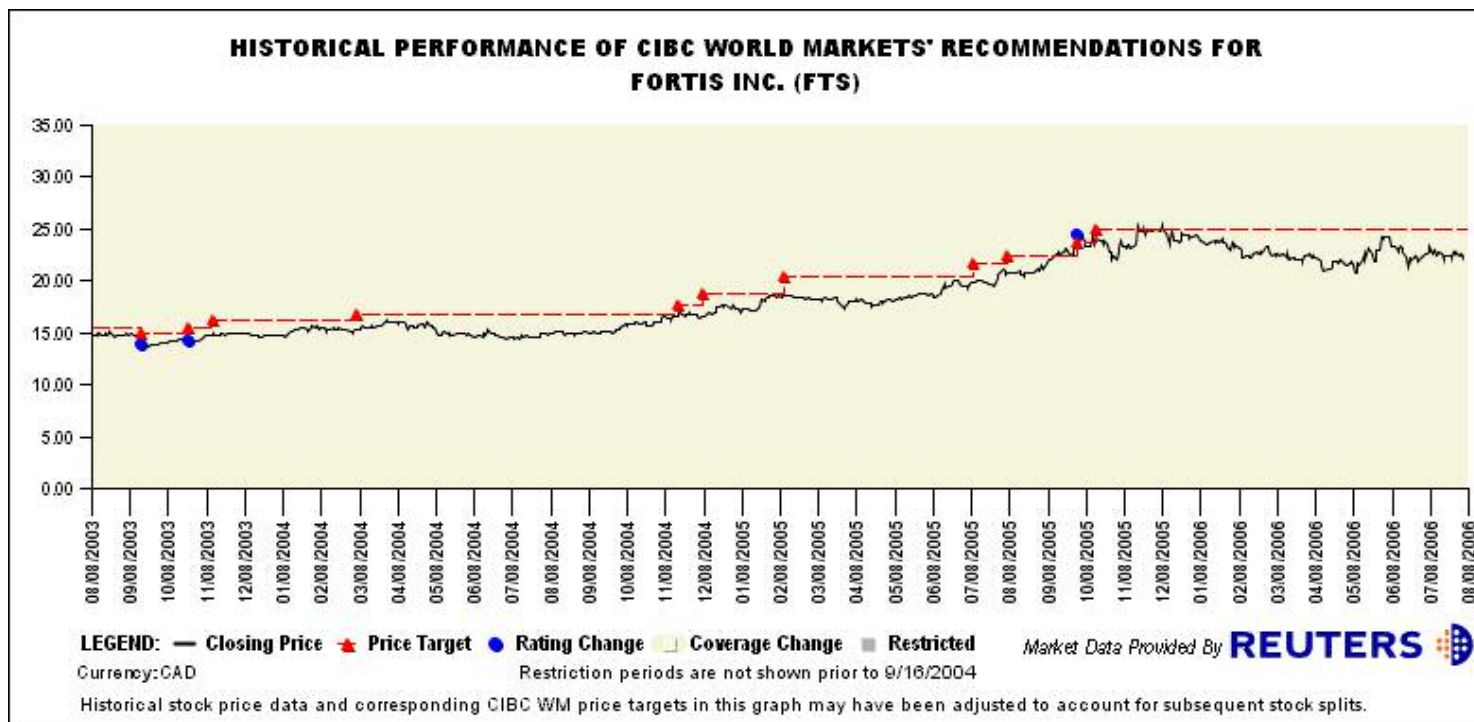
Fortis Inc. (2g, 7) (FTS-TSX, \$22.65, Sector Performer)

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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
09/16/2003	▲●	13.94	SU	15.00	Matthew Akman
10/24/2003	▲●	14.19	SO	15.50	Matthew Akman
11/13/2003	▲	14.88	SO	16.25	Matthew Akman
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman

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Abbreviation	Rating	Description
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SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
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R	Restricted	CIBC World Markets is restricted*** from rating the stock.
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U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Sector Performer (Hold/Neutral)	388	48.5%	Sector Performer (Hold/Neutral)	183	47.2%
Sector Underperformer (Sell)	66	8.3%	Sector Underperformer (Sell)	34	51.5%
Restricted	21	2.6%	Restricted	20	95.2%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 07 Aug 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
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Sector Performer (Hold/Neutral)	7	70.0%	Sector Performer (Hold/Neutral)	3	42.9%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, DUK, EEP, EMA, ENB, FTS, RRI, TA, TRP.

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August 29, 2006

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$25.00
FTS-TSX (8/28/06) \$23.76

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$20.36-\$25.64
Shares Outstanding 103.4M
Float 103.3M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,457.3M
Dividend/Div Yield \$0.64 / 2.7%
Fiscal Year Ends December
Book Value \$12.57 per Shr
2006 ROE (E) 10.3%
LT Debt \$2.2B
Preferred \$319.49M
Common Equity \$1.3B
Convertible Available No

Earnings per Share	Prev	Current
2005		\$1.16A
2006		\$1.25E
2007	\$1.35E	\$1.40E

P/E	
2005	20.5x
2006	19.0x
2007	17.6x

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Caribbean Acquisition Should Be Slightly Positive For the Stock

- Fortis announced it has acquired electric utilities in the Turks and Caicos Islands. We see the deal as a positive development adding modest incremental growth. However, the deal does not add sufficient value to justify a change in our \$25 target price.
- The company's expertise in operating electrical utilities in the Caribbean positions it as the logical owner of these assets. We see further opportunities for consolidation in the region as Mirant has announced the sale of its utility assets on several islands.
- The earnings accretion from the deal is modest (\$0.02 - \$0.03) if financed with an appropriate long-term equity mix. However, the company has financed it for now 100% with debt. Therefore, we estimate it will add about \$0.05 to our 2007 EPS forecast.
- Some new equity will likely be required during 2007, though our estimate excludes any for now. Moreover, we think the Turks asset modestly increases the company risk profile. Therefore, despite the strategic fit and upward earnings revision, we are not changing our price target.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis announced it has acquired electric utilities in the Turks and Caicos Islands. The acquisition price is US\$90 million including US\$20 million of assumed debt. The utility has 35 MW of diesel-fired generation and serves 7,500 customers mostly on Providenciales. Fortis used its credit facilities to complete the transaction.

Good Strategic Fit

The company's expertise in operating electrical utilities in the Caribbean positions it as the logical owner of these assets. Fortis already owns the electrical transmission and distribution utility in Belize. It also owns a 38% interest in Caribbean Utilities on Grand Cayman Island.

From a strategic standpoint, therefore, the acquisition makes sense – scale in the region can help improve operations, contain customer rates and reduce the duration and magnitude of any hurricane impacts. In fact, we see further opportunities for consolidation in the region as Mirant (MIR – NYSE, Not Rated) has announced it plans to sell its utility assets on several islands including Jamaica, Bahamas and Trinidad.

We have reviewed the Mirant assets and think the Bahamian assets may be a good fit for Fortis. The Jamaican assets are by far the largest in the package, but available financial information suggests earnings have been depressed and inconsistent. We have no financial information on the Bahamian assets but Mirant's disclosure suggests that its 55% of the utility might be slightly larger than the Turks assets. The Grand Bahama Power Company has 151 MW of generation and serves 19,000 customers.

The Turks asset fits the Fortis growth profile as well as its geographic footprint. We understand electricity sales on the island have increased at an annual average rate of 15% over the past five years. Changes in the development pattern on the island – from small accommodations to large luxury hotels – should continue driving growth in the future.

Modest But Positive Earnings Accretion

The deal parameters and key facts driving earnings impacts can be summarized as follows:

- The Turks and Caicos utility operates under a 17.5% allowed return on assets (pre and post tax).
- The regulated asset base is about US\$50 million.
- Therefore, the total return on capital is about $17.5\% \times \text{US\$50m} = \text{US\$8.75m}$. Subtracting interest on the US\$20 mln debt derives earnings of about US\$7.0 million.
- Fortis paid US\$70 million for the equity or about 2.0x book value and 10x earnings.

The earnings accretion from the deal is modest (\$0.02 - \$0.03) if financed with an appropriate long-term equity mix. However, the company has financed it for now 100% with debt. Therefore, we estimate it will add about \$0.05 to our 2007 EPS forecast.

Offsetting Considerations – Hurricane Risk and Equity Issuance

The Turks assets, like all Caribbean assets, could be impacted for extended periods by hurricanes. The company has business interruption insurance, but we believe that a significant hurricane could nevertheless depress earnings and

result in cash costs for rebuilding transmission and distribution networks. We understand the poles are mostly constructed of wood – like they are in Belize – and are therefore more vulnerable to damage than the concrete polls used on Grand Cayman.

For valuation purposes, the increased risk profile offsets incremental earnings to some extent. The high allowed return on assets drives earnings accretion. But at the same time, we believe it is important to bear in mind that the high return is there to compensate for a real risk. If there were less weather risk associated with the assets, the return and earnings accretion would be lower.

We also consider the appropriate long-term financing mix for the acquisition in our valuation. The Turks utility assets should probably be financed with at least 50% equity. In fact, our models show that Fortis Corporation as a whole will be pushing its maximum 70% debt+pref ratio with this deal. Therefore, some new equity will likely be required during 2007, though our estimate excludes any for now.

In summary, we see the acquisition as modestly positive for the stock, largely for strategic reasons with the potential for added growth and other acquisition announcements in the Caribbean near-term. However, since we think the Turks asset modestly increases the company risk profile, we are not changing our \$25 target price.

Price Target Calculation

Our \$25 target price is based on a 17.9x multiple of our 2007 EPS forecast of \$1.40. It also implies a 2.9% dividend yield. The target P/E multiple is found at the higher end of the stock's historical trading range (10x-20x) but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1-2x earnings multiple point discount to the Canadian utilities group but is now trading at a premium to the Canadian utility group and may continue to do so given its superior near-term growth profile.

Key Risks to Price Target

Fortis could fall short of our 2006 and 2007 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.32A	\$0.30A	\$0.32A	\$0.22A	\$1.16A
2006 Current	\$0.35A	\$0.33A	\$0.31E	\$0.26E	\$1.25E
2007 Prior	--	--	--	--	\$1.35E
2007 Current	--	--	--	--	\$1.40E

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Stock Prices as of 08/28/2006:

Fortis Inc. (2g, 7) (FTS-TSX, \$23.76, Sector Performer)

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- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
09/16/2003	▲●	13.94	SU	15.00	Matthew Akman
10/24/2003	▲●	14.19	SO	15.50	Matthew Akman
11/13/2003	▲	14.88	SO	16.25	Matthew Akman
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 28 Aug 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	317	40.2%	Sector Outperformer (Buy)	167	52.7%
Sector Performer (Hold/Neutral)	384	48.7%	Sector Performer (Hold/Neutral)	183	47.7%
Sector Underperformer (Sell)	60	7.6%	Sector Underperformer (Sell)	28	46.7%
Restricted	19	2.4%	Restricted	18	94.7%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 28 Aug 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	20.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	8	80.0%	Sector Performer (Hold/Neutral)	4	50.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, DUK, EEP, EMA, ENB, FTS, RRI, TA, TRP.

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November 1, 2006

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$26.00
FTS-TSX (10/31/06) \$25.65

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$20.36-\$25.65
Shares Outstanding 103.6M
Float 103.3M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,658.5M
Dividend/Div Yield \$0.76 / 3.0%
Fiscal Year Ends December
Book Value \$13.51 per Shr
2006 ROE (E) 10.6%
LT Debt \$2.2B
Preferred \$319.49M
Common Equity \$1.4B
Convertible Available No

Earnings per Share	Prev	Current
2005		\$1.16A
2006	\$1.25E	\$1.35E
2007	\$1.40E	\$1.45E

P/E		
2005		22.1x
2006	20.5x	19.0x
2007	18.3x	17.7x

Dividends per Share	
2004	\$0.54
2005	\$0.59
2006E	\$0.67

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Cost Cutting Paces Strong Q3 Results

- Fortis reported normalized Q3/06 EPS of \$0.37 vs. our estimate of \$0.31 and \$0.32 in Q3/05. Operating cost reductions and lower income tax rates drove most of the upside surprise. Cost savings appear sustainable, so we are raising our 2006 and 2007 EPS estimates.
- The company's tax rate in Q3 was about 14% vs. 30% previously. Most of the reduction relates to a change to the taxes payable method of accounting in Alberta. Essentially, the company converted cash future income taxes to earnings.
- Operating cost reductions at the regulated Western Canadian and Ontario utilities compounded the positive tax benefits. We believe that the company will continue earning a premium to allowed ROEs at least through 2007.
- We are raising our 2007 EPS forecast from \$1.40 to \$1.45. Our price target of \$26 (previously \$25) is based on a sector-average 18x multiple. This valuation balances premium growth against the company's relatively low balance-sheet equity ratio.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis reported normalized Q3/06 EPS of \$0.37 vs. our estimate of \$0.31 and \$0.32 in Q3/05. Operating cost reductions and lower income tax rates drove most of the upside surprise. Cost savings appear sustainable, so we are raising our 2006 and 2007 EPS estimates.

For a full breakdown and analysis of earnings by segment, please see the appendix to this comment.

Lower Tax Rate May Overstate Growth This Year

Fortis booked a 14% tax rate for accounting purposes in the quarter, but it is running at a 33% rate for the full year so far. Earnings would have been in line with our estimate had the company booked a more historically normal tax rate. This development begs the question of whether earnings are improved due to fundamental business growth or just due to tax planning.

The answer to this question requires a closer examination of the Fortis Alberta earnings, where income taxes were actually negative in the quarter despite reporting strong pre-tax profits. The reduction at Alberta relates to a switch to the taxes payable method of accounting in Alberta. Last year in the first nine months, Fortis Alberta reported about \$8.7 million in future income taxes that did not show up in earnings but did boost cash flow. This year, the company essentially converted that cash future income taxes to earnings.

In the sense that Fortis Alberta has merely converted cash flow to earnings, nothing has changed in the business relative to last year. In fact, revenues are down at Fortis Alberta on a year-over-year basis (up slightly after adjusting for some unusual items).

Other evidence on the Fortis consolidated cash-flow statement also suggests that improvements in business fundamentals are limited this year. Cash flow for the first nine months of the year is actually down, even before non-cash operating working capital. We believe that this situation is somewhat temporary, in that cash flows should begin growing again soon with new, regulated investments. We are merely pointing out that the earnings growth in 2006 probably overstates the extent of improved business fundamentals this year.

Capital Investments and Cost Cuts Paying Off

There is little doubt that growth is still present in the company, though, even absent the lower tax rates. Investments in Alberta and British Columbia regulated utilities are paying off with a high degree of certainty. Also, hydroelectric revenues in Belize have risen with added capacity.

The company's cost-cutting efforts are even more impressive. Operating cost reductions at the regulated Western Canadian and Ontario utilities compounded the positive tax benefits and were achieved in an environment of significant labour cost escalation. As a result, we believe that the company will continue earning a premium to allowed ROEs at least through 2007.

The growth from both lower taxes and improved operations drives our upward EPS revisions. We are raising our 2006 EPS forecast from \$1.25 to \$1.35 and our 2007 EPS forecast from \$1.40 to \$1.45. Fortis has continued achieving premium growth despite relatively low Ontario power prices that probably dampened earnings by about \$0.05.

Valuation – Premium Growth vs. Relatively High Debt

Our price target on Fortis considers not only the premium growth and strong management team, but also the relatively high level of debt and debt equivalents and potential loss of earnings from Ontario power assets. The growth rates are impressive and are a testament to the company's deep and accomplished team. We believe that the company is positioned for success in future growth through organic means and acquisitions.

On the other hand, the company has about 31% common equity on the balance sheet while most of the other Canadian pipeline and utility companies now carry at least 40% common equity. It will also lose about \$0.10 in EPS in 2009, when a lease on Ontario hydroelectric assets (Ranking Dam) runs out.

Therefore, our target price of \$26 (previously \$25) is based on a sector-average 18x multiple. This valuation balances premium growth against the company's relatively low balance sheet equity ratio. The target justifies our Sector Performer rating on the stock.

Appendix: Summary of Q3'06 Results

Exhibit 1. Segmented Earnings for Fortis (financials in C\$ millions)

	Q3/06A	Q3/05A	2006E	2005A
Newfoundland Power	\$2.6	\$3.4	\$28.9	\$29.4
Maritime Electric	\$3.1	\$3.0	\$9.5	\$9.1
FortisAlberta & FortisBC	\$18.0	\$13.9	\$63.6	\$53.7
FortisOntario	\$1.6	\$0.5	\$3.5	\$2.7
Belize Electricity	\$3.8	\$3.2	\$11.1	\$7.9
Caribbean Utilities	\$3.2	\$3.0	\$8.5	\$11.4
Turks & Caicos	\$0.7	-	\$2.2	-
Fortis Generation	\$7.1	\$7.8	\$28.2	\$21.6
Fortis Properties	\$6.3	\$4.9	\$18.0	\$14.1
Corporate	(\$8.3)	(\$7.0)	(\$33.6)	(\$32.4)
Operating Earnings for Common	\$38.1	\$32.8	\$139.9	\$117.6
Unusual Items	\$0.7	\$4.7	\$4.6	\$19.4
Reported Earnings	\$38.8	\$37.5	\$144.5	\$137.0
Average Shares Outstanding (mln)	103.4	103.0	103.5	101.6
Operating EPS	\$0.37	\$0.32	\$1.35	\$1.16
Reported EPS	\$0.38	\$0.36	\$1.40	\$1.35

Note:

1. Unusual item in Q3/06 includes a \$0.7 million gain from insurance proceeds on NY Hydro asset. Other unusual items in 2006 include a \$1.6 million after-tax gain on the sale of Days Inn Sydney, a \$1.6 million unrealized FX gain and a \$0.7 million after-tax gain on insurance.
2. Unusual items in 2005 include \$8.6 million positive adjustment for tax-related matters at Fortis Alberta, and Cornwall Electric, \$1.4 million interest recovery from Newfoundland Power's tax settlement, \$2 million non-cash foreign exchange gain, and \$0.5 million restructuring charge in Corporate costs.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$2.6 million in Q3/06 versus \$3.4 million in Q3/05. This decrease was mainly due to higher energy supply costs, partially offset by increased earnings from the change to an accrual basis of revenue recognition (initiated in January 2006). The impact of this change was \$0.2 million in the quarter.

Maritime Electric

Earnings for Maritime Electric in the third quarter of 2006 were essentially flat compared to Q3/05. Revenues were higher from a basic electricity rate increase, offset by increased amortization costs and higher finance charges associated with the company's capital expenditure program.

FortisOntario

Normalized earnings for FortisOntario in the third quarter were \$1.1 million higher than Q3/05. Earnings improved mainly due to higher electricity rates, which came into effect May 2006 and lower operating expenses.

FortisAlberta

Third-quarter results were \$3.0 million higher than for the same period in 2005. Lower effective corporate income taxes and an increase in energy deliveries were partially offset by a 1.9 percent decrease in distribution rates, higher operating expenses, amortization costs and finance charges.

FortisBC

FortisBC reported third quarter earnings of \$5.7 million, \$1.1 million higher than in Q3/05. Improved earnings primarily came from an increase in electricity rates, higher electricity sales and lower operating expenses. This was partially offset by higher energy supply costs (due to new PBR mechanism), increased amortization and finance costs.

Regulated Utilities – Caribbean

Q3/06 earnings for Belize Electricity were up \$0.6 million from the same period in 2005, mainly due to higher electricity sales and lower finance charges.

Fortis Generation

Third quarter normalized earnings from Fortis Generation were essentially flat compared to Q3/05. Higher energy sales in Belize and lower effective corporate income taxes were offset by lower realized energy prices in Ontario.

Fortis Properties

Earnings were \$1.4 million higher versus Q3/05 mainly due to the contribution of expansions in Holiday Inn Sarnia, Kitchener-Waterloo and Blue Cross Centre as well as lower effective corporate income taxes.

Turks and Caicos Utilities

Fortis acquired the utilities on August 28, 2006 and earnings from the utilities were immediately accretive to earnings.

Corporate

Corporate expenses were higher year-over-year mainly due to decreased unrealized foreign exchange gains, increased finance charges and higher operating expenses, partially offset by higher corporate income tax recovery.

Price Target Calculation

Our \$26 target price is based on a 17.9x multiple of our 2007 EPS forecast of \$1.45. It also implies a 2.9% dividend yield. The target P/E multiple is found at the higher end of the stock's historical trading range (10x-20x) but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1-2x earnings multiple point discount to the Canadian utilities group but is now trading at a premium to the Canadian utility group and may continue to do so given its superior near-term growth profile.

Key Risks to Price Target

Fortis could fall short of our 2006 and 2007 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.32A	\$0.30A	\$0.32A	\$0.22A	\$1.16A
2006 Prior	\$0.35A	\$0.33A	\$0.31E	\$0.26E	\$1.25E
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.31E	\$1.35E
2007 Prior	--	--	--	--	\$1.40E
2007 Current	--	--	--	--	\$1.45E

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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/13/2003	▲	14.88	SO	16.25	Matthew Akman
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲ ●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 31 Oct 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	317	38.9%	Sector Outperformer (Buy)	161	50.8%
Sector Performer (Hold/Neutral)	398	48.8%	Sector Performer (Hold/Neutral)	199	50.0%
Sector Underperformer (Sell)	69	8.5%	Sector Underperformer (Sell)	32	46.4%
Restricted	20	2.5%	Restricted	18	90.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 31 Oct 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	20.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	7	70.0%	Sector Performer (Hold/Neutral)	4	57.1%
Sector Underperformer (Sell)	1	10.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, DUK, EEP, EMA, ENB, FTS, RRI, TA, TRP.

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November 27, 2006

Stock Rating:
Sector Underperformer

Sector Weighting:
Market Weight

12-18 mo. Price Target \$26.00
FTS-TSX (11/24/06) \$28.19

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$20.36-\$28.58
Shares Outstanding 103.6M
Float 103.3M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,921.8M
Dividend/Div Yield \$0.76 / 2.7%
Fiscal Year Ends December
Book Value \$12.54 per Shr
2006 ROE (E) 10.6%
LT Debt \$2.3B
Preferred \$442.00M
Common Equity \$1.3B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.35E
2007		\$1.45E
2008		\$1.50E

P/E	
2006	20.9x
2007	19.4x
2008	18.8x

Dividends Per Share	
2004	\$0.54A
2005	\$0.59A
2006	\$0.67E
2007	\$0.78E

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Pace Of Earnings Growth Unsustainable

- Fortis shares have achieved premium valuation as EPS growth has recently exceeded expectations. We see growth and valuation at current levels as unsustainable so are downgrading our rating to Sector Underperformer from Sector Performer, effective November 27.
- Actions that have caused upside earnings surprises this year have driven the stock but may not create long-term value. EPS growth has come from utilities earning in excess of allowed ROEs, financing acquisitions with debt equivalents, and reducing reliance on Canadian regulated assets.
- With Fortis shares trading at all-time highs, we see major acquisition activity as a near-term risk to the stock. Given the company's relatively thin balance sheet equity ratio, a significant acquisition would likely require large equity issuance and could pressure credit ratings.
- Fortis used to trade at a discount to the pipeline and utilities group due to Caribbean and unregulated exposure. This discount could re-emerge as the business mix is again moving away from regulated Canadian utilities.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Conclusion

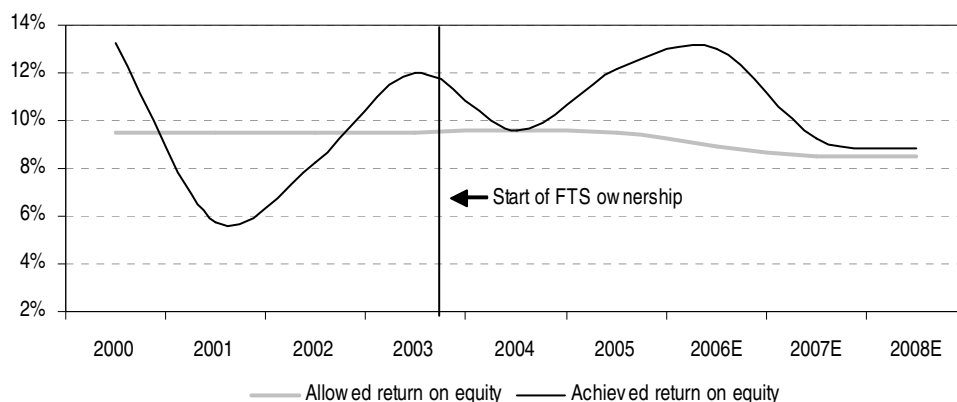
Good things happen to good companies so with Fortis (FTS-SU) shares outperforming the market and peer group this year, the temptation is to call business as usual and leave it at that. As in anything that seems too good to be true though, a reality check sometimes turns up surprises. Fortis is still a good company, but a more in-depth analysis of its financial position indicates recent earnings may overstate the sustainable growth rate. Or, sustaining current growth may require taking on more risky assets and making large acquisitions that could create an oversupply of equity, sending the shares lower near term. Given these views, we are maintaining our \$26.00 price target but downgrading our rating to Sector Underperformer from Sector Performer, effective November 27.

Composition Of 2006 Growth Reveals Concerns

Actions that have caused upside earnings surprises this year have driven the stock but may not create long-term value. Growth is coming primarily from three different areas:

1. **EPS growth has come from utilities earning in excess of allowed returns on equity (ROE).** In particular, Fortis Alberta appears to be generating earnings well above the regulated return. For the first nine months of the year, the subsidiary reported earnings of \$33 million. Yet, in a rates filing from December 12, 2005, the company showed that the 8.93% allowed ROE on a normal 37% equity ratio would only generate \$25.2 million for the full year. Our model suggests the company is tracking toward a 13% achieved ROE this year. The difference between the allowed ROE and achieved ROE is worth about \$0.11 in EPS this year. While some part of the improved ROE likely comes from the company's outstanding efforts in containing costs, we believe that much of it comes from tax planning outside the regulated utility construct. Either way, we do not believe achieving such premiums to the allowed return is sustainable. In 2007 or 2008 at the latest, we believe the Alberta customers and regulator will seek to adjust rates reflecting actual costs and causing downward pressure on the achieved returns. It is harder to know when corporate tax planning measures will expire, but difficult to imagine such initiatives could add several hundred basis points to achieved ROEs on an ongoing basis.

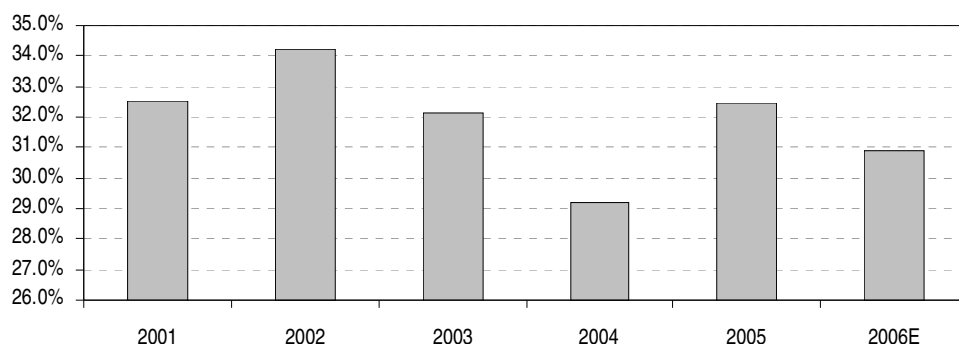
Exhibit 1. Allowed And Achieved ROEs At Fortis Alberta



Source: Company reports and CIBC World Markets Inc.

2. **Acquisitions have been financed with debt equivalents, causing EPS accretion at the expense of the company's balance sheet equity ratio.** In recent months, Fortis has made three acquisitions. It acquired a 100% interest in the Turks and Caicos electric utility for US\$90 million, a 100% interest in four Western Canadian hotels for \$51.6 million, and an additional 16% of Caribbean Utilities (CUP.U-TSX) for about \$56 million. In financing these acquisitions, the company issued \$125 million of preference shares and US\$40 million of subordinated convertible debentures. Our modeling shows the company's equity ratio having moved down this year by about 200 basis points to below 31% — the thinnest equity ratio in the peer group by a significant margin. With allowed equity ratios in the Western Canadian utilities of 36% in Alberta and 40% in B.C., we had anticipated the balance sheet would continue the strengthening trend it began last year. However, events of this year have reversed course.

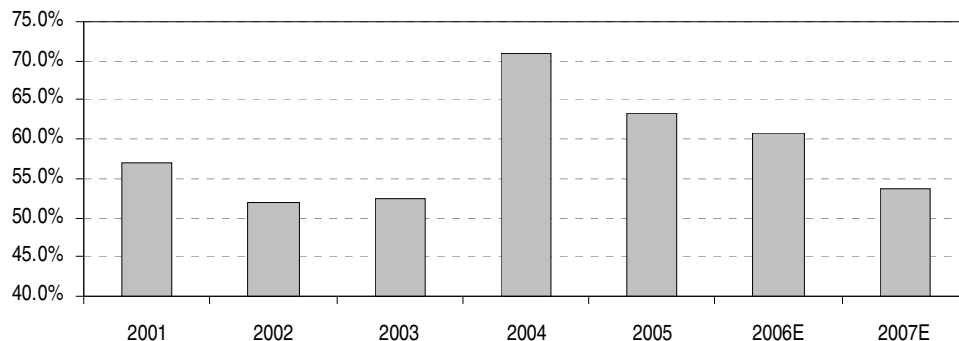
Exhibit 2. Equity Ratio Of Fortis From 2001–2006



Source: Company reports and CIBC World Markets Inc.

3. **The proportion of Canadian regulated assets in the business mix is declining again.** Having spent two years building up its reliance on relatively low-risk Canadian regulated utility assets, Fortis is now moving back away from this business mix. Between 2002 and 2004, Fortis managed to boost its proportion of Canadian regulated utility earnings from 52% to 71%. This year, regulated returns on Canadian assets are declining while the company has acquired additional stakes in Caribbean and unregulated assets. As a result, we forecast that Canadian regulated utilities will make up only 54% of total earnings by 2007.

Exhibit 3. Percentage Of Total Earnings Contribution From Canadian Regulated Utilities



Source: Company reports and CIBC World Markets Inc.

Premium Valuation May Be At Risk

Fortis used to trade at a discount and now trades at a premium to its peer group. The management performance at Fortis justifies a premium, having achieved superior growth over time in earnings and dividends. The valuation is at risk, in our view, not because of management but because of relative balance sheet weakness and recent deterioration in the quality of its asset mix.

Earnings multiple comparisons, particularly those based on basic earnings per share, do not fully highlight the extent of premium on Fortis shares. The stock is trading at about 19.5x our 2007 EPS estimate versus a group average of about 19.0x. But the common equity ratio at Fortis is only about 30% versus a group average of about 45%. The gap in balance sheet strength has two important implications:

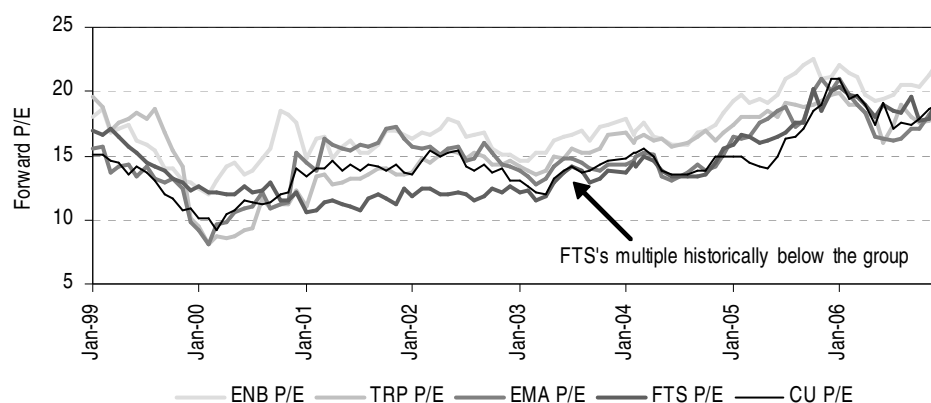
1. **The company trades at a significant EV/EBITDA premium to its comparable peers.** We calculate the multiple on Fortis at around 10.8x versus around 9.0x for most of the other Canadian pipelines and utilities (Enbridge (ENB-SP) is the notable exception trading over 11.0x EBITDA).
2. **With significant debt equivalents on its balance sheet, Fortis has a material gap between basic and diluted earnings per share.** For the first nine months of 2006, the difference was \$0.04 in EPS when the preference shares and convertible debentures were included in the fully diluted calculation. The gap between basic and fully diluted earnings will likely grow next year as the company issued additional convertible debentures during the fourth quarter. Since we do not believe the preference shares or convertible debentures will be converted, we use a basic EPS calculation in deriving our estimates. However, we acknowledge that when using basic EPS estimates, the P/E multiple on the stock should be discounted somewhat due to a relatively weak balance sheet.

While valuation metrics are expanding, a trend is emerging back to a more heavy reliance on earnings from Caribbean utility assets and unregulated businesses. In late 2003, when Fortis acquired regulated electrical utility in Western Canada, we argued the stock would probably see expansion in valuation metrics due to an improvement in its asset mix. Indeed, the company used this argument as a rationale for the acquisition, despite its anticipated near-term earnings dilution.

The company delivered on its promise to reduce its risk profile, and in 2004, Canadian regulated assets delivered over 70% of total company earnings. Recent acquisitions of Caribbean assets and real estate assets, combined with new investments in Caribbean hydroelectric generation, have again altered the company's profile but this time in the reverse. We now anticipate Canadian regulated assets will only deliver 54% of total earnings in 2007 (see Exhibit 3 for model details).

Fortis shares used to trade at a discount to the pipeline and utilities group due to Caribbean and unregulated exposure. From the late 1990s until the acquisition of Western Canadian assets in late 2003, the stock tended to trade at a 2.0-point P/E multiple discount. It now trades at a slight P/E premium. The P/E multiple discount could re-emerge as the business mix is again moving away from relatively low-risk assets.

Exhibit 4. Fortis P/E Multiple Compared To Canadian Utility Group



Source: Company reports and CIBC World Markets Inc.

Acquisition Targets Back In Focus

Fortis has grown successfully through acquisition as much or more than any other Canadian utility company. It has succeeded more than most in creating value through acquisitions as well. Now that the Western Canadian utility assets have been fully integrated, we believe management will be actively seeking targets.

With a presence now in Western Canada, a move into the Pacific Northwest of the U.S. is logical for Fortis. There are several publicly traded electrical and gas utilities in the region, many of which have performed poorly over the years and could ultimately benefit from the proven Fortis utility operating model.

Most of the companies trade at a P/E discount to Fortis (around 16x–17x 2007 consensus EPS) so it may be possible for Fortis to pay a premium and still achieve modest accretion. None of the transactions would be small for Fortis, however, as most electrical utilities in the Pacific Northwest sit at about two-thirds of Fortis' \$3.0 billion market capitalization.

Exhibit 5. Comparative Valuation Of Fortis Versus Pacific Northwest Utilities

Company	Ticker	Price 11/24/06	Mkt. Cap. (\$ mlns.)	EPS			P/E Ratios			Dividend		Book Value	EV/EBITDA		Price/ Book	ROE 2006E	Equity Ratio
				2005	2006E	2007E	2005	2006E	2007E	Rate	Yield		2006E	2007E			
Fortis And Northwest Utilities																	
Fortis	FTS	\$28.19	\$2,920.5	\$1.16	\$1.35	\$1.45	24.3	20.9	19.4	\$0.67	2.4%	\$12.38	10.8	10.3	2.1	10.0%	30.9%
Avista Corporation	AVA	\$27.21	\$1,339.9	\$0.92	\$1.45	\$1.52	29.6	18.8	17.9	\$0.58	2.1%	\$16.62	8.7	8.3	1.6	8.7%	43.4%
Idaho Power Company	IDA	\$39.75	\$1,696.5	\$1.62	\$2.33	\$2.33	24.5	17.1	17.1	\$1.20	3.0%	\$25.46	9.4	9.1	1.6	9.2%	50.6%
Northwestern Corp	NWEC	\$35.80	\$1,270.9	\$1.37	\$1.65	-	26.1	21.7	-	\$1.24	3.5%	\$20.89	-	-	1.7	7.9%	51.4%
Portland General Electric Co.	POR	\$27.85	\$1,740.6	-	\$1.01	\$1.72	-	27.6	16.2	\$0.90	3.2%	\$19.17	7.4	6.4	1.5	5.3%	54.4%
Puget Sound Energy Inc.	PSD	\$24.14	\$2,809.9	\$1.42	\$1.48	\$1.63	17.0	16.3	14.8	\$1.00	4.1%	\$17.83	8.0	7.2	1.4	8.3%	41.5%
Cascade Natural Gas	CGC	\$25.96	\$293.1	-	\$1.12	\$1.17	-	23.3	22.2	\$0.96	3.7%	\$10.50	10.0	8.5	2.5	10.6%	38.9%
Northwest Natural Gas	NWN	\$40.19	\$1,105.2	\$2.16	\$2.21	\$2.37	18.6	18.2	16.9	\$1.42	3.5%	\$21.54	8.7	8.4	1.9	10.3%	48.7%
Average							23.4	20.5	17.8		3.2%		9.0	8.3	1.8	8.8%	45.9%

Figures for Fortis are in C\$, all others are in US\$.

Estimates for Fortis are CIBC World Markets. All other companies are based on estimates from First Call and Bloomberg.

Source: Company reports and CIBC World Markets Inc.

BC Gas is the only sizable utility we know of in Canada that may be for sale. Owner Kinder Morgan (KMI-NYSE) may not see the utility as a fit with its business mix or growth and return profile. BC Gas has one of the lowest allowed ROEs in the country (likely heading down to about 8.3% next year) and a thin 35% equity ratio. The two B.C. gas utilities would form a sizable acquisition for any company including Fortis. On a combined basis, the Vancouver mainland and Island facilities have about \$1.0 billion in regulated equity.

While Fortis has an outstanding track record of integrating acquired assets, we still see the potential for a major acquisition as a near-term risk to the stock. Given the company's relatively thin balance sheet equity ratio, a significant acquisition would likely require large equity issuance and could pressure credit ratings.

Back Off Shares For Now

Questionable earnings sustainability, relative balance sheet weakness and a deteriorating risk profile are all good reasons to back off of Fortis shares. Not to overstate the issues — we see no crisis at the company — just valuation that doesn't make much sense any more. In simple terms, if regulated Canadian electrical utility assets are the best part of Fortis and make up only 54% of total earnings, how can its stock sustain a 2-point EBITDA multiple premium to other more pure play regulated Canadian pipelines and utilities?

Management and track record should and do count for something, but in the end, adding more value often involves taking more risk. Fortis rolled the dice and won in 2003 on the Western utility assets. Now it is betting on Caribbean acquisitions. From current levels, there is probably more downside than upside in that bet. An acquisition of other regulated utility assets may again alter course, but with the need for significant new equity to finance utility acquisitions, the tide may again turn from a seller's to a buyer's market in Fortis shares.

Price Target Calculation

Our \$26.00 price target is based on a 17.9x multiple of our 2007 EPS estimate of \$1.45. It also implies a 2.9% dividend yield. The target P/E multiple is found at the higher end of the stock's historical trading range (10x–20x) but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1x–2x earnings multiple-point discount to the Canadian utilities group but is now trading at a premium to the Canadian utility group.

Key Risks To Price Target

Fortis could fall short of our 2006 and 2007 earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Appendix:

Exhibit 6. Segmented Earnings Contribution And EPS Estimates (\$ mlns., except per share)

Years Ending December 31	2001	2002	2003	2004	2005	Q1/06	Q2/06	Q3/06	Q4/06E	2006E	2007E	2008E
Newfoundland Power	\$28.9	\$28.8	\$29.5	\$31.1	\$29.4	\$10.7	\$8.0	\$2.6	\$7.7	\$28.9	\$27.0	\$26.1
Alberta & BC Utilities				\$36.2	\$53.7	\$21.3	\$14.7	\$18.0	\$9.0	\$63.1	\$61.7	\$68.0
Maritime Electric	\$6.1	\$6.6	\$7.2	\$8.2	\$9.1	\$2.1	\$2.2	\$3.1	\$2.1	\$9.5	\$9.5	\$9.5
Fortis Ontario (CNP & Cornwall)	\$5.3	\$9.3	\$6.5	\$4.3	\$2.7	\$1.0	\$0.5	\$1.6	\$0.4	\$3.5	\$3.8	\$4.0
Belize Electricity	\$6.5	\$6.9	\$6.7	\$7.2	\$7.9	\$1.5	\$2.3	\$3.8	\$3.4	\$11.1	\$11.6	\$12.2
BECOL	\$6.7	\$4.6										
Fortis Generation			\$10.9	\$12.8	\$21.6	\$5.4	\$6.0	\$7.1	\$9.7	\$28.2	\$29.5	\$29.6
Caribbean Utilities	\$4.1	\$5.0	\$10.5	\$0.8	\$11.4	\$1.6	\$2.1	\$3.2	\$1.6	\$8.5	\$14.7	\$14.7
Turks & Caicos								\$0.7	\$1.5	\$2.2	\$10.0	\$10.0
Fortis Properties	\$6.1	\$9.3	\$11.0	\$11.8	\$14.1	\$1.5	\$6.5	\$6.3	\$3.7	\$18.0	\$22.0	\$22.0
Corporate	(\$13.8)	(\$7.3)	(\$8.6)	(\$21.5)	(\$32.4)	(\$8.5)	(\$8.3)	(\$8.3)	(\$8.5)	(\$33.6)	(\$40.0)	(\$40.0)
Operating Earnings For Common Shares	\$49.9	\$63.2	\$73.6	\$90.8	\$117.6	\$36.6	\$34.0	\$38.1	\$30.6	\$139.3	\$149.9	\$156.2
Unusual Items	\$3.5	\$0.0	\$0.0	\$0.0	\$19.4	\$0.0	\$3.9	\$0.7	\$0.0	\$4.6	\$0.0	\$0.0
Reported Earnings	\$53.4	\$63.2	\$73.6	\$90.8	\$137.0	\$36.6	\$37.9	\$38.8	\$30.6	\$143.9	\$149.9	\$156.2
Average Shares O/S (mlns.)	59.5	65.1	69.2	84.7	101.6	103.3	103.4	103.4	103.5	103.5	103.7	103.8
Operating Earnings Per Basic Share	\$0.84	\$0.97	\$1.06	\$1.07	\$1.16	\$0.35	\$0.33	\$0.37	\$0.31	\$1.35	\$1.45	\$1.50
Reported Earnings Per Basic Share	\$0.90	\$0.97	\$1.06	\$1.07	\$1.35	\$0.35	\$0.37	\$0.38	\$0.30	\$1.39	\$1.45	\$1.50

Source: Company reports and CIBC World Markets Inc.

Exhibit 7. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility And Power Generation Companies

Company	Ticker	Rating / Analyst	Price 11/24/06	52-Week Range		Earnings Per Share				P/E Ratios				'06E P/E Rel. To Group	Dividend		Payout 2006E	Price Target	Total Return
				High	Low	2004	2005	2006E	2007E	2004	2005	2006E	2007E		Rate	Yield			
Canadian Pipelines																			
Enbridge Inc.	ENB	SP / MA	\$39.75	\$40.31	\$31.75	\$1.47	\$1.59	\$1.75	\$1.80	27.0	25.0	22.7	22.1	1.2	\$1.15	2.9%	65.7%	\$39.00	1.0%
TransCanada Corp.	TRP	SO / MA	\$38.79	\$39.12	\$30.77	\$1.53	\$1.75	\$1.90	\$2.10	25.4	22.2	20.4	18.5	1.0	\$1.28	3.3%	67.4%	\$41.00	9.0%
Canadian Pipelines Average										26.2	23.6	21.6	20.3			3.1%	66.5%		
U.S. Pipelines																			
Duke Energy	DUK	NR	\$31.35	\$32.11	\$26.09	\$1.28	\$1.80	\$1.81	\$1.93	24.5	17.4	17.3	16.2	0.9	\$1.28	4.1%	70.7%	-	-
El Paso	EP	NR	\$13.76	\$16.38	\$10.78	(\$1.30)	(\$1.13)	\$0.92	\$1.20	NM	NM	15.0	11.5	0.8	\$0.16	1.2%	17.4%	-	-
Kinder Morgan Inc.	KMI	NR	\$104.80	\$106.18	\$81.00	\$4.23	\$4.43	\$4.99	\$5.34	24.8	23.7	21.0	19.6	1.1	\$3.50	3.3%	70.1%	-	-
National Fuel Gas	NFG	NR	\$37.17	\$39.16	\$30.58	\$1.88	\$1.84	\$2.33	\$2.42	19.8	20.2	16.0	15.4	0.9	\$1.20	3.2%	51.5%	-	-
NiSource	NI	NR	\$23.80	\$24.05	\$19.55	\$1.63	\$1.05	\$1.33	\$1.51	14.6	22.7	17.9	15.8	1.0	\$0.92	3.9%	69.2%	-	-
Williams	WMB	NR	\$26.70	\$27.05	\$19.35	\$0.36	\$0.90	\$1.08	\$1.45	NM	29.7	24.7	18.4	1.3	\$0.36	1.3%	33.3%	-	-
U.S. Pipelines Average										20.9	22.7	18.6	16.1			3.1%	55.8%		
Canadian Utilities																			
ATCO	ACO.X	SU / MA	\$42.55	\$44.00	\$33.10	\$2.31	\$2.43	\$2.90	\$2.70	18.4	17.5	14.7	15.8	0.7	\$0.82	1.9%	28.3%	\$36.00	(13.5%)
Canadian Utilities	CU	SP / MA	\$42.81	\$46.20	\$35.15	\$2.00	\$2.03	\$2.45	\$2.20	21.4	21.1	17.5	19.5	0.9	\$1.16	2.7%	47.3%	\$40.00	(3.9%)
Caribbean Utilities (US\$)	CUP.U	NR	\$11.70	\$12.27	\$11.20	\$0.13	\$0.87	\$1.04	\$1.06	NM	13.4	11.3	11.0	0.6	\$0.66	5.6%	63.5%	-	-
Emera Inc.	EMA	SP / MA	\$22.17	\$22.30	\$17.69	\$1.22	\$0.87	\$1.20	\$1.15	18.2	25.5	18.5	19.3	0.9	\$0.89	4.0%	74.2%	\$21.00	(1.3%)
Fortis	FTS	SU / MA	\$28.19	\$28.58	\$20.36	\$1.07	\$1.16	\$1.35	\$1.45	26.3	24.3	20.9	19.4	1.1	\$0.67	2.4%	49.6%	\$26.00	(5.4%)
Gaz Metro L.P.	GZM.UN	SP / AP	\$15.74	\$22.00	\$15.30	\$1.40	\$1.33	\$1.25	\$1.26	11.2	11.8	12.6	12.5	0.6	\$1.24	7.9%	99.2%	\$16.00	9.5%
TransAlta Corp.	TA	SP / MA	\$24.20	\$26.91	\$21.88	\$0.66	\$0.81	\$1.05	\$1.25	36.7	29.9	23.0	19.4	1.2	\$1.00	4.1%	95.2%	\$26.00	11.6%
Canadian Utilities Average										22.0	20.5	16.9	16.7			4.1%	65.3%		
U.S. Utilities																			
American Electric Power	AEP	NR	\$41.53	\$41.98	\$32.27	\$2.33	\$2.73	\$2.75	\$2.88	17.8	15.2	15.1	14.4	0.9	\$1.56	3.8%	56.7%		
Consolidated Edison	ED	NR	\$47.79	\$48.88	\$41.17	\$2.33	\$3.00	\$2.86	\$3.13	20.5	15.9	16.7	15.3	1.0	\$2.30	4.8%	80.4%	-	-
Dominion Resources	D	NR	\$81.05	\$84.44	\$68.72	\$4.61	\$4.53	\$5.10	\$5.84	17.6	17.9	15.9	13.9	1.0	\$2.76	3.4%	54.1%	-	-
Exelon	EXC	NR	\$59.27	\$63.62	\$50.91	\$2.79	\$3.13	\$3.28	\$4.50	21.2	18.9	18.1	13.2	1.1	\$1.60	2.7%	48.8%	-	-
FPL Group	FPL	NR	\$52.82	\$53.45	\$37.81	\$2.46	\$2.58	\$2.90	\$3.37	21.5	20.5	18.2	15.7	1.1	\$1.50	2.8%	51.7%	-	-
PPL Corp.	PPL	NR	\$34.24	\$35.50	\$28.25	\$1.87	\$2.08	\$2.25	\$2.33	18.3	16.5	15.2	14.7	0.9	\$1.10	3.2%	48.9%	-	-
U.S. Utilities Average										19.8	17.5	16.5	14.5			3.5%	56.8%		
Merchant Generation																			
AES Corporation	AES	NR	\$23.31	\$23.22	\$15.35	\$0.59	\$0.91	\$1.07	\$1.20	39.5	25.6	21.8	19.4	1.0	\$0.00	0.0%	0.0%	-	-
Mirant Corp.	MIR	NR	\$29.08	\$30.00	\$23.36	\$0.54	\$0.28	\$1.28	\$1.66	53.5	NM	22.7	17.5	1.0	\$0.00	0.0%	0.0%	-	-
NRG Energy	NRG	NR	\$55.87	\$55.20	\$41.79	\$1.79	\$1.66	\$2.71	\$3.70	31.2	33.7	20.6	15.1	0.9	\$0.00	0.0%	0.0%	-	-
Reliant Energy	RRI	SP / MA	\$13.32	\$13.90	\$9.11	\$0.07	(\$0.45)	(\$0.33)	\$0.20	NM	NM	NM	NM	-	\$0.00	0.0%	0.0%	\$13.00	(2.4%)
Merchant Generation Average										41.4	29.6	21.7	17.3			0.0%	0.0%		

Estimates are from CIBC World Markets with the exception of those companies that are not rated. (Sources: Company reports, First Call and IBES)

Figures for Canadian companies in C\$; figures for U.S. companies in US\$.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for GZM.UN and NFG are for the period ending September 30.

SO = Sector Outperformer; SP = Sector Performer; SU = Sector Underperformer, R = Restricted and NR = Not Rated.

Source: Company reports and CIBC World Markets Inc.

Exhibit 8. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility And Power Generation Companies

	Shares O/S	Mkt. Cap.	Inst.	52-Week % Change		Cash Flow Per Share				P/CF Ratios				Book	Price/	ROE	Debt To	EV/06E
Company	(mlns.)	(\$ blns.)	Owners	High	Low	2004	2005	2006E	2007E	2004	2005	2006E	2007E	Value	Book	2006E	Cap	EBITDA
Canadian Pipelines																		
Enbridge Inc.	339.6	\$13.5	50%	(1%)	25%	\$3.08	\$3.84	\$3.47	\$3.58	12.9	10.4	11.5	11.1	\$13.06	3.0	13.8%	64.7%	11.5
TransCanada Corp.	487.9	\$18.9	45%	(1%)	26%	\$3.52	\$3.92	\$4.54	\$4.57	11.0	9.9	8.5	8.5	\$15.51	2.5	11.9%	60.1%	9.2
Canadian Pipelines Average										12.0	10.1	10.0	9.8		2.8	12.9%	62.4%	10.4
U.S. Pipelines																		
Duke Energy	1,240.0	\$38.9	67%	(2%)	20%	\$4.44	\$3.02			7.1	10.4			\$20.70	1.5	10.0%	43.3%	9.7
El Paso	693.0	\$9.5	79%	(16%)	28%	\$2.43	\$1.36			5.7	10.1			\$5.65	2.4	-	76.2%	7.4
Kinder Morgan Inc.	133.1	\$13.9	80%	(1%)	29%	\$5.26	\$4.60			19.9	22.8			\$31.53	3.3	15.9%	56.5%	11.0
National Fuel Gas	83.6	\$3.1	46%	(5%)	22%	\$4.93	\$4.62			7.9	8.0			\$16.06	2.3	13.6%	46.3%	7.2
NiSource	272.5	\$6.5	73%	(1%)	22%	\$3.90	\$3.35			6.2	7.1			\$17.88	1.3	5.9%	57.5%	8.8
Williams	596.2	\$15.9	60%	(1%)	38%	\$2.36	\$2.85			11.5	9.4			\$9.88	2.7	5.8%	55.0%	10.4
U.S. Pipelines Average										9.7	11.3				2.3	11.3%	55.8%	9.1
Canadian Utilities																		
ATCO Ltd.	59.3	\$2.5	35%	(3%)	29%	\$5.35	\$7.23	\$6.75	\$6.39	8.0	5.9	6.3	6.7	\$23.56	1.8	12.3%	49.2%	7.0
Canadian Utilities	126.3	\$5.4	15%	(7%)	22%	\$4.25	\$5.89	\$5.05	\$4.91	10.1	7.3	8.4	8.7	\$17.74	2.4	13.8%	50.6%	9.0
Caribbean Utilities (US\$)	25.2	\$0.3	2%	(5%)	4%	\$1.07	\$1.40			10.9	8.4			\$5.30	2.2	12.3%	53.9%	9.4
Emera Inc.	110.8	\$2.5	18%	(1%)	25%	\$2.72	\$2.53	\$2.94	\$3.01	8.2	8.8	7.5	7.4	\$12.45	1.8	9.6%	52.8%	8.8
Fortis Inc.	103.6	\$2.9	30%	(1%)	38%	\$3.20	\$2.99	\$3.15	\$3.37	8.8	9.4	8.9	8.4	\$12.38	2.1	10.3%	69.1%	10.8
Gaz Metro L.P.	120.4	\$1.9	25%	(28%)	3%	\$3.06	\$2.97	\$2.53	\$2.92	5.1	5.3	6.2	5.4	\$7.68	2.0	10.0%	60.8%	8.7
TransAlta Corp.	201.1	\$4.9	55%	(10%)	11%	\$3.02	\$3.32	\$3.25	\$3.57	8.0	7.3	7.4	6.8	\$12.92	1.9	8.1%	46.8%	9.0
Canadian Utilities Average										8.4	7.5	7.5	7.2		2.0	10.9%	54.1%	8.9
U.S. Utilities																		
American Electric Power	394.0	\$16.4	69%	(1%)	29%	\$5.00	\$3.73			8.4	11.1			\$23.92	1.7	11.2%	57.4%	8.2
Consolidated Edison	245.9	\$11.8	44%	(2%)	16%	\$6.54	\$4.31			7.5	11.1			\$29.99	1.6	9.3%	52.6%	9.3
Dominion Resources	349.3	\$28.3	61%	(4%)	18%	\$8.38	\$7.71			10.1	10.5			\$34.67	2.3	14.1%	57.5%	8.3
Exelon	670.0	\$39.7	68%	(7%)	16%	\$6.65	\$7.15			9.6	8.3			\$14.53	4.1	20.6%	58.3%	9.7
FPL Group	394.3	\$20.8	68%	(1%)	40%	\$7.39	\$3.93			7.2	13.4			\$23.02	2.3	13.4%	56.8%	9.6
PPL Corp.	380.1	\$13.0	59%	(4%)	21%	\$4.07	\$3.65			8.4	9.4			\$12.86	2.7	17.6%	57.4%	9.0
U.S. Utilities Average										8.5	10.6				2.5	14.4%	56.7%	9.0
Merchant Generation																		
AES Corporation	665.0	\$15.5	82%	0%	52%	\$2.43	\$3.30			9.6	NM			\$3.69	-	NM	81.7%	8.3
Mirant Corp.	300.0	\$8.7	0%	(3%)	24%	\$1.42	\$1.12			20.5	NM			\$14.82	2.0	NM	50.2%	11.2
NRG Energy	137.0	\$7.7	81%	1%	34%	\$7.41	\$0.84			7.5	NM			\$36.25	1.5	NM	56.0%	10.3
Reliant Energy	307.9	\$4.1	72%	(4%)	46%	\$0.96	(\$3.56)	\$2.24	\$2.25	13.9	NM	5.9	5.9	\$12.01	1.1	0.5%	87.9%	15.0
Merchant Generation Average										12.9					1.5	0.5%	68.9%	11.2

Estimates are from CIBC World Markets with the exception of those companies that are not rated. (Sources: Company reports, First Call and IBES)

Figures for Canadian companies in C\$; figures for U.S. companies in US\$.

For those companies not rated, ROE figures are actuals for the most recent fiscal year.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for GZM.UN, and NFG are for the period ending September 30.

Source: Company reports and CIBC World Markets Inc.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.31E	\$1.35E
2007 Current	--	--	--	--	\$1.45E
2008 Current	--	--	--	--	\$1.50E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

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Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 11/24/2006:

Atco Ltd. (7, 13) (ACO.X-TSX, \$43.48, Sector Underperformer)
Canadian Utilities Ltd. (7, 13) (CU-TSX, \$43.57, Sector Performer)
Emera Inc. (2g, 4a, 4b, 7) (EMA-TSX, \$22.15, Sector Performer)
Enbridge Inc. (2a, 2c, 2e, 2g, 7) (ENB-TSX, \$39.95, Sector Performer)
Gaz Métro Limited Partnership (2a, 2c, 2e, 2g) (GZM.UN-TSX, \$15.71, Sector Performer)
Reliant Energy Inc. (RRI-NYSE, US\$13.41, Sector Performer)
TransAlta Corporation (2a, 2c, 2e, 2g, 7, 9) (TA-TSX, \$24.65, Sector Performer)
TransCanada Corp. (7) (TRP-TSX, \$38.74, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 11/24/2006:

AES Corp (AES-NYSE, US\$23.35, Not Rated)
American Electric Power (AEP-NYSE, US\$41.60, Not Rated)
Avista Corp (AVA-NYSE, US\$27.27, Not Rated)
Caribbean Utilities Company Ltd. (CUP.U-TSX, \$11.85, Not Rated)
Cascade Natural Gas (CGC-NYSE, US\$25.90, Not Rated)
Consolidated Edison (ED-NYSE, US\$47.85, Not Rated)
Dominion Resources (D-NYSE, US\$81.00, Not Rated)
Duke Energy (DUK-NYSE, US\$31.33, Not Rated)
El Paso Corp. (EP-NYSE, US\$13.69, Not Rated)
Exelon (EXC-NYSE, US\$59.65, Not Rated)
FPL Group Inc. (FPL-NYSE, US\$52.81, Not Rated)
Idacorp. Inc (IDA-NYSE, US\$39.85, Not Rated)
Kinder Morgan, Inc. (KMI-NYSE, US\$104.82, Not Rated)
Mirant Corp. (MIR-NYSE, US\$29.38, Not Rated)
National Fuel Gas (NFG-NYSE, US\$37.13, Not Rated)
Nisource (NI-NYSE, US\$23.88, Not Rated)
Northwest Natural Gas (NWN-NYSE, US\$40.37, Not Rated)
NorthWestern Energy (NWEK-NASDAQ, US\$35.76, Not Rated)
NRG Energy (NRG-NYSE, US\$55.70, Not Rated)
Portland General Electric Company (POR-NYSE, US\$28.16, Not Rated)
PPL Corporation (PPL-NYSE, US\$35.10, Not Rated)
Puget Energy Inc. (PSD-NYSE, US\$24.26, Not Rated)
Williams Cos Inc. (WMB-NYSE, US\$26.61, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲ ●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 24 Nov 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	322	39.2%	Sector Outperformer (Buy)	164	50.9%
Sector Performer (Hold/Neutral)	399	48.5%	Sector Performer (Hold/Neutral)	193	48.4%
Sector Underperformer (Sell)	71	8.6%	Sector Underperformer (Sell)	32	45.1%
Restricted	17	2.1%	Restricted	15	88.2%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 24 Nov 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	1	11.1%	Sector Outperformer (Buy)	0	0.0%
Sector Performer (Hold/Neutral)	6	66.7%	Sector Performer (Hold/Neutral)	3	50.0%
Sector Underperformer (Sell)	2	22.2%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EEP, EMA, ENB, FTS, RRI, TA, TRP.

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January 18, 2007

Stock Rating:

Sector Underperformer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$27.00
FTS-TSX (1/17/07) \$28.06

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$20.36-\$30.00
Shares Outstanding 108.8M
Float 108.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$3,052.9M
Dividend/Div Yield \$0.76 / 2.7%
Fiscal Year Ends December
Book Value \$13.25 per Shr
2007 ROE (E) 10.6%
LT Debt \$2.3B
Preferred \$442.00M
Common Equity \$1.5B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.35E
2007	\$1.45E	\$1.40E
2008		\$1.50E

P/E		
2006		20.8x
2007	19.4x	20.0x
2008		18.7x

Dividends Per Share

2004	\$0.54A
2005	\$0.59A
2006	\$0.67A
2007	\$0.78E

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Reinstating Coverage Following Research Restriction

- We are reinstating our Sector Underperformer rating on Fortis following a research restriction. The company recently issued \$150 million of common equity to finance recent acquisitions and organic growth in its Western Canadian electrical utilities.
- The equity issue will likely dilute 2007E EPS by about \$0.04 assuming the company uses proceeds to pay down debt. We are reducing our 2007E EPS from \$1.45 to \$1.40.
- However, we are increasing our price target from \$26.00 to \$27.00 as we now base our price targets on 2008 estimates for all of the stocks under our coverage universe. Our 2008E EPS is \$1.50.
- Our rating on Fortis is partially based on our company view (see full report dated November 27, 2006) but mostly based on our sector view that the Canadian utility stocks are now overvalued. For more details on our valuation analysis, please see our full report dated January 8, 2007.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Price Target Calculation

Our \$27.00 price target is primarily based on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The price target implies an EV/EBITDA multiple of about 10.4x and an 18.0x multiple of our 2008E EPS. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1x–2x earnings multiple point discount to the Canadian utilities group but now trades at a premium to the Canadian utility group.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.31E	\$1.35E
2007 Prior	--	--	--	--	\$1.45E
2007 Current	--	--	--	--	\$1.40E
2008 Current	--	--	--	--	\$1.50E

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Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲ ●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 18 Jan 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	316	37.6%	Sector Outperformer (Buy)	168	53.2%
Sector Performer (Hold/Neutral)	419	49.8%	Sector Performer (Hold/Neutral)	213	50.8%
Sector Underperformer (Sell)	74	8.8%	Sector Underperformer (Sell)	36	48.6%
Restricted	17	2.0%	Restricted	17	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 18 Jan 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	1	10.0%	Sector Outperformer (Buy)	1	100.0%
Sector Performer (Hold/Neutral)	4	40.0%	Sector Performer (Hold/Neutral)	2	50.0%
Sector Underperformer (Sell)	4	40.0%	Sector Underperformer (Sell)	2	50.0%
Restricted	1	10.0%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EEP, EMA, ENB, FTS, RRI, SE, TA, TRP.

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February 09, 2007

Stock Rating:

Sector Underperformer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$27.00
FTS-TSX (2/8/07) \$26.54

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$20.36-\$30.00
Shares Outstanding 108.8M
Float 108.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$2,887.6M
Dividend/Div Yield \$0.76 / 2.9%
Fiscal Year Ends December
Book Value \$11.72 per Shr
2007 ROE (E) 11.9%
LT Debt \$2.6B
Preferred \$442.00M
Common Equity \$1.3B
Convertible Available No

Earnings Per Share	Prev	Current
2006	\$1.35E	\$1.38A
2007		\$1.40E
2008		\$1.50E

P/E		
2006	19.7x	19.2x
2007		19.0x
2008		17.7x

Dividends Per Share

2004	\$0.54A
2005	\$0.59A
2006	\$0.67A
2007	\$0.80E

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Another Solid Year But Earnings Growth May Not Be Sustainable

- Fortis reported normalized Q4'06 EPS of \$0.33 vs. our estimate of \$0.31 and \$0.22 in Q4'05. Full-year results were ahead of expectations but Alberta returns are likely unsustainable and cash flows were down. We are maintaining our estimates, rating, and target price.
- Earnings growth was driven by supernormal achieved returns in the Alberta utility. We estimate the company achieved a mid-double-digit ROE compared to an allowed of less than 9.0%. Tax benefits driving the wedge should continue in 2007 but likely not thereafter.
- Cash flows were down y-o-y due primarily to timing differences in the payment of transmission charges and income taxes. We are hopeful cash flows will begin rising again in 2007.
- As usual, Fortis has done a remarkable job of efficiently operating its regulated utility assets. However, our analysis suggests a premium for management is reflected in the stock. Meanwhile, with allowed returns falling, we believe the pace of earnings growth is unsustainable.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis reported normalized Q4'06 EPS of \$0.33 vs. our estimate of \$0.31 and \$0.22 in Q4'05. Full-year results were ahead of expectations but Alberta returns are likely unsustainable and cash flows were down. We are maintaining our estimates, rating, and target price.

For a full breakdown and analysis of earnings by segment, please see the appendix to this comment.

Earnings growth was driven primarily by supernormal achieved returns in the Alberta utility. Utility rate base grew by about 10% but earnings were up by about 30%. We estimate the company achieved a mid-double-digit ROE compared to an allowed of less than 9.0%.

We understand that some of the earnings improvement has been achieved in the corporate Alberta entity, not the regulated utility. Tax benefits are driving the wedge between actual and allowed returns. Some of these benefits are likely contained in the corporate entity and some in the regulated entity. In either case, we believe they can continue through 2007 but not materially longer. Insofar as benefits are in the regulated entity, they will likely be eliminated through rate adjustments for the 2008/9 years.

The rest of the Fortis businesses ran well but not above expectations for the most part. The British Columbia utility earnings are growing with rate base. Regulated utility earnings in Eastern Canada have been flat. New acquisitions in the Caribbean and in real estate are adding nicely to earnings, but these contributions are mostly offset by financing costs as reflected in higher Corporate expense.

Cash flows were down y-o-y due primarily to timing differences in the payment of transmission charges and income taxes. Management believes that a \$30 million cash outflow for transmission charges (booked as change in regulatory assets and liabilities) will reverse in the 2007/8 period. A \$36-million cash working capital outflow relates in some part to taxes payable from 2005. Therefore, we are hopeful cash flows will begin rising again in 2007.

Going forward into 2007 and 2008, we see modest growth as the Alberta utility rate base expansion will likely be offset by declining achieved returns. To the extent there is organic earnings growth in 2007/8, we see it coming from British Columbia and Belize. Rate base growth in British Columbia should offset declining returns on equity. In Belize, electricity sales are accelerating again and there are opportunities for expanded hydroelectric generation capacity. Our EPS estimates reflect this modest growth, going from \$1.38 in 2006 to almost \$1.50 in 2008.

As usual, Fortis has done a remarkable job of efficiently operating its regulated utility assets. However, our analysis suggests a premium for management is reflected in the stock. The company currently carries high EV/EBITDA and cash flow valuation multiples. It trades at about 9.0x price to 2007E cash flow, and 11.5x '07E EBITDA. Similar Canadian utilities are trading at more like 8.0x cash flow and 9.0x-10.0x EBITDA.

On November 27, 2006 we downgraded Fortis to Sector Underperformer and wrote a full report demonstrating our view at the time that the shares were overvalued. Since that time, the stock has underperformed to some extent, so it may perform more in line with the group now. Yet, our stance on the Canadian utilities as a whole is mostly negative due to valuation, slowing '07 growth, and a healthy supply of new equity. Therefore, we are maintaining our rating on the stock at this time.

Appendix: Summary Of Q4'06 Results

Exhibit 1. Segmented Earnings for Fortis (C\$ mlns.)

	Q4/06A	Q4/05A	2006A	2005A
Newfoundland Power	\$8.8	\$2.9	\$30.1	\$29.4
Maritime Electric	\$2.4	\$1.7	\$9.8	\$9.1
FortisAlberta & FortisBC	\$14.7	\$9.9	\$68.7	\$53.7
FortisOntario	\$1.0	\$0.2	\$3.9	\$2.7
Belize Electricity	\$2.8	\$2.0	\$10.5	\$7.9
Caribbean Utilities	\$2.8	\$2.8	\$9.7	\$11.4
Turks & Caicos	\$2.8	-	\$3.5	-
Fortis Generation	\$6.8	\$8.5	\$26.0	\$21.6
Fortis Properties	\$2.8	\$2.9	\$17.1	\$14.1
Corporate	(\$11.0)	(\$8.6)	(\$36.1)	(\$32.4)
Operating Earnings for Common	\$33.9	\$22.3	\$143.2	\$117.6
Unusual Items	\$0.0	\$0.0	\$4.6	\$19.4
Reported Earnings	\$33.9	\$22.3	\$147.8	\$137.0
Average Shares Outstanding (mln)	103.5	103.2	103.6	101.6
Operating EPS	\$0.33	\$0.22	\$1.38	\$1.16
Reported EPS	\$0.33	\$0.22	\$1.43	\$1.35

Note:

1. Unusual items in 2006 include a \$0.7 million gain from insurance proceeds on NY Hydro asset, a \$1.6 million after-tax gain on the sale of Days Inn Sydney, a \$1.6 million unrealized FX gain and a \$0.7 million after-tax gain on insurance.
2. Unusual items in 2005 include \$8.6 million positive adjustment for tax-related matters at Fortis Alberta, and Cornwall Electric, \$1.4 million interest recovery from Newfoundland Power's tax settlement, \$2 million non-cash foreign exchange gain, and \$0.5 million restructuring charge in Corporate costs.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$8.8 million in Q4/06 versus \$2.9 million in the fourth quarter last year. The increase in earnings was mainly due to the change to an accrual basis of revenue recognition (initiated in January 2006). Electricity sales were 162 GWh higher, also attributable to the accrual method adoption. Full-year earnings were comparable to last year.

Maritime Electric

Earnings for Maritime Electric in the fourth quarter of 2006 were \$0.7 million higher than Q4/05. The earnings increase was primarily due to a 3.35 per cent increase in basic electricity rates (effective July 1, 2006) and higher electricity sales from customer growth in the residential sector.

FortisOntario

FortisOntario reported fourth quarter earnings of \$1.0 million, \$0.8 million higher than Q4/05 due to higher electricity rates, which came into effect May 2006 and lower operating expenses.

FortisAlberta

Fourth quarter results were \$4.1 million higher than the same period in 2005. Lower effective corporate income taxes, increased energy deliveries and reduced revenue deferrals were partially offset by a 1.9 percent decrease in distribution rates, higher operating expenses, amortization costs, and finance charges.

FortisBC

FortisBC reported fourth quarter earnings of \$6.4 million, \$0.7 million higher than in Q4/05. Improved earnings primarily came from an increase in electricity rates (effective January 1, 2006) and higher electricity sales. This was partially offset by higher energy supply costs (due to new PBR mechanism), increased amortization and finance costs.

Regulated Utilities – Caribbean

Q4/06 earnings for Belize Electricity were up \$0.8 million from the same period in 2005, mainly due to higher electricity sales and lower finance charges, partially offset by increased operating expenses.

Fortis Generation

Fortis Generation reported fourth quarter earnings of \$6.8 million, down \$1.7 million compared to Q4/05. The decrease was primarily due to lower average wholesale prices in Ontario and lower contracted prices in Belize. This was partially offset by increased production, lower operating expenses, and lower corporate taxes.

Fortis Properties

Earnings were essentially flat in Q4/06 compared to Q4/05. Growth in western properties and contribution from acquisitions were offset by higher operating expenses, amortization and finance charges.

Turks and Caicos Utilities

Fortis acquired the utilities on August 28, 2006 and the seasonally strong contribution showed up in the fourth quarter.

Corporate

Corporate expenses were \$2.4 million higher than in Q4/05 due to higher dividends from issuance of preference shares, increased finance charges (high drawings on corporate credit facilities and interest on convertible debentures issued November 2006) and lower corporate income tax recovery.

Price Target Calculation

Our \$27 target price is primarily based on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The target price implies an EV/'08 EBITDA multiple of about 10.5x and an 18.0x multiple of our 2008 EPS forecast. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment. Fortis has tended to trade at a 1x-2x earnings multiple point discount to the Canadian utilities group but is now trading parallel with the group.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields to some or a full extent through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Prior	\$0.35A	\$0.33A	\$0.37A	\$0.31E	\$1.35E
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.33A	\$1.38A
2007 Current	--	--	--	--	\$1.40E
2008 Current	--	--	--	--	\$1.50E

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- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/05/2004	▲	15.38	SO	16.75	Matthew Akman
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 08 Feb 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	331	39.3%	Sector Outperformer (Buy)	174	52.6%
Sector Performer (Hold/Neutral)	411	48.8%	Sector Performer (Hold/Neutral)	216	52.6%
Sector Underperformer (Sell)	74	8.8%	Sector Underperformer (Sell)	37	50.0%
Restricted	14	1.7%	Restricted	14	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 08 Feb 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	0	0.0%	Sector Outperformer (Buy)	0	0.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	4	40.0%	Sector Underperformer (Sell)	2	50.0%
Restricted	1	10.0%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EEP, EMA, ENB, FTS, RRI, SE, TA, TRP.

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May 18, 2007

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$30.00
FTS-TSX (5/18/07) \$28.25

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$21.16-\$30.00
Shares Outstanding 154.0M
Float 154.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,350.5M
Dividend/Div Yield \$0.84 / 3.0%
Fiscal Year Ends December
Book Value \$17.40 per Shr
2007 ROE (E) 9.5%
LT Debt \$5.2B
Preferred \$442.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.38A
2007	\$1.40E	\$1.45E
2008	\$1.50E	\$1.60E

P/E		
2006		20.5x
2007	20.2x	19.5x
2008	18.8x	17.7x

Dividends Per Share	
2004	\$0.54A
2005	\$0.59A
2006	\$0.67A
2007	\$0.82E

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Reinstating Coverage; Upgrading Stock To Sector Performer

- Effective May 18, we are reinstating coverage of Fortis with a Sector Performer rating and \$30 price target. The acquisition of BC Gas may slow growth near term, but is modestly accretive to EPS and adds another platform for future accretive acquisitions.
- Prior to the deal, we had rated Fortis shares at Sector Underperformer. We believed a material acquisition could require large amounts of new equity and pressure the stock -- and it did, down to \$26. Now that the overhang of a large acquisition has cleared up, we foresee a continued bright future.
- We have extended our Fortis model out to 2009 in this report and see solid but slightly slower growth than in the past. The western electrical utility assets have strong growth but BC Gas has little organic growth. We also foresee the potential for a reduction in Generation revenues in 2009.
- Our new \$30 price target (up from \$27 previously) and Sector Performer rating balance this slower growth rate against earnings accretion, a reduced risk profile, and management's outstanding track record of efficient operations and accretive acquisitions.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

We are reinstating coverage of Fortis (FTS-TSX) with a Sector Performer rating and \$30 price target. The acquisition of BC Gas may slow growth near term, but is modestly accretive to EPS and adds another platform for future accretive acquisitions.

Prior to the deal, we had rated Fortis shares at Sector Underperformer. We believed a material acquisition could require large amounts of new equity and pressure the stock – and it did, down to \$26. Now that the overhang of a large acquisition has cleared up, we foresee a continued bright future.

On May 17 Fortis closed the \$3.7 billion acquisition of Terasen's regulated gas distribution utilities in British Columbia. The acquisition was financed by assuming \$2.34 billion of Terasen debt, issuing about 44.3 million new subscription receipts that converted into common shares (gross proceeds \$1.15 billion) and drawing down \$200 million–\$300 million on a credit facility.

The BC Gas assets will comprise a large component of Fortis' total assets and earnings. We estimate gas distribution at about 50% of the company's total assets now. The assets should contribute 35%–40% of total EBITDA and about a third of earnings in 2008.

Our models suggest transaction parameters on BC Gas of about 9.7x EV/EBITDA and about 17x P/E. These transaction multiples are not out of line with other recent utility acquisition parameters. Using more debt and debt equivalents than the regulated debt ratios, we believe the transaction will be immediately accretive to earnings by \$0.05–\$0.10 on an annualized basis. As a result, we have revised our 2007 EPS estimate from \$1.40 to \$1.45 and our 2008 estimate from \$1.50 to \$1.60.

We have extended our Fortis model out to 2009 in this report and foresee solid but slightly slower growth than in the past. The western electrical utility assets have strong organic growth but BC Gas has little. We see no meaningful earnings growth over the next few years from the BC Gas assets. Part of this view relates to our modest customer addition forecast and part relates to the likelihood of a reduction in ROE at the end of 2009 when an incentive rates structure expires.

We also foresee the potential for a reduction in Generation revenues in 2009. The company's contract for 75 MW at the Rankin Generating Station runs out in April of that year and will likely cause a material reduction in earnings. Therefore, while we forecast a continuation of historically strong EPS growth at Fortis for 2008, we see lower growth in the following years.

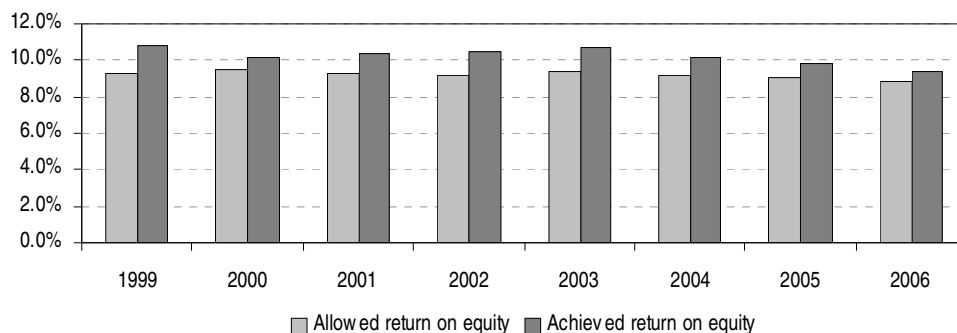
On the other hand, management at Fortis has a tendency to deliver on outstanding operations and accretive acquisitions. Between now and the 2009–2010 timeframe, it is highly conceivable that the company will find other ways to grow earnings. We think the stock will trade at a premium to the other utilities due to trust and confidence in management.

Our new \$30 price target (up from \$27 previously) is based on a premium 11x EV/2008E EBITDA multiple versus a sector average of about 9.0x. It also implies a forward target P/E of 18.8x. The target supports our new Sector Performer rating and balances our forecast for slower growth against the potential for management to add further value and the company's now less risky business mix.

BC Gas Assets Are Jumping-off Point For Further Acquisitions

The BC Gas and Vancouver Island gas distribution assets are low growth but low risk and well operated. They have grown at a compound annual rate of only about 2.0% over the past five years. On the other hand, there is little earnings volatility because most of the typical utility risks, such as weather, are factored out through variance accounts. As a result, earned returns have consistently been slightly above the allowed return each year, whereas for most utilities, achieved returns tend to fluctuate above and below the allowed.

Exhibit 1. Allowed And Achieved Returns On Equity For BC Gas



Source: Company reports and CIBC World Markets Inc.

The consistent achieved returns are also a testament to the BC Gas management team's abilities. Achieving solid returns year in and year out involves a sharp focus on details and a superior understanding of the regulatory environment. In this sense, the BC Gas team fits the Fortis mold and could be valuable in integrating future gas utility acquisitions.

With a stronger presence in Western Canada, a move into the U.S. Pacific Northwest is logical for Fortis. There are several publicly traded electrical and gas utilities in the region, many of which have performed poorly over the years and could ultimately benefit from the proven Fortis utility operating model.

Most of the companies trade at a P/E discount to Fortis (around 16x–18x 2007 consensus EPS estimates) so it may be possible for Fortis to pay a premium and still achieve modest accretion. The acquisitions would also now fall within the size limit that Fortis could tolerate, as most electrical utilities in the Pacific Northwest sit at only about a half of Fortis' C\$4.4 billion market capitalization.

Exhibit 2. Comparative Valuation of Fortis And Northwest Utilities

Company	Ticker	Shares (mlns.)	Price 5/17/07	Market Cap (\$mlns.)	EPS			P/E Ratios			Dividend		Book Value	EV/EBITDA		Price/ Book	ROE 2007E
					2006	2007E	2008E	2006	2007E	2008E	Rate	Yield		2007E	2008E		
Fortis	FTS	154.0	\$28.31	\$4,344.0	\$1.38	\$1.45	\$1.60	20.6	19.6	17.7	\$0.84	3.0%	\$17.40	11.1	10.7	1.7	9.5%
Avista Corporation	AVA	52.8	\$23.44	\$1,236.5	\$1.47	\$1.33	\$1.48	15.9	17.6	15.8	\$0.60	2.6%	\$17.58	7.7	7.6	1.3	7.9%
Idaho Power Company	IDA	42.7	\$32.81	\$1,400.5	\$2.15	\$1.90	\$2.19	15.3	17.3	15.0	\$1.20	3.7%	\$24.59	8.4	7.6	1.3	7.7%
Portland General Electric Co.	POR	62.5	\$29.86	\$1,866.3	\$1.14	\$1.79	\$1.90	26.2	16.7	15.7	\$0.94	3.1%	\$20.24	7.3	6.6	1.5	8.8%
Puget Sound Energy Inc.	PSD	116.4	\$26.10	\$3,038.0	\$1.52	\$1.60	\$1.69	17.2	16.3	15.4	\$1.00	3.8%	\$18.71	8.4	8.0	1.4	8.6%
Cascade Natural Gas	CGC	11.3	\$26.21	\$296.1	\$1.09	\$1.23	\$1.32	24.0	21.3	19.9	\$0.96	3.7%	\$11.97	9.1	8.9	2.2	10.3%
Northwest Natural Gas	NWN	27.5	\$51.27	\$1,409.9	\$2.29	\$2.59	\$2.60	22.4	19.7	19.7	\$1.42	2.8%	\$22.92	9.8	9.5	2.2	11.2%
Average								20.2	18.4	17.0		3.2%		9.0	8.2	1.7	9.4%

Figures for Fortis are in C\$; all others are in US\$.

Source: Estimates for FTS are from CIBC World Markets. All other company estimates are from various sources (Company reports, FirstCall and IBES).

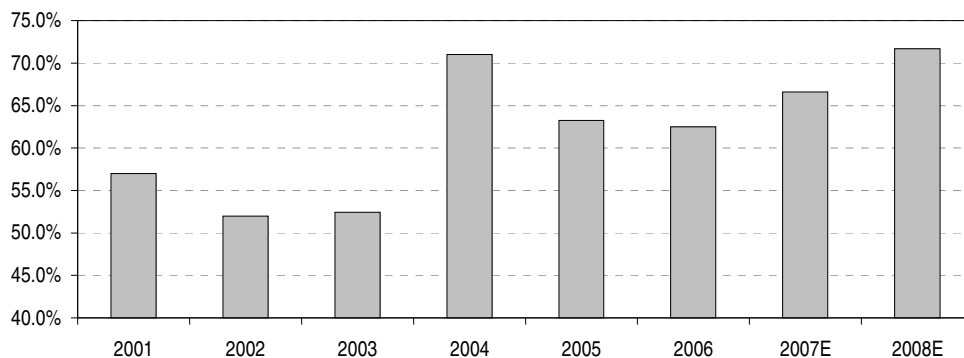
Other opportunities for gas distribution acquisitions may present themselves in Canada. In particular, we think Enbridge (ENB-SP) and Spectra Energy (SE-SP) would both part with their gas utilities in Ontario at the right price (possibly keeping storage as a strategic asset). Both companies tend to achieve ROEs of about 12% on their long-haul pipeline investments compared to 8.0%–9.0% ROEs on gas distribution. For both companies, therefore, growth rates could improve if they were to sell gas distribution assets and redeploy the capital to pipeline construction. The rate base of Enbridge Gas Distribution is about \$3.7 billion and of Union Gas is about \$3.4 billion.

Absent acquisitions, however, we believe three- to five-year growth at BC Gas utility is limited. Customer additions are nominal and we foresee no upside for now in the achieved return. The utility is under an incentive regulatory framework with a motivation to contain and reduce costs. This rate structure was recently extended until the end of 2009. Between now and 2009 there might be modest additional cost savings available and, as a result, slightly higher returns.

However, by 2010 we believe returns will be reset to the allowed rate of only 8.37% (assuming no changes in bond yields). Interveners in the regulatory proceeding that extended the incentive rate mechanism were clear that they would only support an extension on condition that there was a full rates hearing at that time and that no further extensions be allowed. Furthermore, interveners noted that the utility would be “overdue for a thorough review of its revenue requirement” (BC Public Interest Advocacy) and that “a comprehensive rebasing of both revenue requirement and rate design” (BC Hydro) should take place at that time.

Regardless of achieved returns, the BC Gas acquisition marks a material shift back to a regulated utility business mix for Fortis. In a downgrade report on November 27, 2006, we argued that the mix was deteriorating, with regulated Canadian utility assets falling from over 70% in 2004 to 54% by 2007. Now with BC Gas in the asset base, we see Canadian utility assets again contributing over 70% of total earnings next year.

Exhibit 3. Percentage Of Total Earnings Contribution From Canadian Regulated Utilities



Source: Company reports and CIBC World Markets Inc.

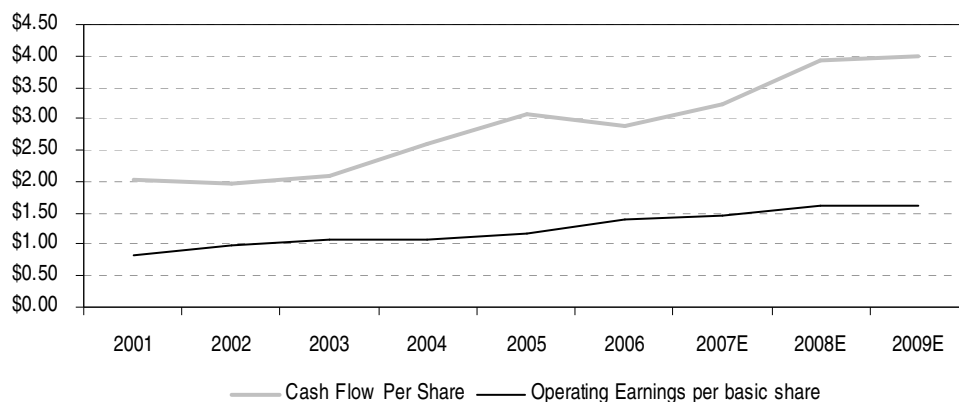
As Canadian regulated utilities carry very little risk, Fortis can afford to carry more debt on its balance sheet now without taking undue financial risk. In addition, volatility in earnings from unregulated generation and utilities located in the Caribbean will have a smaller relative impact on total earnings going forward. We see both factors as allowing for higher company valuation.

The BC Gas acquisition has its pros and cons for Fortis. On the one hand, it adds modestly to EPS and reduces the company's risk profile. On the other hand, it likely reduces its three to five-year organic growth profile. We tend to see the deal overall as a positive development for the company, mostly because we believe management will maximize the value and potentially add back to growth through future accretive acquisitions.

Financial Forecasts Show Slower Earnings, More Cash Flow

Our financial forecasts, extended out to 2009, suggest Fortis will have slightly lower EPS growth but higher cash flow and EBITDA growth than before. On earnings, we have the company growing at a compound annual rate of about 5.0% between 2006 and 2009. We believe cash flow per share will grow more rapidly at just over 10%. Part of the cash flow growth is due to timing issues and relatively depressed cash flow in 2006 that picks up in 2007. However, the addition of gas distribution assets (about \$400 million/year EBITDA) supports improved cash flow generation at Fortis.

Exhibit 4. EPS And CFPS Growth



Source: Company reports and CIBC World Markets Inc.

The reasons for limited earnings growth are primarily twofold:

1. **Loss of hydro capacity** – The loss of a contract for the sale of 75 MW of hydroelectricity power at Ontario spot prices in April 2009 will impact Generation earnings. We estimate that the contract at the Rankin dam has been yielding about \$35 million in annual revenues and about \$15 million in after-tax earnings. Our Generation segment earnings estimate declines by \$10 million for a part-year impact in 2009.
2. **Gradual return to allowed ROE at Fortis Alberta** – Rate base growth at Fortis Alberta should continue at a rapid pace (5%–6%) but returns will likely drop. Fortis has been earning double-digit ROEs – much higher than the 8%–9% allowed ROE. As tax benefits and operating cost savings accrue back to customers, we see a reduction in achieved returns offsetting, to some extent, the rate base growth.

The good news is that cash flow growth should accelerate while earnings growth slows slightly. In past research we expressed concerns that cash flows were not keeping pace with earnings growth. We see that trend reversing as working capital is recaptured and depreciation rises. Cash flow per share, after falling from \$3.08 in 2005 to \$2.89 in 2006, should rise dramatically to \$3.90 in 2008 (see Exhibit 5 for summary Fortis model).

With cash flow growth, less business risk and the potential for more acquisitions, Fortis shares will likely continue trading at a premium to the Canadian utility group. We primarily rely on our dividend discount model and on EV/EBITDA multiples in establishing our price target. Our new \$30 target is based on an 11x EV/EBITDA multiple versus a target multiple of about 9.0x for the Canadian group. It also implies a P/E multiple of 18.8x based on our 2008 earnings forecast. The target offers limited upside but still solid total return potential and justifies our Sector Performer rating.

Exhibit 5. Fortis Summary Earnings Model (\$ mlns., except per share)

Years Ending December 31	2005	Q1/06	Q2/06	Q3/06	Q4/06	2006	Q1/07	Q2/07E	Q3/07E	Q4/07E	2007E	2008E	2009E
Newfoundland Power	\$29.4	\$10.7	\$8.0	\$2.6	\$8.8	\$30.1	\$10.5	\$3.0	\$2.3	\$12.3	\$28.1	\$27.9	\$28.0
Alberta & BC Utilities	\$53.7	\$21.3	\$14.7	\$18.0	\$14.7	\$68.7	\$23.6	\$14.7	\$16.2	\$9.8	\$64.3	\$71.4	\$77.4
BC Gas							-	-	\$25.0	\$27.1	\$52.1	\$101.3	\$103.8
Maritime Electric	\$9.1	\$2.1	\$2.2	\$3.1	\$2.4	\$9.8	\$2.6	\$2.2	\$3.1	\$2.2	\$10.1	\$10.1	\$10.2
FortisOntario (CNP & Cornwall)	\$2.7	\$1.0	\$0.5	\$1.6	\$0.8	\$3.9	\$1.3	\$0.5	\$1.6	\$0.6	\$4.0	\$4.2	\$5.2
Belize Electricity	\$7.9	\$1.5	\$2.3	\$3.9	\$2.7	\$10.4	\$2.7	\$3.0	\$2.9	\$2.9	\$11.5	\$12.3	\$13.0
Fortis Generation	\$21.6	\$5.4	\$6.0	\$7.1	\$7.5	\$26.7	\$7.3	\$6.2	\$7.6	\$7.4	\$28.6	\$29.6	\$18.9
Caribbean Utilities	\$11.4	\$1.6	\$2.1	\$3.2	\$2.8	\$9.7	\$1.9	\$2.5	\$3.6	\$3.4	\$11.3	\$12.0	\$12.0
Turks & Caicos				\$0.7	\$2.8	\$3.5	\$1.8	\$2.0	\$3.2	\$3.0	\$10.0	\$12.0	\$12.0
Fortis Properties	\$14.1	\$1.5	\$6.5	\$6.3	\$2.8	\$17.1	\$1.8	\$6.8	\$7.0	\$2.4	\$18.0	\$19.0	\$19.0
Corporate	(\$32.4)	(\$8.5)	(\$8.3)	(\$8.3)	(\$11.0)	(\$36.1)	(\$9.7)	(\$10.0)	(\$13.2)	(\$13.5)	(\$46.4)	(\$49.6)	(\$49.6)
Operating Earnings Applicable For Common Shares	\$117.6	\$36.6	\$33.9	\$38.2	\$34.3	\$143.8	\$43.9	\$30.9	\$59.3	\$57.4	\$191.5	\$250.2	\$249.9
Unusual Items	\$19.4	\$0.0	\$3.9	\$0.7	\$0.0	\$4.6	(\$2.3)	\$0.0	\$0.0	\$0.0	(\$2.3)	\$0.0	\$0.0
Reported Earnings	\$137.0	\$36.6	\$37.8	\$38.9	\$34.3	\$148.4	\$41.6	\$30.9	\$59.3	\$57.4	\$189.2	\$250.2	\$250.9
Average shares O/S (mlns.)	101.6	103.3	103.4	103.4	103.5	103.6	109.4	109.5	154.5	154.5	132.0	156.0	156.0
Operating Earnings Per Basic Share	\$1.16	\$0.35	\$0.33	\$0.37	\$0.33	\$1.38	\$0.40	\$0.28	\$0.38	\$0.37	\$1.45	\$1.60	\$1.60
Reported Earnings Per Basic Share	\$1.35	\$0.35	\$0.37	\$0.38	\$0.33	\$1.43	\$0.38	\$0.28	\$0.38	\$0.37	\$1.43	\$1.60	\$1.60
Cash Flow Per Share	\$3.08					\$2.89					\$3.23	\$3.90	\$4.00

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

Our \$30 price target is based primarily on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The price target implies an EV/2008E EBITDA multiple of about 11x and an 18.8x multiple of our 2008 EPS forecast. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields, to some or a full extent, through dividend growth.

Exhibit 6. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility And Power Generation Companies

		Rating / Analyst	Price- 05/17/07	52-Week Range		Earnings Per Share				P/E Ratios				'07E P/E Rel. To Group	Dividend		Payout 2007E	Target Price	Total Return
Company	Ticker			High	Low	2005	2006	2007E	2008E	2005	2006	2007E	2008E		Rate	Yield			
North American Pipelines																			
Enbridge Inc.	ENB	SP / MA	\$37.23	\$41.48	\$31.75	\$1.59	\$1.74	\$1.75	\$1.85	23.4	21.4	21.3	20.1	1.1	\$1.23	3.3%	70.3%	\$41.00	13.4%
TransCanada Corp.	TRP	SO / MA	\$39.70	\$41.35	\$30.77	\$1.75	\$1.90	\$2.05	\$2.25	22.7	20.9	19.4	17.6	1.0	\$1.36	3.4%	66.3%	\$43.00	11.7%
Spectra Energy Corp (US\$)	SE	SP / MA	\$26.33	\$29.97	\$23.55	-	-	\$1.30	\$1.40	-	-	20.3	18.8	1.1	\$0.88	3.3%	67.7%	\$28.00	9.7%
Williams (US\$)	WMB	NR	\$28.50	\$30.23	\$20.01	\$0.90	\$1.17	\$1.40	\$1.78	31.7	24.4	20.4	16.0	1.1	\$0.40	1.4%	28.6%	-	-
North American Pipelines Average										23.1	21.1	20.3	18.9			3.4%	68.3%		
Canadian Utilities																			
ATCO	ACO.X	SU / MA	\$55.46	\$56.41	\$33.10	\$2.43	\$3.11	\$3.50	\$3.40	22.8	17.8	15.8	16.3	0.8	\$0.88	1.6%	25.1%	\$43.00	(20.9%)
Canadian Utilities	CU	SU / MA	\$47.73	\$48.94	\$35.15	\$2.03	\$2.54	\$2.70	\$2.65	23.5	18.8	17.7	18.0	0.9	\$1.26	2.6%	46.7%	\$44.00	(5.2%)
Caribbean Utilities (US\$)	CUP.U	NR	\$11.70	\$13.50	\$11.20	\$0.87	\$1.04	\$0.81	\$0.90	13.4	11.3	14.5	13.1	0.8	\$0.66	5.6%	82.0%	-	-
Emera Inc.	EMA	SP / MA	\$21.53	\$22.99	\$17.69	\$0.87	\$1.09	\$1.15	\$1.25	24.7	19.8	18.7	17.2	1.0	\$0.89	4.1%	77.4%	\$21.00	1.7%
Fortis	FTS	SP / MA	\$28.31	\$30.00	\$21.16	\$1.16	\$1.38	\$1.45	\$1.60	24.4	20.5	19.5	17.7	1.0	\$0.84	3.0%	57.9%	\$30.00	8.9%
Gaz Metro L.P.	GZM.UN	SP / AP	\$16.70	\$18.50	\$15.30	\$1.33	\$1.25	\$1.26	\$1.27	12.6	13.4	13.3	13.1	0.7	\$1.24	7.4%	98.4%	\$16.00	3.2%
TransAlta Corp.	TA	SO / MA	\$27.73	\$28.23	\$22.25	\$0.81	\$1.05	\$1.30	\$1.50	34.2	26.4	21.3	18.5	1.1	\$1.00	3.6%	76.9%	\$30.00	11.8%
Canadian Utilities Average										22.2	18.3	17.5	16.3			4.0%	66.4%		
U.S. Utilities																			
American Electric Power	AEP	NR	\$49.43	\$51.24	\$32.27	\$2.73	\$2.77	\$2.90	\$3.12	18.1	17.8	17.0	15.8	1.0	\$1.56	3.2%	53.8%		
Consolidated Edison	ED	NR	\$51.00	\$52.90	\$41.17	\$3.00	\$2.95	\$3.14	\$3.24	17.0	17.3	16.2	15.7	0.9	\$2.32	4.5%	73.9%	-	-
Dominion Resources	D	NR	\$90.10	\$93.50	\$70.72	\$4.53	\$5.12	\$5.62	\$6.08	19.9	17.6	16.0	14.8	0.9	\$2.84	3.2%	50.5%	-	-
Duke Energy	DUK	NR	\$20.46	\$20.46	\$18.40	-	-	\$1.16	\$1.24	-	-	17.6	16.5	1.0	\$0.84	4.1%	72.4%	-	-
Exelon	EXC	NR	\$76.99	\$78.51	\$53.70	\$3.13	\$3.22	\$4.31	\$4.56	24.6	23.9	17.9	16.9	1.0	\$1.76	2.3%	40.8%	-	-
FPL Group	FPL	NR	\$65.18	\$66.15	\$37.81	\$2.58	\$3.04	\$3.40	\$3.71	25.3	21.4	19.2	17.6	1.1	\$1.64	2.5%	48.2%	-	-
NiSource	NI	NR	\$25.03	\$25.43	\$20.76	\$1.05	\$1.28	\$1.50	\$1.56	23.8	19.6	16.7	16.1	1.0	\$0.92	3.7%	61.3%	-	-
PPL Corp.	PPL	NR	\$45.99	\$46.42	\$28.81	\$2.08	\$2.22	\$2.33	\$2.37	22.1	20.7	19.7	19.4	1.1	\$1.22	2.7%	52.4%	-	-
U.S. Utilities Average										21.5	19.8	17.6	16.6			3.3%	57.1%		
Merchant Generation																			
AES Corporation	AES	NR	\$23.37	\$23.85	\$16.67	\$0.91	\$1.07	\$1.11	\$1.19	25.7	21.8	21.1	19.6	1.0	\$0.00	0.0%	0.0%	-	-
Mirant Corp.	MIR	NR	\$45.71	\$46.78	\$23.36	\$0.28	\$1.46	\$2.40	\$2.48	nm	31.3	19.0	18.4	0.9	\$0.00	0.0%	0.0%	-	-
NRG Energy	NRG	NR	\$83.51	\$86.98	\$42.44	\$1.66	\$3.01	\$4.01	\$4.55	nm	27.7	20.8	18.4	1.0	\$0.00	0.0%	0.0%	-	-
Reliant Energy	RRI	SU / MA	\$26.45	\$26.67	\$10.83	(\$0.45)	(\$0.30)	\$0.35	\$0.85	nm	nm	nm	31.1	-	\$0.00	0.0%	0.0%	\$17.00	(35.7%)
Merchant Generation Average										25.7	27.0	20.3	21.9			0.0%	0.0%		

Estimates are from CIBC World Markets with the exception of those companies that are not rated (sources: Company reports, FirstCall and IBES).

Figures for Canadian companies in Canadian dollars; figures for U.S. companies in U.S. dollars.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for GZM.UN are for the period ending September 30.

SO = Sector Outperformer; SP = Sector Performer; SU = Sector Underperformer, R = Restricted and NR = Not Rated.

Source: CIBC World Markets Inc., Company Reports, IBES, FirstCall.

Exhibit 7. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility And Power Generation Companies

	Shares Outst. (mlns.)	Market Cap (\$ blns.)	Inst. Owners	52-Week % change		Cash Flow Per Share				P/CF Ratios				Book Value	Price/ Book	ROE 2007E	Debt To Cap	% Unreg. 07E EBIT	EV/07E EBITDA
Company				High	Low	2005	2006	2007E	2008E	2005	2006	2007E	2008E						
North American Pipelines																			
Enbridge Inc.	355.6	\$13.2	76%	(10%)	17%	\$3.84	\$3.44	\$3.85	\$3.70	9.7	10.8	9.7	10.1	\$14.40	2.6	12.2%	64.0%	20.0%	10.3
TransCanada Corp.	534.7	\$21.2	53%	(4%)	29%	\$3.92	\$4.88	\$4.58	\$4.73	10.1	8.1	8.7	8.4	\$17.49	2.3	12.0%	61.3%	40.0%	9.3
Spectra Energy Corp (US\$)	630.0	\$16.6	14%	(12%)	12%	na	na	\$2.18	\$2.40	na	na	12.1	11.0	\$10.27	2.6	12.7%	58.9%		9.8
Williams (US\$)	595.0	\$17.0	76%	(6%)	42%	\$2.85	\$2.60			10.0	11.0			\$10.28	2.8	11.0%	56.7%		8.2
North American Pipelines Average										9.9	10.0	10.1	9.8		2.5	12.0%	60.2%	30.0%	9.4
Canadian Utilities																			
ATCO Ltd.	58.4	\$3.2	43%	(2%)	68%	\$7.23	\$6.85	\$7.00	\$7.00	7.7	8.1	7.9	7.9	\$25.62	2.2	13.9%	48.5%	35.0%	7.2
Canadian Utilities	125.4	\$6.0	15%	(2%)	36%	\$5.89	\$5.20	\$5.60	\$5.90	8.1	9.2	8.5	8.1	\$19.33	2.5	13.9%	49.9%	36.0%	7.6
Caribbean Utilities (US\$)	25.3	\$0.3	2%	(13%)	4%	\$1.40	\$1.48	-	-	8.4	7.9			\$5.35	2.2	12.3%	55.0%	0.0%	9.2
Emera Inc.	111.1	\$2.4	16%	(6%)	22%	\$2.53	\$2.81	\$2.89	\$3.00	8.5	7.7	7.4	7.2	\$12.78	1.7	9.1%	53.2%	10.0%	8.7
Fortis Inc.	154.0	\$4.4	25%	(6%)	34%	\$3.08	\$2.89	\$3.23	\$3.90	9.5	9.8	8.8	7.2	\$17.40	1.7	9.5%	63.0%	30.0%	11.1
Gaz Metro L.P.	120.4	\$2.0	25%	(10%)	9%	\$2.97	\$2.53	\$2.97	\$2.93	5.6	6.6	5.6	5.7	\$9.40	1.8	13.4%	54.5%	2.0%	8.6
TransAlta Corp.	202.6	\$5.6	60%	(2%)	25%	\$3.32	\$3.36	\$3.56	\$3.75	8.4	8.3	7.8	7.4	\$10.80	2.6	12.0%	54.0%	100.0%	9.0
Canadian Utilities Average										8.0	8.2	7.7	7.3		2.1	12.2%	53.2%	30.4%	8.8
U.S. Utilities																			
American Electric Power	397.0	\$19.6	69%	(4%)	53%	\$3.73	\$6.57			13.3	7.5			\$23.71	2.1	11.2%	58.9%		8.7
Consolidated Edison	257.4	\$13.1	44%	(4%)	24%	\$4.31	\$5.59			11.8	9.1			\$31.25	1.6	10.0%	51.6%		8.7
Dominion Resources	354.0	\$31.9	61%	(4%)	27%	\$7.71	\$10.42			11.7	8.6			\$36.48	2.5	14.1%	56.5%		9.3
Duke Energy	1,255.3	\$25.7	67%	0%	11%	na	na			na	na			\$16.09	1.3	7.1%	43.2%		8.6
Exelon	671.0	\$51.7	68%	(2%)	43%	\$7.15	\$7.16			10.8	10.8			\$14.86	5.2	20.6%	56.5%		9.8
FPL Group	394.0	\$25.7	68%	(1%)	72%	\$3.93	\$8.78			16.6	7.4			\$25.20	2.6	13.4%	55.4%		9.8
NiSource	272.5	\$6.8	73%	(2%)	21%	\$3.35	\$2.68			7.5	9.3			\$18.40	1.4	5.9%	56.2%		8.4
PPL Corp.	381.6	\$17.5	59%	(1%)	60%	\$3.65	\$4.11			12.6	11.2			\$13.42	3.4	17.6%	59.2%		10.1
U.S. Utilities Average										12.0	9.1				2.5	12.5%	54.7%		9.2
Merchant Generation																			
AES Corporation	664.2	\$15.5	82%	(2%)	40%	\$3.30				nm				\$4.02	-	nm	86.7%	100.0%	8.6
Mirant Corp.	286.0	\$13.1	80%	(2%)	96%	\$1.12	\$2.06			nm	nm			\$15.53	2.9	nm	42.4%	100.0%	14.9
NRG Energy	129.0	\$10.8	81%	(4%)	97%	\$0.84	\$9.95			nm	8.4			\$36.95	2.3	nm	57.3%	100.0%	9.6
Reliant Energy	341.6	\$9.0	78%	(1%)	144%	(\$3.56)	\$0.93	\$1.39	\$2.05	nm	28.4	19.0	12.9	\$12.53	2.1	nm	48.4%	100.0%	16.1
Merchant Generation Average															2.4	nm	58.7%	100.0%	12.3

Estimates are from CIBC World Markets with the exception of those companies that are not rated (sources: Company reports, FirstCall and IBES).

Figures for Canadian companies in Canadian dollars; figures for U.S. companies in U.S. dollars.

For those companies not rated, ROE figures are actuals for the most recent fiscal year.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for GZM.UN are for the period ending September 30.

Source: CIBC World Markets Inc., Company Reports, IBES, FirstCall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.33A	\$1.38A
2007 Prior	--	--	--	--	\$1.40E
2007 Current	\$0.40A	\$0.28E	\$0.38E	\$0.37E	\$1.45E
2008 Prior	--	--	--	--	\$1.50E
2008 Current	--	--	--	--	\$1.60E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

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In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 05/18/2007:

Atco Ltd. (7, 13) (ACO.X-TSX, \$56.10, Sector Underperformer)
Canadian Utilities Ltd. (7, 13) (CU-TSX, \$48.01, Sector Underperformer)
Emera Inc. (2g, 7) (EMA-TSX, \$21.49, Sector Performer)
Enbridge Inc. (2a, 2c, 2e, 2f, 2g, 7) (ENB-TSX, \$37.01, Sector Performer)
Gaz Métro Limited Partnership (2a, 2c, 2e) (GZM.UN-TSX, \$16.72, Sector Performer)
Reliant Energy Inc. (RRI-NYSE, US\$27.25, Sector Underperformer)
Spectra Energy Corporation (2g) (SE-NYSE, US\$26.84, Sector Performer)
TransAlta Corporation (2a, 2e, 2g, 7, 9) (TA-TSX, \$27.37, Sector Outperformer)
TransCanada Corp. (2a, 2c, 2e, 7) (TRP-TSX, \$39.83, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 05/18/2007:

AES Corp (AES-NYSE, US\$23.50, Not Rated)
American Electric Power (AEP-NYSE, US\$49.31, Not Rated)
Avista Corp (AVA-NYSE, US\$23.32, Not Rated)
Caribbean Utilities Company Ltd. (CUP.U-TSX, \$11.70, Not Rated)
Cascade Natural Gas (CGC-NYSE, US\$26.22, Not Rated)
Consolidated Edison (ED-NYSE, US\$50.93, Not Rated)
Dominion Resources (D-NYSE, US\$90.55, Not Rated)
Duke Energy (DUK-NYSE, US\$20.63, Not Rated)
Exelon (EXC-NYSE, US\$77.24, Not Rated)
FPL Group Inc. (FPL-NYSE, US\$65.14, Not Rated)
Idacorp. Inc (IDA-NYSE, US\$32.89, Not Rated)
Mirant Corp. (MIR-NYSE, US\$45.69, Not Rated)
Nisource (NI-NYSE, US\$25.07, Not Rated)
Northwest Natural Gas (NWN-NYSE, US\$51.09, Not Rated)
NRG Energy (NRG-NYSE, US\$84.12, Not Rated)
Portland General Electric Company (POR-NYSE, US\$29.85, Not Rated)
PPL Corporation (PPL-NYSE, US\$45.84, Not Rated)
Puget Energy Inc. (PSD-NYSE, US\$26.10, Not Rated)
Williams Cos Inc. (WMB-NYSE, US\$28.77, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

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- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
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- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
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- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
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07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲ ●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 18 May 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	346	38.6%	Sector Outperformer (Buy)	169	48.8%
Sector Performer (Hold/Neutral)	443	49.4%	Sector Performer (Hold/Neutral)	216	48.8%
Sector Underperformer (Sell)	73	8.1%	Sector Underperformer (Sell)	30	41.1%
Restricted	22	2.5%	Restricted	21	95.5%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 18 May 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	20.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	4	80.0%
Sector Underperformer (Sell)	3	30.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EEP, EMA, ENB, FTS, RRI, SE, TA, TRP.

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May 22, 2007

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$30.00
FTS-TSX (5/18/07) \$28.14

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$21.16-\$30.00
Shares Outstanding 154.0M
Float 154.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,333.6M
Dividend/Div Yield \$0.84 / 3.0%
Fiscal Year Ends December
Book Value \$17.53 per Shr
2007 ROE (E) 9.5%
LT Debt \$5.2B
Preferred \$442.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.38A
2007		\$1.45E
2008		\$1.60E

P/E	
2006	20.4x
2007	19.4x
2008	17.6x

Dividends Per Share	
2004	\$0.54A
2005	\$0.59A
2006	\$0.67A
2007	\$0.82E

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Executive Summary: Reinstating Coverage; Upgrading Stock To Sector Performer

- Effective May 18, we reinstated coverage of Fortis with a Sector Performer rating and \$30 price target. The acquisition of BC Gas may slow growth near term, but is modestly accretive to EPS and adds another platform for future accretive acquisitions.
- Prior to the deal, we had rated Fortis shares at Sector Underperformer. We believed a material acquisition could require large amounts of new equity and pressure the stock -- and it did, down to \$26. Now that the overhang of a large acquisition has cleared up, we foresee a continued bright future.
- We have extended our Fortis model out to 2009 in this report and see solid but slightly slower growth than in the past. The western electrical utility assets have strong growth but BC Gas has little organic growth. We also foresee the potential for a reduction in Generation revenues in 2009.
- Our new \$30 price target (up from \$27 previously) and Sector Performer rating balance this slower growth rate against earnings accretion, a reduced risk profile, and management's outstanding track record of efficient operations and accretive acquisitions.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

We reinstated coverage of Fortis (FTS-TSX) with a Sector Performer rating and \$30 price target. The acquisition of BC Gas may slow growth near term, but is modestly accretive to EPS and adds another platform for future accretive acquisitions.

Prior to the deal, we had rated Fortis shares at Sector Underperformer. We believed a material acquisition could require large amounts of new equity and pressure the stock – and it did, down to \$26. Now that the overhang of a large acquisition has cleared up, we foresee a continued bright future.

On May 17 Fortis closed the \$3.7 billion acquisition of Terasen's regulated gas distribution utilities in British Columbia. The acquisition was financed by assuming \$2.34 billion of Terasen debt, issuing about 44.3 million new subscription receipts that converted into common shares (gross proceeds \$1.15 billion) and drawing down \$200 million–\$300 million on a credit facility.

The BC Gas assets will comprise a large component of Fortis' total assets and earnings. We estimate gas distribution at about 50% of the company's total assets now. The assets should contribute 35%–40% of total EBITDA and about a third of earnings in 2008.

Our models suggest transaction parameters on BC Gas of about 9.7x EV/EBITDA and about 17x P/E. These transaction multiples are not out of line with other recent utility acquisition parameters. Using more debt and debt equivalents than the regulated debt ratios, we believe the transaction will be immediately accretive to earnings by \$0.05–\$0.10 on an annualized basis. As a result, we have revised our 2007 EPS estimate from \$1.40 to \$1.45 and our 2008 estimate from \$1.50 to \$1.60.

We have extended our Fortis model out to 2009 and foresee solid but slightly slower growth than in the past. The western electrical utility assets have strong organic growth but BC Gas has little. We see no meaningful earnings growth over the next few years from the BC Gas assets. Part of this view relates to our modest customer addition forecast and part relates to the likelihood of a reduction in ROE at the end of 2009 when an incentive rates structure expires.

We also foresee the potential for a reduction in Generation revenues in 2009. The company's contract for 75 MW at the Rankin Generating Station runs out in April of that year and will likely cause a material reduction in earnings. Therefore, while we forecast a continuation of historically strong EPS growth at Fortis for 2008, we see lower growth in the following years.

On the other hand, management at Fortis has a tendency to deliver on outstanding operations and accretive acquisitions. Between now and the 2009–2010 timeframe, it is highly conceivable that the company will find other ways to grow earnings. We think the stock will trade at a premium to the other utilities due to trust and confidence in management.

Our new \$30 price target (up from \$27 previously) is based on a premium 11x EV/2008E EBITDA multiple versus a sector average of about 9.0x. It also implies a forward target P/E of 18.8x. The target supports our new Sector Performer rating and balances our forecast for slower growth against the potential for management to add further value and the company's now less risky business mix.

Please see our full report dated May 18, 2007, for more details.

Price Target Calculation

Our \$30 price target is based primarily on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The price target implies an EV/2008E EBITDA multiple of about 11x and an 18.8x multiple of our 2008 EPS forecast. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields, to some or a full extent, through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.33A	\$1.38A
2007 Current	\$0.40A	\$0.28E	\$0.38E	\$0.37E	\$1.45E
2008 Current	--	--	--	--	\$1.60E

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CIBC World Markets Price Chart



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Sector Underperformer (Sell)	73	8.1%	Sector Underperformer (Sell)	31	42.5%
Restricted	23	2.6%	Restricted	22	95.7%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 21 May 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	20.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	4	80.0%
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Restricted	0	0.0%	Restricted	0	0.0%

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August 06, 2007

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$30.00
FTS-TSX (8/3/07) \$26.05

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$22.42-\$30.00
Shares Outstanding 154.0M
Float 154.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,011.7M
Dividend/Div Yield \$0.84 / 3.2%
Fiscal Year Ends December
Book Value \$16.54 per Shr
2007 ROE (E) 8.2%
LT Debt \$5.2B
Preferred \$442.00M
Common Equity \$2.5B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.38A
2007	\$1.35E	\$1.35E
2008	\$1.60E	\$1.55E

P/E		
2006		18.9x
2007	19.3x	19.3x
2008	16.3x	16.8x

Dividends Per Share	
2004	\$0.54
2005	\$0.59
2006	\$0.67
2007E	\$0.82

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Good Results; Full-Year On Target

- Fortis reported normalized Q2'07 EPS of \$0.31 vs. \$0.33 in Q2'06 and our estimate of \$0.25. We anticipate seasonality in corporate costs and Western utilities will dampen results in H2'07. We are maintaining our '07 estimate and price target but slightly reducing our '08 estimate.
- Alberta and B.C. continued driving growth in the company. However, we believe tax benefits in Alberta will soon taper off, lowering the achieved ROE toward a more normal range. This change, combined with slightly higher Corporate costs drive our small '08 EPS reduction.
- Unfortunately, the Terasen Gas acquisition will likely be dilutive to EPS this year but only due to timing. The acquisition closed in Q2 but gas distribution makes all of its money in Q1 and Q4. We anticipate soft Q3 results but then a strong fourth quarter and a good year in 2008.
- While we see EPS growth at lower than historical levels, we also see reduced risk. Earnings volatility should decrease with gas distribution and no major external financing requirements on the horizon. Our \$30 PT is based on a premium 11.0x EV/EBITDA multiple.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis (FTS-SP) reported normalized Q2'07 EPS of \$0.31 vs. \$0.33 in Q2'06 and our estimate of \$0.25. The variance between our estimate and actual results was caused by seasonality in corporate costs and Western utilities that we expect will dampen results in H2'07. We are maintaining our '07 estimate and price target but slightly reducing our '08 estimate.

For a full breakdown and analysis of earnings by segment, please see the appendix to this comment.

The second quarter results highlight a company in transition integrating a large new acquisition. Looking through acquisition impacts, unregulated businesses underperformed slightly due to lower than normal hydrology and power prices. On the other hand, core regulated operations delivered solid utility growth again and performed above expectations.

The company's Alberta and B.C. utilities continued driving earnings. We see the strong trend continuing, albeit with a slight pause in 2008/9. Tax benefits in Alberta will probably soon taper off, lowering the achieved ROE toward a more normal range. Our forecasts now carry an achieved ROE of about 13% in Alberta this year compared to a nameplate allowed ROE of only 8.51%. Rate base growth is still well into double-digits so earnings will likely flatten out but not decline with the lower return in 2008.

The Terasen acquisition impacted results in two ways: seasonality and higher corporate costs. We still anticipate that the Terasen Gas acquisition will be accretive to EPS by \$0.05 - \$0.10 in its first full-year. Unfortunately, however, it will likely be dilutive to EPS this year due to timing. The acquisition closed in Q2 but gas distribution tends to lose money in Q3 and makes all of its money in Q1 and Q4. We anticipate soft Q3 results for the company as a whole but then a strong fourth quarter and a good year in 2008.

Corporate costs were only marginally higher than the prior year but will create an even more negative drag going forward. Fortis has taken on about \$700 million in total unallocated debt for the Terasen acquisition and other projects this year. Using a 6.0% interest rate, this debt will likely add about \$25 million in after-tax corporate costs on an annual basis. The costs were not covered by earnings from gas distribution in Q2, nor will they be in Q3. But they should be more than covered in Q4 and Q1.

Despite higher financing costs, the good news is that Fortis has completed its financing requirements for the acquisition. Also, with growing cash flows (we see cash flow from operations at \$600 million by next year vs. only \$300 million in 2006) external financing requirements, absent further acquisitions, should be minimal in the coming 12- to 24-months. This financial position, combined with its now less volatile asset base, in our opinion, reduces the overall investing risk in Fortis stock.

In summary, while we see EPS growth in the coming years at lower than historical levels, we also see reduced risk that justifies premium valuation. Our \$30 price target is based on premium multiples of about 11.0x '08 EV/EBITDA and just over 19x P/E. It is hard to know whether any of the utility stocks can sustain quite these multiples unless financial markets stabilize, but in general Fortis should perform relatively well in the current environment as a reliable and defensive investment.

Appendix: Summary Of Q2'07 Earnings

Exhibit 1. Fortis Inc. Earnings Summary And Forecasts

	CIBC WM			2006A	Previous 2007E	Current 2007E	Previous 2008E	Current 2008E
	Q207 Estimates	Q207A	Q206A					
Newfoundland Power	\$6.0	\$8.0	\$8.0	\$30.1	\$27.6	\$30.2	\$27.9	\$30.0
Alberta & BC Utilities	\$15.0	\$22.0	\$14.7	\$68.7	\$64.3	\$72.9	\$71.4	\$77.3
Terasen Gas	(\$1.0)	\$1.6			\$43.7	\$43.7	\$101.3	\$101.3
Other Canadian Electric Utilities	\$2.7	\$4.0	\$2.7	\$13.7	\$14.1	\$14.1	\$14.3	\$14.3
Belize Electricity	\$3.0	\$2.8	\$2.3	\$10.5	\$11.5	\$12.2	\$12.3	\$13.0
Fortis Generation	\$6.2	\$4.7	\$6.0	\$26.0	\$28.6	\$27.2	\$29.6	\$28.6
Caribbean Utilities	\$2.5	\$2.4	\$2.1	\$9.7	\$11.0	\$11.0	\$12.0	\$12.0
Turks & Caicos	\$2.0	\$2.4		\$3.5	\$10.0	\$10.0	\$12.0	\$12.0
Fortis Properties	\$6.8	\$6.0	\$6.5	\$17.1	\$18.0	\$18.0	\$19.0	\$20.0
Corporate	(\$11.0)	(\$12.6)	(\$8.3)	(\$36.1)	(\$43.4)	(\$53.8)	(\$49.6)	(\$66.0)
Operating Earnings for Common	\$32.2	\$41.3	\$34.0	\$143.2	\$185.4	\$185.5	\$250.2	\$242.5
Unusual Items	\$0.0	\$0.2	\$3.9	\$4.6	(\$2.3)	(\$2.1)	\$0.0	\$0.0
Reported Earnings	\$32.2	\$41.5	\$37.9	\$147.8	\$183.1	\$183.4	\$250.2	\$242.5
Average Shares Outstanding (mln)	131.2	131.5	103.4	103.6	137.0	137.5	156.0	156.0
Operating EPS	\$0.25	\$0.31	\$0.33	\$1.38	\$1.35	\$1.35	\$1.60	\$1.55
Reported EPS	\$0.25	\$0.31	\$0.37	\$1.43	\$1.34	\$1.33	\$1.60	\$1.55

Note:

1. Unusual item in Q2'07 includes \$0.2 million in after-tax insurance proceeds received.
2. Unusual items in 2006 include a \$0.7 million gain from insurance proceeds on NY Hydro asset, a \$1.6 million after-tax gain on the sale of Days Inn Sydney, a \$1.6 million unrealized FX gain and a \$0.7 million after-tax gain on insurance.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$8.0 million in Q2'07, in-line with the \$8.0 million reported in Q2'06. Electricity sales growth was offset by lower allowed ROE for 2007 and higher amortization costs. Electricity sales were up 35 GWhs mainly due to customer growth. In May, Newfoundland Power filed a request to increase customer rates, with a public hearing expected in the fall of '07.

Other Canadian Electric Utilities

Earnings for the segment were \$1.3 million higher than Q2'06 mainly due to higher electricity sales and a 3.35% rates increase at Maritime Electric, effective July 2006. Electricity sales at Maritime Electric were up 14 GWh and sales at FortisOntario were up 2 GWh.

FortisAlberta

Second quarter results were up \$4.2 million mainly due to customer growth, increased energy deliveries and a 0.7% increase in distribution rates, effective January 2007. In June, FortisAlberta filed its 2008/2009 Distribution Access Tariff, requesting an increase in base distribution rates of 8.5% effective January 2008. The application forecasted gross capital expenditures of \$283 million in 2008 and \$312 million in 2009 to improve system reliability and meet customer growth.

FortisBC

FortisBC reported second quarter earnings of \$6.5 million, \$3.1 million higher than in Q2'06. Improved earnings primarily came from an increase in electricity rates, higher electricity sales and lower energy supply costs. This was partially offset by an increase in operating expenses, amortization and finance costs.

Terasen Gas

Terasen Gas, acquired on May 17 2007, contributed \$1.6 million in earnings during Q2. The operation tends to report its strongest earnings in Q1 and Q4. Going forward, we expect Terasen Gas to provide strong full-year results in 2008.

Regulated Utilities – Caribbean (Belize, Caribbean Utilities, Turks & Caicos)

Q2'07 earnings for the Caribbean utilities segment were up \$3.2 million from Q2'06, mainly due to the earnings contribution from Fortis Turks and Caicos (acquired August 2006) and an increased investment in Caribbean Utilities, partially offset by lower reported earnings at Caribbean Utilities.

Fortis Generation

Normalized earnings at Fortis Generation were down \$1.3 million from Q2'06. The decrease was mainly attributable to decreased production from lower rainfall in Belize, central Newfoundland and Upper New York State.

Fortis Properties

Excluding the sale of Days Inn Sydney last year, Fortis Properties earnings were slightly lower in Q2'07 mainly due to a favorable tax adjustment in Q2'06, slightly offset by contribution from four hotels in western Canada (acquired November 2006).

Corporate

Normalized Q2'07 corporate expenses were \$4.3 million higher from Q2'06 mainly due to higher finance charges related to the Terasen acquisition.

Price Target Calculation

Our \$30 price target is based primarily on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The price target implies an EV/2008E EBITDA multiple of about 11x and a 19.3x multiple of our 2008 EPS forecast. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields, to some or a full extent, through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.33A	\$1.38A
2007 Prior	\$0.40A	\$0.25E	\$0.20E	\$0.51E	\$1.35E
2007 Current	\$0.40A	\$0.31A	\$0.17E	\$0.48E	\$1.35E
2008 Prior	--	--	--	--	\$1.60E
2008 Current	--	--	--	--	\$1.55E

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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 06 Aug 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	356	39.5%	Sector Outperformer (Buy)	175	49.2%
Sector Performer (Hold/Neutral)	441	48.9%	Sector Performer (Hold/Neutral)	223	50.6%
Sector Underperformer (Sell)	65	7.2%	Sector Underperformer (Sell)	24	36.9%
Restricted	21	2.3%	Restricted	21	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 06 Aug 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	1	10.0%	Sector Outperformer (Buy)	1	100.0%
Sector Performer (Hold/Neutral)	7	70.0%	Sector Performer (Hold/Neutral)	5	71.4%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EEP, EMA, ENB, FTS, RRI, SE, TA, TRP.

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November 4, 2007

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$30.00
FTS-TSX (11/2/07) \$27.19

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$24.50-\$30.00
Shares Outstanding 154.9M
Float 154.9M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,211.7M
Dividend/Div Yield \$0.84 / 3.1%
Fiscal Year Ends December
Book Value \$16.79 per Shr
2007 ROE (E) 8.2%
LT Debt \$5.1B
Preferred \$442.00M
Common Equity \$2.6B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.38A
2007	\$1.35E	\$1.35E
2008		\$1.55E

P/E		
2006		19.7x
2007	20.1x	20.1x
2008		17.5x

Dividends Per Share	
2004	\$0.54
2005	\$0.59
2006	\$0.67
2007E	\$0.82

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Outlook Better With Q3 Out Of The Way

- Fortis reported Q3'07 EPS of \$0.20 vs. our estimate of \$0.17 and \$0.37 in Q3'06. Normal seasonal earnings patterns at BC Gas drove the y-o-y decline, but should reverse in Q4. We are maintaining our estimates, Sector Performer rating and \$30 price target.
- In a full report on Fortis dated May 18 2007, we estimated that the BC Gas acquisition would be accretive to EPS by \$0.05 - \$0.10 in its first full year. Now that the financing for that acquisition is in place, the analysis still holds. Our Q4'07 estimate is \$0.45 vs. only \$0.33 in Q4'06.
- Organic growth at Fortis will be lower than it used to be but still solid relative to other utility companies. The Alberta and Caribbean regulated electric utilities together should drive about 5% compound growth in the coming years.
- Growth by acquisition is probably on the backburner for now, while the company digests BC Gas and as financial buyers push valuations higher (Puget Energy a recent example). But with an improved risk profile, we still use a premium 19.4x P/E and 10.5x EV/EBITDA to derive our price target.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis reported Q3'07 EPS of \$0.20 vs. our estimate of \$0.17 and \$0.37 in Q3'06. Normal seasonal earnings patterns at BC Gas drove the y-o-y decline, but should reverse in Q4. We are maintaining our estimates, Sector Performer rating and \$30 price target.

Please see the Appendix to this comment for a full breakdown and analysis of earnings by segment.

In a full report on Fortis dated May 18 2007 we estimated the BC Gas acquisition would be accretive to EPS by \$0.05 - \$0.10 in its first full year. Now that the financing for that acquisition is in place, the analysis still holds. BC Gas earns all of its profit in Q1 and Q4. Therefore, we anticipate favorable year-over-year comparisons in the next two quarters. Our Q4'07 estimate is \$0.45 vs. only \$0.33 in Q4'06.

Organic growth at Fortis will be lower than it used to be but still solid relative to other utility companies. The Alberta electric utility is growing rate base at 15% - 20% in the coming years. As tax benefits expire, we see achieved returns on equity falling but rate base growth slightly more than offsetting the impact. Utilities in the Caribbean region including Belize, Grand Cayman and Turks are experiencing sales growth of anywhere from 5% - 20% and increased revenue should largely fall to the bottom line.

Earnings from the Caribbean come in US\$ but the company has now largely hedged its exposure. On the balance sheet, management noted it is fully hedged with US\$ denominated debt. On the income statement, even a \$0.10 move in the C\$/US\$ exchange rate will not likely have a material impact on EPS.

Growth by acquisition is probably on the backburner for now while the company digests BC Gas. It makes little sense to do another acquisition until the gas utility assets are fully integrated. The integration process will probably take about a year.

Financial buyers and industry players have added new challenges in the Fortis acquisition strategy. Consolidating utilities in the Pacific Northwest will be difficult as two have recently been acquired. A small gas utility, Cascades, was acquired by MDU (MDU-NYSE) this summer and more recently Macquarie has announced the acquisition of integrated and regulated gas/electric utility Puget Energy (PSD-NYSE).

The acquisition activity has pushed valuation on Pacific Northwest utilities up. Early in the year, several were trading at only 15x earnings and 7.0 - 8.0x EV/EBITDA. We calculated the Puget acquisition multiples at more than 18.0x earnings and 9.0x EV/EBITDA. At these valuation levels Fortis may not be able to make an accretive acquisition in the region for now.

In the absence of a serious acquisition theme at this time, Fortis is perhaps a less exciting investment at the moment but also a lower risk investment. Our valuation targets consider this risk profile and the management track record of delivering solid organic growth. We still use premium valuation multiples of 19.4x P/E and 10.5x EV/EBITDA to derive our \$30 price target. This target justifies our Sector Performer rating.

Appendix: Summary of Q3'07 Earnings

Exhibit 1. Fortis Earnings Summary and Forecast (\$mln unless per share data)

	CIBC WM			2006A	Previous 2007E	Current 2007E	Previous 2008E	Current 2008E
	Q307 Estimates	Q307A	Q306A					
Newfoundland Power	\$3.1	\$2.7	\$2.6	\$30.1	\$30.2	\$30.2	\$31.6	\$31.6
Alberta & BC Utilities	\$17.1	\$20.9	\$18.0	\$68.7	\$74.7	\$77.5	\$75.8	\$80.3
Terasen Gas	(\$5.0)	(\$3.7)			\$43.7	\$43.7	\$101.3	\$101.3
Other Canadian Electric Utilities	\$4.7	\$4.4	\$4.7	\$13.7	\$14.1	\$14.6	\$14.3	\$14.8
Belize Electricity	\$3.6	\$3.0	\$3.9	\$10.5	\$12.2	\$10.6	\$13.0	\$11.7
Fortis Generation	\$5.5	\$5.0	\$7.1	\$26.0	\$25.4	\$24.8	\$28.6	\$26.4
Caribbean Utilities	\$3.9	\$4.1	\$3.2	\$9.7	\$11.5	\$11.7	\$12.0	\$13.0
Turks & Caicos	\$3.2	\$2.7	\$0.7	\$3.5	\$10.0	\$10.0	\$12.0	\$12.0
Fortis Properties	\$6.5	\$8.0	\$6.3	\$17.1	\$18.0	\$19.0	\$20.0	\$20.0
Corporate	(\$16.0)	(\$16.3)	(\$8.3)	(\$36.1)	(\$53.8)	(\$55.8)	(\$66.0)	(\$69.0)
Operating Earnings for Common	\$26.6	\$30.8	\$38.2	\$143.2	\$185.9	\$186.2	\$242.5	\$242.1
Unusual Items	\$0.0	\$0.0	\$0.7	\$4.6	(\$2.1)	(\$2.1)	\$0.0	\$0.0
Reported Earnings	\$26.6	\$30.8	\$38.9	\$147.8	\$183.8	\$184.1	\$242.5	\$242.1
Average Shares Outstanding (mln)	154.5	154.5	103.4	103.6	137.5	137.5	156.0	156.0
Operating EPS	\$0.17	\$0.20	\$0.37	\$1.38	\$1.35	\$1.35	\$1.55	\$1.55
Reported EPS	\$0.17	\$0.20	\$0.38	\$1.43	\$1.34	\$1.34	\$1.55	\$1.55

Note:

1. Unusual items in 2006 include a \$0.7 million gain from insurance proceeds on NY Hydro asset, a \$1.6 million after-tax gain on the sale of Days Inn Sydney, a \$1.6 million unrealized FX gain and a \$0.7 million after-tax gain on insurance.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$2.7 million in Q3'07, in-line with the \$2.6 million reported in Q3'06. In October, Newfoundland Power filed a revised 2008 General Rate application with the Newfoundland and Labrador Board of Commissioners of Public Utilities, a result of recent negotiations with the Consumer Advocate, and determined that the 2008 allowed ROE should be 8.95%.

Other Canadian Electric Utilities

Earnings for the segment were \$4.4 million, slightly lower than the \$4.7 million in Q3'06 due to increased operating expenses and higher amortization costs, partially offset by lower corporate tax expense. Electricity sales were down 14 GWh mainly due to FortisOntario, a result of lower consumption.

FortisAlberta

Third-quarter results were up \$2.4 million mainly due to customer growth, a 0.7% increase in distribution rates effective January 2007 and increased corporate tax recoveries, partially offset by higher operating expenses, amortization and finance charges. Going forward, corporate income tax recoveries are expected to be minimal.

FortisBC

FortisBC reported third-quarter earnings of \$6.2 million, \$0.5 million higher than in Q3'06 mainly due to increased electricity rates and sales, partially offset by higher operating expenses, amortization and finance charges.

Terasen Gas

Terasen Gas, acquired on May 17 2007, reported a loss of \$3.7 million in Q3. The operation tends to report its strongest earnings in Q1 and Q4. Going forward, we expect Terasen Gas to provide strong full-year results in 2008.

Regulated Utilities – Caribbean (Belize, Caribbean Utilities, Turks & Caicos)

Q3'07 earnings for the Caribbean utilities segment were up \$2.1 million from Q3'06. High earnings were mainly due to the increased investment in Caribbean Utilities and the earnings contribution from Fortis Turks and Caicos (acquired August 2006), partially offset by increased operating, amortization and finance charges.

Fortis Generation

Normalized earnings at Fortis Generation were down \$2.1 million from Q3'06, a result of lower rainfall which led to decreased production in Belize and New York.

Fortis Properties

Fortis Properties earnings were \$1.7 million higher than Q3'06 mainly due contribution growth from Fortis' western Canada hospitality operations, partially offset by higher operating expenses and finance charges.

Corporate

Corporate expenses were \$8 million higher from Q3'06 mainly due to higher finance charges and preference share dividends associated with the Terasen acquisition.

Price Target Calculation

Our \$30 price target is based primarily on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The price target implies an EV/2008E EBITDA multiple of about 10.5x and a 19.4x multiple of our 2008 EPS forecast. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields, to some or a full extent, through dividend growth.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.33A	\$1.38A
2007 Prior	\$0.40A	\$0.31A	\$0.17E	\$0.48E	\$1.35E
2007 Current	\$0.40A	\$0.31A	\$0.20A	\$0.45E	\$1.35E
2008 Current	--	--	--	--	\$1.55E

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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
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Stock Prices as of 11/04/2007:

Macquarie Bank Ltd. (MBL-AUS, A\$81.10, Not Rated)

MDU Resources (MDU-NYSE, US\$27.58, Not Rated)

Puget Energy Inc. (PSD-NYSE, US\$28.21, Not Rated)

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/15/2004	▲	16.52	SO	17.75	Matthew Akman
12/06/2004	▲	16.61	SO	18.75	Matthew Akman
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 04 Nov 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	364	39.7%	Sector Outperformer (Buy)	176	48.4%
Sector Performer (Hold/Neutral)	463	50.4%	Sector Performer (Hold/Neutral)	223	48.2%
Sector Underperformer (Sell)	61	6.6%	Sector Underperformer (Sell)	31	50.8%
Restricted	18	2.0%	Restricted	18	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 04 Nov 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EEP, EMA, ENB, FTS, RRI, SE, TA, TRP.

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February 7, 2008

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$30.00
FTS-TSX (2/7/08) \$29.24

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) 6.0%
52-week Range \$24.50-\$29.89
Shares Outstanding 155.5M
Float 153.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,546.8M
Dividend/Div Yield \$1.00 / 3.4%
Fiscal Year Ends December
Book Value \$16.73 per Shr
2008 ROE (E) 8.1%
LT Debt \$4.6B
Preferred \$442.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2006		\$1.38A
2007	\$1.35E	\$1.36A
2008		\$1.55E

P/E		
2006		21.2x
2007	21.7x	21.5x
2008		18.9x

Dividends Per Share	
2004	\$0.54
2005	\$0.59
2006	\$0.67
2007	\$0.82
2008E	\$1.00

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 67% interest in Belize Electricity and 38% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Solid End To 2007

- Fortis reported normalized Q4'07 EPS of \$0.46 vs. our estimate of \$0.45 and \$0.33 in Q4'06. Normal seasonal earnings patterns at BC Gas drove the strong y-o-y increase. We are maintaining our estimates, Sector Performer rating and \$30 price target.
- The full year 2007 results highlight a company in transition integrating a large new acquisition. With the Terasen Gas operations delivering seasonally strong Q4 results, the acquisition appears on track to be EPS accretive by \$0.05 - \$0.10 in its first full year.
- Looking forward to 2008 and beyond, organic growth at Fortis will be lower than it used to be but still solid relative to other Canadian utility companies. Cash flow growth should accelerate, as depreciation rises with rate base additions.
- While we see EPS growth in the coming years slowing, we also see reduced risk that justifies premium valuation. In general Fortis should perform relatively well in the current volatile capital market environment as a reliable and defensive dividend-yielding investment.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Fortis (FTS-SP) reported normalized Q4'07 EPS of \$0.46 vs. our estimate of \$0.45 and \$0.33 in Q4'06. Normal seasonal earnings patterns at BC Gas drove the strong y-o-y increase. We are maintaining our estimates, Sector Performer rating and \$30 price target.

Please see the Appendix to this comment for a full breakdown and analysis of earnings by segment.

The full year 2007 results highlight a company in transition integrating a large new acquisition. But with the Terasen Gas operations delivering seasonally strong Q4 results (normalized \$45 million in earnings), the acquisition appears on track to be EPS accretive by \$0.05 - \$0.10 in its first full year (mid-2008).

While the core regulated operations delivered solid utility growth, the Q4 results were somewhat tempered by high corporate costs. Higher debt levels and associated financing charges are the culprit, as the company has taken on over \$600 million in unallocated debt for acquisitions (Terasen Gas, hotel properties) and capital expenditure projects. The incremental debt will create a negative drag going forward, but earnings growth should more-than-cover the impact on corporate costs.

Looking forward to 2008 and beyond, organic growth at Fortis will be lower than it used to be, but still solid relative to other Canadian utility companies. The Alberta electric utility is growing rate base at 15%-20% in the coming years. With tax benefits in Alberta expected to taper off this year, we see achieved returns on equity falling towards a more normal range. But the strong rate base growth in Alberta (\$250-\$350 million in annual capex spend over the next few years) should offset most of the ROE drop.

Furthermore, the utilities in the Caribbean region (including Belize, Grand Cayman and Turks) are experiencing strong electricity growth (from 5%-20% per annum). This also creates opportunities for expanded generation capacity, particularly hydro power in Belize. The company has largely hedged its Caribbean investments with US\$ denominated debt, such that increased sales should largely fall directly to earnings for solid growth profile.

The company's capex spending requirements are increasing this year (around \$900 million, up from \$790 million in 2007), but Fortis' cash flow growth is also accelerating. Our modeling shows cash flow from operations rising to over \$600 million this year (vs. only \$300 million in 2006 and \$490 million in 2007), such that Fortis' debt to capital ratio should sustain around 65%. This solid financial position, combined with its now less volatile asset base (over 70% of 2008 earnings from Canadian regulated utilities), reduces the overall investing risk in Fortis stock, in our view.

In summary, while we see EPS growth in the coming years at lower than historical levels, we also see reduced risk that justifies premium valuation. Our \$30 price target is based on premium multiples of 19.4x P/E and 10.5x EV/EBITDA. In general Fortis should perform relatively well in the current volatile capital market environment as a reliable and defensive investment. The total 6% return to our \$30 price target justifies our Sector Performer rating.

Price Target Calculation

Our \$30 price target is based primarily on our detailed dividend discount valuation models with consideration for EV/EBITDA multiples and P/E multiples. The price target implies an EV/2008E EBITDA multiple of about 10.5x and a 19.4x multiple of our 2008 EPS forecast. The target multiples are found at the higher end of the stock's historical trading range but all of the pipelines and utilities are trading through peak historical multiples due to the low interest rate environment.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in Canadian bond yields. If bond yields rise significantly, valuation levels in the sector will likely fall. Fortis can offset a potential rise in bond yields, to some or a full extent, through dividend growth.

Appendix: Summary Of Q4'07 And Full-Year Estimates By Segment

Exhibit 1. Fortis Earnings Summary And Forecast (\$mln, unless per share data)

	CIBC WM			2006A	Previous 2007E	Actual 2007	Previous 2008E	Current 2008E
	Q4/07 Estimates	Q407A	Q406A					
Newfoundland Power	\$8.9	\$8.6	\$8.8	\$30.1	\$30.2	\$29.9	\$31.6	\$31.6
Alberta & BC Utilities	\$11.1	\$13.0	\$14.7	\$68.7	\$77.5	\$79.4	\$80.3	\$80.1
Terasen Gas	\$45.9	\$45.0	-	-	\$43.7	\$42.9	\$101.3	\$101.3
Other Canadian Electric Utilities	\$2.2	\$3.3	\$3.2	\$13.7	\$14.6	\$15.6	\$14.8	\$14.8
Belize Electricity	\$2.1	\$2.0	\$2.7	\$10.5	\$10.6	\$11.5	\$11.7	\$11.7
Fortis Generation	\$7.2	\$7.0	\$7.5	\$26.0	\$24.8	\$24.1	\$26.4	\$26.5
Caribbean Utilities	\$3.3	\$3.0	\$2.8	\$9.7	\$11.7	\$11.3	\$13.0	\$13.0
Turks & Caicos	\$3.1	\$4.0	\$2.8	\$3.5	\$10.0	\$10.2	\$12.0	\$12.0
Fortis Properties	\$3.2	\$8.0	\$2.8	\$17.1	\$19.0	\$23.8	\$20.0	\$20.0
Corporate	(\$17.2)	(\$22.0)	(\$11.0)	(\$36.1)	(\$55.8)	(\$61.0)	(\$69.0)	(\$69.0)
Operating Earnings for Common	\$69.8	\$71.9	\$34.3	\$143.2	\$186.2	\$187.7	\$242.1	\$242.0
Unusual Items	\$0.0	\$7.0	\$0.0	\$4.6	(\$2.1)	\$4.9	\$0.0	\$0.0
Reported Earnings	\$69.8	\$78.9	\$34.3	\$147.8	\$184.1	\$192.6	\$242.1	\$242.0
Average Shares Outstanding (mln)	154.5	155.4	104.0	103.6	137.6	137.6	156.0	156.0
Operating EPS	\$0.45	\$0.46	\$0.33	\$1.38	\$1.35	\$1.36	\$1.55	\$1.55
Reported EPS	\$0.45	\$0.51	\$0.33	\$1.43	\$1.34	\$1.40	\$1.55	\$1.55

Note:

1. Unusual items in 2007 include a \$2.3 million loss on disposal of steam turbine, \$0.2 million gain from insurance proceeds received at FTS Generation and a \$7 million after-tax gain on the sale of surplus land.
2. Unusual items in 2006 include a \$0.7 million gain from insurance proceeds on NY Hydro asset, a \$1.6 million after-tax gain on the sale of Days Inn Sydney, a \$1.6 million unrealized FX gain and a \$0.7 million after-tax gain on insurance.

Source: Company reports and CIBC World Markets Inc.

Newfoundland Power

Newfoundland Power reported earnings of \$9 million in Q4'07, in line with the \$9 million reported in Q4'06. In October, Newfoundland Power filed a revised 2008 General Rate application with the Newfoundland and Labrador Board of Commissioners of Public Utilities, a result of recent negotiations with the Consumer Advocate, and determined that the 2008 allowed ROE should be 8.95%.

Other Canadian Electric Utilities

Earnings for the segment were \$3 million, in line with the \$3 million reported in Q4'06. A \$2 million after-tax gain at FortisOntario related to a refund received as ordered by a regulator was offset by higher amortization costs and finance charges. Electricity sales were up 10 GWh, mainly due to higher consumption as a result of cooler-than-normal weather in Ontario and PEI and an increase in the number of customers at Maritime Electric.

FortisAlberta

Fourth quarter results were down \$3 million mainly due to higher operating expenses, amortization costs and finance charges. The amortization costs were a result of an increase in capital assets driven by load growth, upgrades and replacement of assets.

FortisBC

FortisBC reported fourth quarter earnings of \$7 million, \$1 million higher than in Q4'06 mainly due to increased electricity rates and sales, partially offset by higher operating expenses, amortization and finance charges.

Terasen Gas

Terasen Gas, acquired on May 17 2007, reported \$52 million in earnings for the fourth quarter. Due to a one-time gain of \$7 million on the sale of surplus land the fourth quarter result was normalized to \$45 million. Terasen tends to report its strongest earnings in Q1 and Q4.

Regulated Utilities – Caribbean (Belize, Caribbean Utilities, Turks & Caicos)

Q4'07 earnings for the Caribbean utilities segment were up \$1 million from Q4'06. Higher earnings were mainly due to the additional 16% stake in Caribbean Utilities, partially offset by lower earnings at Caribbean Utilities as a result of higher operating expenses and the negative impact of foreign currency translation.

Fortis Generation

Reported earnings at Fortis Generation of \$7 million were in line with Q4'06. Lower rainfall was offset by higher average wholesale prices in Ontario and lower operating expenses.

Fortis Properties

Fortis Properties earnings were \$5 million higher than Q4'06 due to a \$4 million favorable corporate tax adjustment and contribution growth from Fortis' western Canada hospitality operations.

Corporate

Corporate expenses were \$11 million higher from Q4'06 mainly due to higher finance charges related to the Terasen acquisition.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.35A	\$0.33A	\$0.37A	\$0.33A	\$1.38A
2007 Prior	\$0.40A	\$0.31A	\$0.20A	\$0.45E	\$1.35E
2007 Current	\$0.40A	\$0.31A	\$0.20A	\$0.46A	\$1.36A
2008 Current	--	--	--	--	\$1.55E

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- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/09/2005	▲	18.65	SO	20.50	Matthew Akman
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
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CIBC World Markets' Stock Rating System

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NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 07 Feb 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	42.3%	Sector Outperformer (Buy)	118	79.7%
Sector Performer (Hold/Neutral)	174	49.7%	Sector Performer (Hold/Neutral)	138	79.3%
Sector Underperformer (Sell)	24	6.9%	Sector Underperformer (Sell)	15	62.5%
Restricted	3	0.9%	Restricted	3	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 07 Feb 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	44.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	3	33.3%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	2	22.2%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, BLX, CU, EMA, ENB, FTS, SE, TA, TRP.

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May 1, 2008

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$31.50
FTS-TSX (5/1/08) \$28.14

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$24.50-\$29.94
Shares Outstanding 156.9M
Float 156.9M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,415.7M
Dividend/Div Yield \$1.00 / 3.6%
Fiscal Year Ends December
Book Value \$17.05 per Shr
2008 ROE (E) 9.2%
LT Debt \$5.1B
Preferred \$442.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2007		\$1.36A
2008	\$1.55E	\$1.57E
2009		\$1.57E

P/E		
2007		20.7x
2008	18.2x	17.9x
2009		17.9x

Dividend Per Share	
2007	\$0.82A
2008	\$1.00E
2009	\$1.10E

Yield	
2007	2.9%
2008	3.6%
2009	3.9%

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI, and has a significant Caribbean presence through a 70% interest in Belize Electricity and 54% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Q1 Results Modestly Better Than Expected

- Q1/08 EPS came in at \$0.58, up from \$0.40 in Q1/07 and ahead of our \$0.55 estimate. The main driver of the outperformance in the quarter was Terasen Gas, the B.C. natural gas distribution utility acquired in May 2007, which saw gas volumes increase as a result of cooler weather.
- Newfoundland Power results were down \$5 million y/y, as a result of a shift in the quarterly distribution of purchased power expenses that reduced earnings by \$6 million (\$0.04/share). This shift should result in Q2 and Q3 y/y comparables improving with annual earnings remaining unaffected.
- We have made minor adjustments to our model, with our 2008E EPS rising from \$1.55 to \$1.57. Our 2009 EPS is flat at \$1.57, reflecting the expiry of the contractual contributions to Fortis from the Rankine power facility, mitigated by growth in Fortis' other businesses.
- Our price target rises from \$30.00 to \$31.50, based on a target multiple of 20x 2009E EBITDA. Our Sector Performer rating balances a superior track record and long-term potential against a high valuation and an EPS pause anticipated in 2009.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Q1 Results

Q1 Earnings Performance

Fortis (FTS-SP) reported Q1 results that were slightly ahead of expectations. Q1/08 operating EPS came in at \$0.58, up from \$0.40 in Q1/07 and ahead of our \$0.55 estimate. Results at Terasen Gas, the B.C. natural gas distribution utility acquired in May 2007, was the main source of the higher-than-expected earnings.

Q1 Highlights And Recent Developments

- **Terasen Gas:** Terasen Gas contributed \$58 million in operating earnings in Q1/08, above of our \$52 million estimate, with no prior comparable quarter given the May 2007 acquisition date. Gas volumes at the utility were up 2.9% y/y, driven by higher consumption due to cooler weather in B.C. Terasen's business is highly seasonal, with virtually all of its earnings generated in Q1 and Q4.
- **Alberta & B.C. Utilities:** Operating earnings from FortisAlberta and FortisBC were \$23 million in Q1/08, down from \$24 million in Q1/07, and in line with our \$23 million forecast. FortisBC results were level versus last year, while FortisAlberta's contribution declined slightly, as customer growth and an increased distribution rate was offset by lower corporate tax recoveries and higher operating expenses.
- **Newfoundland Power:** Newfoundland Power operating earnings were \$6 million in the quarter, down from \$11 million in Q1/07, and below our \$9 million estimate. The decline is the result of a shift in the quarterly distribution of purchased power expenses, thus reducing Q2/08 earnings by \$6 million (\$0.04/share). In 2007, Newfoundland Power estimated and recognized monthly purchased power expenses based on forecast annual average cost per kWh, with the difference between the estimated and actual monthly expense being adjusted to a regulatory reserve. This regulatory reserve was discontinued in 2008, and as a result, purchased power expenses are now recorded at actual cost per kWh. This shift has the effect of reducing earnings in Q1 and Q4, when power prices are higher, and improving earnings in Q2 and Q3, with annual earnings remaining unaffected.
- **Non-regulated Operations:** Non-regulated operations contributed \$9 million in earnings in Q1/07, in line with \$9 million in Q1/07, and below our \$10 million estimate. Fortis Generation earnings were \$6 million in Q1/08, down from \$7 million in the same quarter last year, as a result of lower production in Belize due to decreased rainfall, reduced average wholesale energy prices in Ontario, and the negative impact of foreign exchange. Fortis Properties contributed \$3 million to earnings, up from \$2 million in Q1/07, due to the impact of the Delta Regina acquisition in August 2007.
- **Mt. Hayes Natural Gas Storage Facility:** On April 1, Terasen received final regulatory approval for the construction of the Mt. Hayes natural gas storage facility on Vancouver Island. The facility will be able to hold 1.5 Bcf of liquefied natural gas, is expected to be in-service by late 2011, and has an estimated cost of \$200 million.

Exhibit 1. Fortis' Earnings Summary

Segmented Earnings	Q1/08A	Q1/08E	Q1/07A	2008E	2009E
Regulated Utilities					
Terasen Gas	58	52	-	105	107
Alberta & B.C. Utilities	23	23	24	79	86
Newfoundland Power	6	9	11	30	31
Other Canadian Utilities	4	4	4	15	16
Caribbean Utilities (Belize, CUC, T&C)	7	8	6	37	37
Total Regulated Utilities	98	95	44	265	277
Non-Regulated Operations					
Fortis Generation	6	8	7	26	17
Fortis Properties	3	2	2	26	27
Total Non-Regulated Operations	9	10	9	53	44
Corporate	(16)	(20)	(10)	(72)	(75)
Operating Earnings For Common	91	86	44	245	246
Unusual Items	0	0	(2)	0	0
Reported Earnings	91	86	42	245	246
Average Shares Outstanding	157	156	109	156	156
Operating EPS	0.58	0.55	0.40	1.57	1.57
Reported EPS	0.58	0.55	0.38	1.57	1.57

Source: Company reports and CIBC World Markets Inc.

Revising Estimates

We have made minor modifications to our model, raising our expected contribution from Terasen and Fortis Properties slightly. As a result, our 2008E EPS increases from \$1.55 to \$1.57. Our 2009E EPS is set at \$1.57, reflecting the expiry of contractual contributions to Fortis from the Rankine power facility, mitigated by growth in Fortis' other businesses.

Price Target Determination

Our price target is raised from \$30.00 to \$31.50, and is based on a target multiple of 20x 2009E EPS, at the high end of Canadian utilities comparables. Our fulsome target reflects both Fortis' impressive track record and longer-term growth outlook.

Outlook And Investment Summary

Longer-term, a \$4 billion capital program over the next five years underlies solid EPS growth potential. We currently anticipate Fortis' combined \$6 billion rate base to grow at a CAGR of 6% through 2012. Fortis currently trades at 17.9x 2009E EPS, deservedly at the higher end of the Canadian utilities group given its strong track record and long-term growth potential. We maintain our Sector Performer rating, balancing strong historical performance and long-term growth

opportunities against high valuations and a pause in EPS growth expected in 2009.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2007 Current	\$0.40A	\$0.31A	\$0.20A	\$0.46A	\$1.36A
2008 Prior	--	--	--	--	\$1.55E
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2009 Current	--	--	--	--	\$1.57E

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01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
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NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 01 May 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	152	44.4%	Sector Outperformer (Buy)	126	82.9%
Sector Performer (Hold/Neutral)	162	47.4%	Sector Performer (Hold/Neutral)	126	77.8%
Sector Underperformer (Sell)	19	5.6%	Sector Underperformer (Sell)	13	68.4%
Restricted	8	2.3%	Restricted	8	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 01 May 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	44.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	55.6%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, BLX, CU, EMA, ENB, FTS, SE, TA, TRP.

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May 19, 2008

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$31.50
FTS-TSX (5/14/08) \$27.15

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$24.50-\$29.94
Shares Outstanding	156.9M
Float	156.9M Shrs
Avg. Daily Trading Vol.	98,036
Market Capitalization	\$4,260.4M
Dividend/Div Yield	\$1.00 / 3.7%
Fiscal Year Ends	December
Book Value	\$17.05 per Shr
2008 ROE (E)	9.2%
LT Debt	\$5.1B
Preferred	\$442.00M
Common Equity	\$2.7B
Convertible Available	No

Earnings Per Share	Prev	Current
2007		\$1.36A
2008		\$1.57E
2009		\$1.57E

P/E	
2007	20.0x
2008	17.3x
2009	17.3x

Dividend Per Share	
2007	\$0.82A
2008	\$1.00E
2009	\$1.10E

Yield	
2007	3.0%
2008	3.7%
2009	4.1%

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI and has a significant Caribbean presence through a 70% interest in Belize Electricity and 54% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Exceptional Growth Through Acquisition

- Fortis has established an impressive long-term track record of EPS and dividend growth, driven by aggressive and timely acquisitions of regulated utilities in Canada and the Caribbean. Assets have grown from a little over \$2 billion in 2004 to \$10 billion at the end of 2007.
- We look for EPS to grow from \$1.36 in 2007 to \$1.57 in 2008, followed by a temporary leveling out in 2009 at \$1.57. A capital program amounting to some \$4 billion over the next five years underlies strong growth in core earnings, while the pause in 2009 reflects the expiry of a contract with OPG.
- Look for the combined \$6 billion rate base to grow at a CAGR of 6% through 2012. Particularly impressive is FortisAlberta, whose \$1.1 billion rate base will see more than \$275 million in annual investment over the next five years. Strong growth is also expected for FortisBC and Caribbean assets.
- Our target multiple of 20x 2009E EPS reflects both track record and long-term opportunity, while our SP rating balances this against a temporary pause in earnings growth expected in 2009. Accretive acquisitions remain a strong possibility. As of 5/19, we are assuming coverage of Fortis.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

CIBC World Markets Inc., P.O. Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 (416) 594-7000

Investment Summary

Fortis (FTS-SP) has established an impressive long-term track record of EPS and dividend growth, driven by aggressive and timely acquisitions of regulated utilities in Canada and the Caribbean. We anticipate further EPS growth in 2008, followed by a pause in 2009, while investment opportunities amounting to some \$4 billion between 2008 and 2012 bode well for growth in the longer term. Fortis currently trades at 17.3x 2008E and 2009E EPS of \$1.57, above the Canadian utilities average 16.0x. Our \$31.50 price target is based upon a multiple of 20x 2009E EPS, while our Sector Performer rating adequately balances Fortis' exceptional track record and long-term growth opportunities against temporarily moderated EPS growth anticipated in 2009.

Regulated Utilities Represent The Core Of Fortis' Earnings

Regulated utility operations in both Canada and the Caribbean together comprise roughly 85% of Fortis' total operating earnings contributions for 2008 and represent over \$6 billion in collective rate base, which is anticipated to grow at a compound annual growth rate of 6% over the next five years. These operations provide a highly stable core to Fortis' earnings, in addition to contributing growth to the bottom line, as both western Canadian and Caribbean electrical utility operations are experiencing strong growth in electricity demand, resulting in infrastructure investment opportunity.

An Active Acquirer

Fortis has proven to be a capable and aggressive acquirer of regulated utilities, having grown its assets from a little over \$2 billion in 2004 to roughly \$10 billion by the end of 2007. Major acquisitions over the past four years include FortisAlberta and FortisBC, which virtually doubled the size of the company in 2004, and the more recent acquisition of Terasen Gas, which doubled the company's size yet again in 2007. Timing has also been particularly adept in light of significant rate base growth in the western utilities' rate bases since the acquisition. Accretive earnings growth through acquisition has supported what is perhaps the most impressive dividend growth profiles in Canada, with per share payouts rising for 34 consecutive years.

EPS Growth Profile

We look for operating EPS to grow to \$1.57 in 2008 from \$1.36 in 2007 and then level out at \$1.57 in 2009. Growth expectations in the current year reflect a full-year contribution from Terasen, while a leveling in 2009 is the product of the April 29, 2009, expiry of contractual contributions to Fortis from the Rankine Power Facility, mitigated by growth in Fortis' other businesses. A capital program that will see roughly \$890 million spent in 2008 (roughly half of which is designated as growth expenditures) and another \$3.1 billion anticipated between 2009 and 2012 underlies strong EPS growth in the long term; Fortis' regulated rate base is expected to grow from \$6.3 billion in mid-2007 to \$8.6 billion in 2012, representing a compound annual growth rate of roughly 6%.

Consolidated Outlook

Operating EPS for Fortis came in at \$1.36 in 2007 versus \$1.39 in 2006. Fortis acquired Terasen in May 2007 for \$3.7 billion and, coinciding with the purchase, completed a \$1.15 billion common share issue, which along with drawings of credit facilities and assumed debt for the balance funded the acquisition. The common share issue, combined with the earnings seasonality of Terasen, diluted EPS by approximately \$0.07. This was mitigated by the first full-year contribution from Fortis Turks and Caicos, significant investment in electrical infrastructure at FortisAlberta and FortisBC, stronger performance at Fortis Properties and lower effective corporate taxes. We would note that generally lower allowed ROEs in 2007 were more than offset by rate base growth in Fortis' regulated operations.

We are currently forecasting EPS to grow to \$1.57 in both 2008 and 2009, reflecting the first full year of contribution from Terasen, generally higher allowed ROEs for 2008, and ongoing growth in rate bases, particularly for FortisAlberta, FortisBC and Fortis' Caribbean operations. The relative pause in growth for 2009 reflects the April 29, 2009, expiry of an agreement between FortisOntario and the Ontario Power Generation Inc. that since 2005 has provided for the exchange of power from the Rankine Power Facility to FortisOntario in return for transfer of FortisOntario's water rights on the Niagara River.

Regulated Operations Outlook

Terasen Gas

In a landmark transaction for the company, Fortis acquired Terasen in May 2007, the principal natural gas distribution utility in BC serving 900,000 customers, or 95% of the natural gas users in the province. The total purchase price was \$3.7 billion, funded by the combination of a \$1.15 billion equity issue completed coincident with the closing of the acquisition in May, assumed debt and incremental drawings on credit facilities. Operating earnings in 2007 contributed from the May 17 closing of the acquisition amounted to \$43 million. We would note that the acquisition, combined with the share issue, diluted Fortis' 2007 earnings by approximately \$0.07/share in 2007, reflecting the fact that Terasen's seasonally strongest quarter (Q1) was not a part of the 2007 contribution to Fortis' results. For 2008 and 2009, we anticipate earnings contributions of \$105 million and \$107 million, respectively, from Terasen, reflecting rate base growth of 1.5%-2%. Terasen's anticipated rate base at mid-year 2008 is approximately \$2.9 billion with allowed ROEs for 2008 of 8.62%-9.32%, up from 8.37%-9.07% in 2007.

In April 2008, Terasen received final regulatory approval to construct and operate a 1.5 billion-cubic-foot liquid natural gas storage facility on Vancouver Island. The project is estimated to cost \$200 million and is expected to be in service by late 2011.

FortisAlberta And FortisBC

On a combined basis, electrical utilities FortisAlberta and Fortis BC contributed operating earnings of \$79 million in 2007, up from \$69 million in 2006. The increase reflected strong growth in both utilities' customer bases and associated significant investment in electricity infrastructure, higher corporate income tax recoveries at FortisAlberta, and rate increases at FortisBC. For 2008, we anticipate a relatively flat combined earnings contribution of \$79 million, reflecting a reversal of FortisAlberta's 2007 tax recovery, mitigated by strong customer growth and related investment, the latter expected to take earnings

up to \$86 million in 2009. We anticipate a combined rate base of \$1.9 billion in mid-2008 (versus \$1.7 billion currently), which is up 200% from when both utilities were purchased in 2004. We expect the combined rate bases to grow to in excess of \$3 billion by 2012.

With an expected rate base of \$1.1 billion in mid-2008, FortisAlberta will see more than \$275 million in annual investment over the next five years to increase the reliability of its system and to meet load growth. FortisAlberta's negotiated settlement agreement relating to its 2008 and 2009 electricity rates were approved recently, resulting in rate increases of 6.8% and 7.3% for 2009, and based upon plans for \$264 million in capital spending in 2008 and \$296 million in 2009. Allowed ROE for FortisAlberta is set at 8.75% for 2008, up from 8.51% in 2007.

For FortisBC, the mid-year 2008 rate base is forecast to be roughly \$820 million, while average annual capital expenditures of \$130 million are expected over the next five years. In December 2007, FortisBC received regulatory approval in respect of a negotiated settlement agreement resulting in a rate increase of 2.9% for 2008, based upon capital expenditures of \$132 million in 2008. Allowed ROE for FortisBC is 9.02% for 2008, up from 8.77% in 2007.

Newfoundland Power

Newfoundland Power contributed \$30 million in operating earnings in 2007, unchanged from \$30 million in 2006. Newfoundland Power's rate base is expected to grow at a comparatively lower rate of 1%-2% annually for the foreseeable future, while for 2008, its average customer rate has been approved and anticipated to grow by an average of 2.8% over 2007 and reflect an allowed ROE of 8.95% versus 8.6% in 2007. Capital spending of \$51 million is budgeted for 2008, while Newfoundland Power's rate base is forecast at \$817 million by mid-year. We expect reasonably level earnings from Newfoundland Power in 2008 and 2009, at \$30 million and \$31 million, respectively.

Caribbean Power Assets

Fortis' regulated electricity utilities in the Caribbean are experiencing strong growth in electricity sales. On a combined basis, Belize Electricity (70.1% interest), Caribbean Utilities (CUP.U-TSX) (54% interest) and Fortis Turks and Caicos (100% interest) contributed \$33 million to consolidated operating earnings in 2007 versus \$24 million in 2006. The growth reflected a full year of contributions from Fortis Turks and Caicos, which was acquired in August 2006, an additional 16% interest in Caribbean Utilities acquired in November 2006, and respective year-over-year growth rates in electricity sales growth of 6%, 8% and 16% for Belize, Caribbean and Turks and Caicos. Robust growth rates going forward, along with associated investment in infrastructure, underpin our forecast for combined earnings of \$37 million in both 2008 and 2009.

Other Canadian Electric Utilities

Other Canadian electric utilities, including Maritime Electric and FortisOntario contributed earnings of \$16 million in 2007, compared to \$14 million in 2006, primarily reflecting higher electricity sales and basic electricity rates. We are forecasting relatively stable earnings of \$15 million and \$16 million for 2008 and 2009, respectively.

Non-regulated Operations Outlook

Fortis Generation

Fortis' non-regulated generation assets include the operations of non-regulated generating assets across Canada, in Belize and upper New York State, with a combined generating capacity of 195 MW, 190 MW of which are hydro assets. Fortis Generation contributed \$24 million in earnings in 2007, compared to \$27 million in 2006. The small decline reflects, in general, lower hydroelectric power production during 2007 due to less rainfall. Currently we are forecasting Fortis Generation earnings of \$26 million in 2008, declining to \$17 million in 2009. The decline reflects the April 2009 expiry of the agreement between FortisOntario and Ontario Power Generation Inc. that was reached in 2005, which saw the exchange of 75 MW of power supply from the Rankine Power Facility to FortisOntario until April 30, 2009, in exchange for the transfer of FortisOntario's water rights on the Niagara River.

In 2007, Fortis received approvals for the construction of a \$53-million, 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize. The facility will increase average annual energy production by 80 GWh in late 2009 when it comes on stream. Currently we have earnings contributions from Vaca starting in 2010, at an annual rate of roughly \$6 million, partially mitigating the lost production from Rankine.

Fortis Properties

Fortis Properties, which represents Fortis' ownership and operation of 19 Canadian hotels and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada, contributed \$24 million in operating earnings in 2007, up from \$17 million in 2006. The earnings growth reflected expanded operations in Western Canada, with the acquisition of the Delta Regina in August 2007 for roughly \$50 million and a positive corporate tax adjustment in 2007. Currently we are forecasting earnings of \$26 million and \$27 million for 2008 and 2009, respectively.

Summary Of Fortis' Capital Expenditure Program And Allowable Returns

Exhibit 1 summarizes Fortis' expected capital program. For 2008, the company is forecasting total capital expenditures of \$890 million, 50% of which is designated as growth expenditures and 50% as sustaining and other. For 2009-2012, the company is guiding to an average capital investment of roughly \$780 million per year (or a total of \$4 billion between 2008 and 2012). In terms of regulated rate base, the company is forecasting that to grow from \$6.3 billion in mid-2007 to \$8.6 billion by 2012, representing a compound annual growth rate of roughly 6%.

Exhibit 1. Capital Expenditures Forecast (\$ mlns.)

	2007	2008E	2009-2012
Terasen	120	250	
Fortis Alberta	285	264	
FortisBC	147	136	
Newfoundland Power	72	53	
Other Regulated Canadian Utilities	38	38	
Regulated Utilities - Caribbean	106	101	
Non-regulated	22	48	
Total	790	890	780 Avg. Per Annum
<i>Growth</i>	<i>363</i>	<i>445</i>	<i>335</i>
<i>Sustaining And Other</i>	<i>427</i>	<i>445</i>	<i>445</i>

Source: Company reports and CIBC World Markets Inc.

Over the near term, the company is well situated with consolidated unused credit facilities exceeding \$1.1 billion (of \$2.2 billion total), which are available to be used for capital expenditures. Moreover, Fortis has had a considerable degree of success accessing the credit market within the recent turmoil, with Terasen having, as recently as February 2008, raised 30-year debt at a rate of 6.05% in February. Beyond that, over the next five years, in the context of a \$4-billion capital program (assuming no acquisitions), Fortis does expect to return to the debt markets at the utility level, in addition to periodically accessing the equity markets for comparatively small amounts when conditions warrant. Of course, given Fortis' track record of significant acquisition activity, future acquisitions would require incremental funding considerations, which would likely include more considerable equity funding.

Returns on Fortis' regulated Canadian assets range from allowed 2008 ROEs of 8.62% to 10% (on equity thicknesses ranging from 35% to 50%), while regulated returns on Fortis' Caribbean assets are ROA based and generally range between 10% and 17.5%.

Financial Forecasts

Earnings Forecast Summary

Exhibit 2 summarizes our earnings forecast summary for Fortis.

Exhibit 2. Fortis Earnings Summary (\$ mlns., except per share)

Segmented Earnings	2006A	2007A	2008E	2009E
Regulated Utilities				
Terasen Gas	\$0	\$43	\$105	\$107
Alberta & B.C. Utilities	69	79	79	86
Newfoundland Power	30	30	30	31
Other Canadian Utilities	14	16	15	16
Caribbean Utilities (Belize, CUC, T&C)	24	33	37	37
Total Regulated Utilities	136	201	265	277
Non-regulated Operations				
Fortis Generation	27	24	26	17
Fortis Properties	17	24	26	27
Total Non-regulated Operations	44	48	53	44
Corporate	(36)	(61)	(72)	(75)
Operating Earnings For Common	144	188	245	246
Unusual Items	5	5	0	0
Reported Earnings	148	192	245	246
Average Shares Outstanding	104	138	156	156
Operating EPS	\$1.39	\$1.36	\$1.57	\$1.57
Reported EPS	\$1.43	\$1.40	\$1.57	\$1.57

Source: Company reports and CIBC World Markets Inc.

Valuation

Fortis currently trades at 17.3x 2008E and 2009E EPS of \$1.57, at the higher end of Canadian utilities valuations in consideration of Fortis' track record of EPS and dividend growth, its stability, and its attractive long-term organic growth opportunities. Fortis' acquisition currency, along with its defensive character, could very well spell additional accretive acquisitions in its future, given a financing environment that remains otherwise difficult.

Price Target Calculation

Our \$31.50 price target is based upon a sector-leading target multiple of 20x 2009E EPS, while our Sector Performer rating adequately balances Fortis' exceptional track record and long-term growth opportunities against temporarily moderated EPS growth anticipated in 2009.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and B.C., weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2007 Current	\$0.40A	\$0.31A	\$0.20A	\$0.46A	\$1.36A
2008 Current	\$0.58A	\$0.29E	\$0.23E	\$0.47E	\$1.57E
2009 Current	--	--	--	--	\$1.57E

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- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 05/16/2008:

Caribbean Utilities Company Ltd. (CUP.U-TSX, \$12.01, Not Rated)

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
07/08/2005	▲	19.85	SO	21.75	Matthew Akman
08/05/2005	▲	20.85	SO	22.50	Matthew Akman
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

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Sector Performer (Hold/Neutral)	162	47.4%	Sector Performer (Hold/Neutral)	128	79.0%
Sector Underperformer (Sell)	21	6.1%	Sector Underperformer (Sell)	14	66.7%
Restricted	6	1.8%	Restricted	6	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 16 May 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	44.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	55.6%	Sector Performer (Hold/Neutral)	2	40.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, BLX, CU, EMA, ENB, FTS, SE, TA, TRP.

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August 10, 2008

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$30.50
FTS-TSX (8/8/08) \$26.80

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$24.11-\$29.94
Shares Outstanding 157.1M
Float 157.1M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,210.3M
Dividend/Div Yield \$1.00 / 3.7%
Fiscal Year Ends December
Book Value \$16.98 per Shr
2008 ROE (E) 9.1%
LT Debt \$5.0B
Preferred \$667.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2007		\$1.36A
2008	\$1.57E	\$1.54E
2009	\$1.57E	\$1.52E

P/E		
2007		19.7x
2008	17.1x	17.4x
2009	17.1x	17.6x

Dividend Per Share		
2007		\$0.82A
2008		\$1.00E
2009		\$1.10E

Yield		
2007		3.1%
2008		3.7%
2009		4.1%

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI and has a significant Caribbean presence through a 70% interest in Belize Electricity and 54% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

In-line Q2; Belize Concerns Overdone

- Q2/08 EPS came in at \$0.28, down from \$0.31 in Q2/07, and in line with our \$0.29 estimate. Higher-than-expected earnings in Terasen Gas offset lower earnings at FortisAlberta, which had an increase in future tax expenses in the quarter that is expected to reverse in the future.
- Fortis took a \$13 million (\$0.08/share) one-time charge related to disallowed previously incurred fuel and purchase price costs at Belize Electricity. The decision, which is being appealed, also reduces the utility's allowed return on assets from 12% to 10%.
- We have reduced our contribution from the Caribbean Utilities segment in light of the decision in Belize. As a result, our 2008 EPS estimate declines from \$1.57 to \$1.54, while our 2009 EPS estimate declines from \$1.57 to \$1.52.
- We are lowering our price target from \$31.50 to \$30.50 reflecting reduced 2009 earnings estimates, and a fulsome 20x 2009E EPS target multiple (unchanged). Our Sector Performer rating balances strong long-term growth potential with a pause in EPS growth anticipated in 2009.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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Q2 Results

Q2 Earnings Performance

Fortis (FTS-SP) reported Q2 results that, overall, were in line with expectations. Q2/08 operating EPS came in at \$0.28, down from \$0.31 in Q2/07 but in line with our \$0.29 forecast. Higher-than-expected earnings from Terasen Gas offset lower earnings in Alberta & B.C. Utilities.

Q2 Highlights

- **Terasen Gas:** Terasen Gas contributed \$12 million in operating earnings in Q2/08, up from \$1 million in Q2/07, which was a partial quarter in light of the May 17, 2007, acquisition closing date. Results were ahead of our estimate of \$8 million. Gas volumes were up 1.9% in Q2/08 compared to the full quarter in 2007. Terasen's business is highly seasonal, with virtually all of its earnings generated in the first and last quarter of the year.
- **Alberta & B.C. Utilities:** Operating earnings from FortisAlberta and FortisBC totaled \$14 million in the quarter, down from \$22 million in Q2/07, and below our \$22 million estimate. The reduction in earnings is the result of a \$7.5 million increase in future income tax expenses at FortisAlberta associated with regulated-approved deferral accounts and the timing of their collection. The company expects to record a future income tax recovery when the deferral accounts are collected.
- **Newfoundland Power:** Newfoundland Power operating earnings were \$10 million, up from \$8 million in Q2/08, and in line with our \$10 million estimate. Higher earnings reflected a quarterly shift in the distribution of purchased power expenses, increasing earnings by \$2.5 million in the quarter. This shift has the effect of reducing earnings in Q1 and Q4, when power prices are higher, and improving earnings in Q2 and Q3, leaving annual earnings unaffected.
- **Caribbean Utilities:** Earnings from the Caribbean Utilities totaled \$8 million, unchanged from Q2/07, and in line with our \$8 million estimate. Adjusted Q2/08 results exclude a \$13 million (\$0.08) charge related to previously incurred fuel and purchase price costs at Belize Electricity that have been disallowed by the Belize's Public Utility Commission (PUC). The decision also had the effect of reducing Belize Electricity's allowed return on assets from 12% to 10% going forward. Belize Electricity has filed an application for judicial review and appeal of the decision with the Supreme Court of Belize.
- **Non-Regulated Operations:** Non-regulated operations contributed \$14 million to earnings in the quarter, up from \$11 million in Q2/07, and above our \$12 million estimate. Fortis Generation earnings totaled \$7 million, up from \$5 million in Q2/07 reflecting higher production in Newfoundland due to higher rainfall, and increased average wholesale energy prices in Ontario and New York. Fortis Properties earnings totaled \$7 million, up from \$6 million in Q2/07 due to the impact of the Delta Regina acquisition in August 2007, and the improved performance from the company's hospitality operations in Atlantic Canada.

Minor Model Adjustments

We are reducing our forecasted contribution from the Caribbean Utilities segment in light of the PUC decision in Belize. As a result, our 2008E EPS declines from \$1.57 to \$1.54, while our 2009E EPS declines from \$1.57 to \$1.52.

Exhibit 1. Earnings Summary (\$ mlns., except per share)

Segmented Earnings	Q2/08A	Q2/08E	Q2/07A	Previous Estimates		Current Estimates	
				2008E	2009E	2008E	2009E
Regulated Utilities							
Terasen Gas	12	8	2	105	107	105	107
Alberta & B.C. Utilities	14	22	22	79	86	79	86
Newfoundland Power	10	10	8	30	31	30	31
Other Canadian Utilities	4	4	4	15	16	15	16
Caribbean Utilities (Belize, CUC, T&C)	8	8	8	37	37	34	30
Total Regulated Utilities	48	51	43	265	277	262	270
Non-Regulated Operations							
Fortis Generation	7	6	5	26	17	26	17
Fortis Properties	7	6	6	26	27	26	27
Total Non-Regulated Operations	14	12	11	53	44	53	44
Corporate	(18)	(17)	(13)	(72)	(75)	(72)	(75)
Operating Earnings For Common	44	46	41	245	246	242	239
Unusual Items	(15)	0	0	0	0	0	0
Reported Earnings	29	46	41	245	246	242	239
Average Shares Outstanding	157	157	132	156	156	157	157
Operating EPS	0.28	0.29	0.31	1.57	1.57	1.54	1.52
Reported EPS	0.19	0.29	0.31	1.57	1.57	1.54	1.52

Source: Company reports and CIBC World Markets Inc.

Outlook and Investment Summary

The situation in Belize has likely received too much of the market's attention of late, particularly considering the relative size of the business (less than 5% of earnings). A \$4.5 billion capital program over the next five years underlies solid long-term growth potential, beyond a shorter-term slowing in growth anticipated in 2009 and related to the expiry of the Rankine contract with Ontario Power Generation. Fortis has been an active acquirer in the past, and with the integration of Terasen Gas complete, further accretive acquisitions remain a strong possibility. Our Sector Performer rating balances long-term growth potential against a high valuation and a near-term pause in EPS growth anticipated in 2009.

Price Target Calculation

Our price target is reduced from \$31.50 to \$30.50 as a result of lower 2009 earnings estimates. Our target remains based on a high-end P/2009E EPS of 20x, which reflects both Fortis' impressive track record and longer-term growth potential.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2007 Current	\$0.40A	\$0.31A	\$0.20A	\$0.46A	\$1.36A
2008 Prior	\$0.58A	\$0.29E	\$0.23E	\$0.47E	\$1.57E
2008 Current	\$0.58A	\$0.28A	\$0.22E	\$0.46E	\$1.54E
2009 Prior	--	--	--	--	\$1.57E
2009 Current	--	--	--	--	\$1.52E

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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
09/29/2005	▲●	24.35	SP	23.75	Matthew Akman
10/14/2005	▲	24.09	SP	25.00	Matthew Akman
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
01/07/2008	□	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	□	27.40	SP	31.50	Petro Panarites, CFA

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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(as of 10 Aug 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	154	44.3%	Sector Outperformer (Buy)	130	84.4%
Sector Performer (Hold/Neutral)	161	46.3%	Sector Performer (Hold/Neutral)	130	80.7%
Sector Underperformer (Sell)	21	6.0%	Sector Underperformer (Sell)	13	61.9%
Restricted	11	3.2%	Restricted	9	81.8%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 10 Aug 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	44.4%	Sector Outperformer (Buy)	3	75.0%
Sector Performer (Hold/Neutral)	4	44.4%	Sector Performer (Hold/Neutral)	1	25.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	1	11.1%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, BLX, CU, EMA, ENB, FTS, SE, TA, TRP.

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November 02, 2008

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$28.50
FTS-TSX (10/31/08) \$26.30

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$20.70-\$29.94
Shares Outstanding 157.3M
Float 157.3M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$4,137.0M
Dividend/Div Yield \$1.00 / 3.8%
Fiscal Year Ends December
Book Value \$17.11 per Shr
2008 ROE (E) 9.4%
LT Debt \$5.2B
Preferred \$667.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2007		\$1.36A
2008	\$1.54E	\$1.60E
2009	\$1.52E	\$1.57E

P/E		
2007		19.3x
2008	17.1x	16.4x
2009	17.3x	16.8x

Dividend Per Share	
2007	\$0.82A
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Yield	
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Pipelines, Utilities, & Power

Fortis Inc.

Strong Q3 Results Driven By The Generation Segment

- Q3/08 operating EPS came in at \$0.26, up from \$0.20 in Q3/07 and above our \$0.22 estimate. Results reflected a stronger-than-expected contribution from Fortis Generation, while the other segments reporting results were in line with expectations.
- Fortis Generation contributed \$9 million to earnings in the quarter, up from \$5 million in Q3/07 and above our \$6 million estimate, due to increased energy sales (up 20.1%) from higher production in Belize and upper New York State, and higher energy prices in Ontario and New York.
- We have made minor adjustments to reflect a higher contribution from Fortis Generation and Terasen Gas, partially offset by the impact of Hurricane Ike on the Caribbean Utilities segment. Our 2008E and 2009E EPS increases from \$1.54 and \$1.52 to \$1.60 and \$1.57, respectively.
- Our price target is reduced from \$30.50 to \$28.50, based on an 18x 2009E EPS multiple, down from 20x previously reflecting a general decline in valuations. Our SP rating balances strong long-term core rate base growth against a near-term pause in EPS growth and a premium valuation.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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Q3 Results

Q3 Earnings Performance

Fortis (FTS-SP) reported Q3/08 adjusted EPS of \$0.26, up from \$0.20 in Q3/07, and above our \$0.22 estimate. The outperformance in the quarter was due to strong-than-expected results at Fortis Generation.

Q3 Highlights

- **Alberta & B.C. Utilities:** Operating earnings from FortisAlberta and FortisBC totaled \$25 million, up from \$21 million in Q3/07, and in line with our \$25 million estimate. The y/y increase is the result of increased future income tax recoveries associated with regulator-approved deferral accounts at FortisAlberta, and decreased energy costs due to a higher proportion of energy from company-owned plants compared to purchased power at FortisBC.
- **Newfoundland Power:** Newfoundland Power operating earnings totaled \$8 million, up from \$3 million in Q3/07, and in line with our \$7 million estimate. The y/y increase reflects a quarterly shift in the distribution of purchased power expenses, which increased earnings by \$5.5 million in Q3/08. This shift has the effect of reducing earnings in Q1 and Q4, and improving earnings in Q2 and Q3, leaving annual earnings unaffected.
- **Caribbean Utilities:** Earnings from the Caribbean Utilities totaled \$7 million, down from \$10 million in Q3/07 and in line with our \$8 million estimate. The y/y decline is due to lower allowed ROA at Belize Electricity, lower basic electricity rates at Caribbean Utilities, and revenue lost at Fortis Turks and Caicos due to the impact of Hurricane Ike (earnings impact of \$1 million). Revenue losses as a result of Hurricane Ike are also expected to be \$1 million in Q4.
- **Terasen Gas:** Terasen Gas lost \$5 million in the quarter, in line with the \$4 million loss in Q3/07 and our estimate of a \$5 million loss. Terasen's business is highly seasonal with virtually all of its earnings generated in the first and last quarter of the year.
- **Fortis Generation:** Fortis Generation contributed \$9 million to earnings in the quarter, up from \$5 million in Q3/07 and above our \$6 million forecast. Energy sales increased 51 GWh (20.1%) in Q3/08 as a result of higher production in Belize and upper New York State due to higher rainfall. This combined with increased average wholesale energy prices in Ontario and upper New York State led to the increased y/y earnings.
- **Fortis Properties:** Fortis Properties earnings totaled \$9 million, compared to \$8 million in Q3/07 and our \$8 million estimate, as result of improved performance in the hospitality and real estate divisions, as well as the contribution of the Delta Regina which was acquired on August 1, 2007.

Exhibit 1. Q3/08 Earnings Summary (\$ mlns., except per share)

Segmented Earnings	Q3/08A	Q3/08E	Q3/07A
Regulated Utilities			
Terasen Gas	(5)	(5)	(4)
Alberta & B.C. Utilities	25	25	21
Newfoundland Power	8	7	3
Other Canadian Utilities	5	4	4
Caribbean Utilities (Belize, CUC, T&C)	7	8	10
Total Regulated Utilities	41	39	34
Non-Regulated Operations			
Fortis Generation	9	6	5
Fortis Properties	9	8	8
Total Non-Regulated Operations	18	14	13
Corporate	(17)	(18)	(16)
Operating Earnings For Common	42	35	31
Unusual Items	8	0	0
Reported Earnings	49	35	31
Average Shares Outstanding	157	157	155
Operating EPS	0.26	0.22	0.20
Reported EPS	0.31	0.22	0.20

Source: Company reports and CIBC World Markets Inc.

Minor Model Adjustments

We have made some minor adjustments to our model including increasing our Fortis Generation and Terasen Gas contribution, partially offset by a lower contribution in Caribbean Utilities due to the impact of Hurricane Ike. Our 2008E EPS increases from \$1.54 to \$1.60, while our 2009E EPS increases from \$1.52 to \$1.57.

Exhibit 2. Earnings Revision Summary (\$ mlns., except per share)

Segmented Earnings	Previous Estimates			Current Estimates	
	2007A	2008E	2009E	2008E	2009E
Regulated Utilities					
Terasen Gas	43	105	107	112	114
Alberta & B.C. Utilities	79	79	86	79	87
Newfoundland Power	30	30	31	30	31
Other Canadian Utilities	16	15	16	16	16
Caribbean Utilities (Belize, CUC, T&C)	33	34	30	32	30
Total Regulated Utilities	201	262	270	268	279
Non-Regulated Operations					
Fortis Generation	24	26	17	31	17
Fortis Properties	24	26	27	26	27
Total Non-Regulated Operations	48	53	44	56	43
Corporate	(61)	(72)	(75)	(72)	(75)
Operating Earnings For Common	188	242	239	252	247
Unusual Items	5	0	0	(8)	0
Reported Earnings	192	242	239	244	247
Average Shares Outstanding	138	157	157	157	157
Operating EPS	1.36	1.54	1.52	1.60	1.57
Reported EPS	1.40	1.54	1.52	1.56	1.57

Source: Company reports and CIBC World Markets Inc.

Outlook And Investment Summary

Outlook and investment considerations include the following:

- **Strong Rate Base Growth:** Fortis' collective rate base is expected to grow from roughly \$7 billion currently at a CAGR of 7% through 2013, contributing to steady underlying growth to core earnings.
- **Flat 2009E EPS:** The flattish forecast for 2009 EPS reflects the April 2009 expiry of the agreement between Fortis Ontario and OPG under which Fortis received 75 MW of power supply from the Rankine Power Facility in exchange for Fortis' water rights on the Niagara River.
- **Valuation:** Fortis currently trades at 16.8x 2009E EPS compared with 14.5x for Emera (EMA-SP) and 14.4x for Canadian Utilities (CU-SP), a premium

that reflects Fortis' comparative stability (92% of total assets represent regulated utility operations) and superior core rate base growth.

- **Capital Program and Liquidity:** On an annual basis, roughly \$470 million in cash flow after dividend payment is available in the context of a \$900 million per annum capital program (annual average over the next five years). In that context, Fortis does expect to return to the debt markets at the utility level, in addition to periodically accessing the equity markets for comparatively small amounts when conditions warrant. Fortis has roughly \$1.5 billion in undrawn credit facilities available at the end of the third quarter.

While the growth-through-acquisition play has likely receded for the time being given the state of capital markets, Fortis can fall back on underlying regulated rate base growth, although investors may require patience as Rankine power supply ceases next year. At this stage, given the flattish EPS outlook over the next year and premium valuation, we maintain our SP rating.

Price Target Calculation

We are reducing our price target from \$30.50 to \$28.50, based on an 18x 2009E EPS target multiple, down from 20x previously, reflecting a general decline in valuations. Our target remains at the high end of anticipated utility valuations, reflecting Fortis core rate base growth potential, along with its track record of well-timed acquisitions.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2007 Current	\$0.40A	\$0.31A	\$0.20A	\$0.46A	\$1.36A
2008 Prior	\$0.58A	\$0.28A	\$0.22E	\$0.46E	\$1.54E
2008 Current	\$0.58A	\$0.28A	\$0.26A	\$0.49E	\$1.60E
2009 Prior	--	--	--	--	\$1.52E
2009 Current	--	--	--	--	\$1.57E

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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
01/07/2008	□	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	□	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Sector Outperformer (Buy)	147	45.0%	Sector Outperformer (Buy)	122	83.0%
Sector Performer (Hold/Neutral)	153	46.8%	Sector Performer (Hold/Neutral)	123	80.4%
Sector Underperformer (Sell)	23	7.0%	Sector Underperformer (Sell)	14	60.9%
Restricted	3	0.9%	Restricted	3	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 02 Nov 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	2	40.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

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January 20, 2009

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$28.00
FTS-TSX (1/20/09) \$23.53

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$20.70-\$29.94
Shares Outstanding 169.0M
Float 169.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$3,976.6M
Dividend/Div Yield \$1.04 / 4.4%
Fiscal Year Ends December
Book Value \$15.98 per Shr
2009 ROE (E) 9.1%
LT Debt \$5.0B
Preferred \$667.00M
Common Equity \$2.7B
Convertible Available No

Earnings Per Share	Prev	Current
2008	\$1.60E	\$1.60E
2009	\$1.57E	\$1.49E
2010		\$1.56E

P/E		
2008	14.7x	14.7x
2009	15.0x	15.8x
2010		15.1x

Dividend Per Share	
2008	\$1.00A
2009	\$1.04E
2010	\$1.10E

Yield	
2008	4.2%
2009	4.4%
2010	4.7%

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI and has a significant Caribbean presence through a 70% interest in Belize Electricity and 57% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Updating Estimates On Share Issuance

- Fortis recently completed a common share offering of 11.7 million common shares at a price of \$25.65 per share, resulting in gross proceeds to Fortis of \$300.1 million. The underwriters also have an over-allotment option to purchase up to an additional 1.755 million shares.
- Given Fortis generates roughly \$470 million in cash flow after dividends annually, and has average annual capex and LT debt maturities of \$900 million and \$180 million, respectively, over the next five years, we expect it to continue to access the debt and, to a lesser extent, equity markets.
- Fortis will be using the proceeds to repay debt and for corporate purposes. Our 2009 EPS estimate is reduced from \$1.57 to \$1.49, while our 2010 EPS estimate is set at \$1.56.
- Our price target is reduced from \$28.50 to \$28.00, reflecting the share issuance and an 18x 2010E EPS multiple (vs. 18x 2009E EPS previously). We maintain our SP rating, balancing strong long-term rate base growth against an interim pause in EPS growth and a premium valuation.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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\$300 Million Equity Financing

Recently, Fortis (FTS-SP) completed a common share offering of 11.7 million common shares at a price of \$25.65 per share, resulting in gross proceeds to Fortis of \$300.1 million. The underwriters also have an over-allotment option to purchase up to an additional 1.755 million shares, which would bring total gross proceeds to \$345.1 million. Fortis will use the proceeds to repay indebtedness under the company's credit facility and for general corporate purposes.

Funding Profile

On an annual basis, Fortis generates roughly \$470 million in cash flow after dividends. Given a capital program which calls for an average of approximately \$900 million per annum in spending over the next five years, along with long-term debt maturities averaging \$180 million over the same timeframe, we would expect Fortis to continue to access the debt and, to a lesser extent, equity markets. As at September 30, 2008, Fortis and its subsidiaries had consolidated authorized lines of credit of \$2.2 billion, of which \$1.5 billion was undrawn.

Revising Estimates

Our 2009E EPS declines from \$1.57 to \$1.49, reflecting the higher share count offset by the corresponding lower financing costs. Our 2010 EPS estimate is set at \$1.56, and reflects a rebound in Fortis Generation earnings as a result of an 18 MW generating facility in Belize scheduled to come onstream at the beginning of 2010, as well as continued rate base growth in the company's regulated utilities.

Outlook And Investment Summary

Fortis is expected to experience a strong 7% CAGR in its \$7 billion rate base through 2013. In the interim, however, 2009 earnings will be down slightly reflecting the recent share issue as well as the expiry of the Rankine power agreement in April 2009. Fortis' long-term outlook is balanced by its flattish near-term EPS profile and premium valuation. As a result, we maintain our Sector Performer rating.

Price Target Calculation

We are reducing our price target slightly from \$28.50 to \$28.00, reflecting the share issuance. Our price target is based on a target multiple of 18x 2010E EPS (versus 18x 2009E EPS previously), at the high end of utility valuations in consideration of Fortis' core rate base growth potential.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2008 Prior	\$0.58A	\$0.28A	\$0.26A	\$0.49E	\$1.60E
2008 Current	\$0.58A	\$0.28A	\$0.26A	\$0.48E	\$1.60E
2009 Prior	--	--	--	--	\$1.57E
2009 Current	--	--	--	--	\$1.49E
2010 Current	--	--	--	--	\$1.56E

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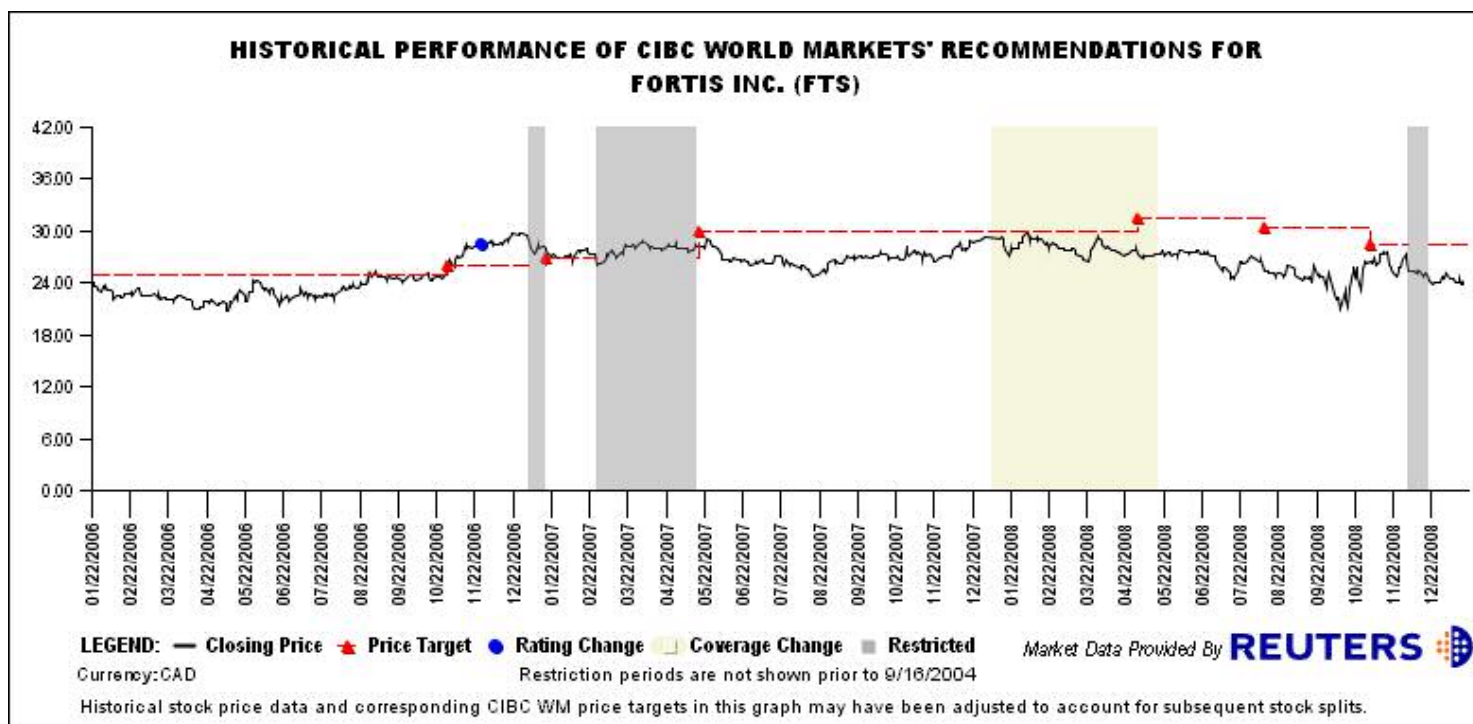
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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR FORTIS INC. (FTS)

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01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
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(as of 20 Jan 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	130	39.2%	Sector Outperformer (Buy)	111	85.4%
Sector Performer (Hold/Neutral)	163	49.1%	Sector Performer (Hold/Neutral)	142	87.1%
Sector Underperformer (Sell)	33	9.9%	Sector Underperformer (Sell)	21	63.6%
Restricted	5	1.5%	Restricted	5	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 20 Jan 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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February 5, 2009

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$28.00
FTS-TSX (2/5/09) \$23.64

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$20.70-\$29.94
Shares Outstanding 169.0M
Float 169.0M Shrs
Avg. Daily Trading Vol. 98,036
Market Capitalization \$3,995.2M
Dividend/Div Yield \$1.04 / 4.4%
Fiscal Year Ends December
Book Value \$18.02 per Shr
2009 ROE (E) 8.1%
LT Debt \$5.1B
Preferred \$667.00M
Common Equity \$3.0B
Convertible Available No

Earnings Per Share	Prev	Current
2008	\$1.60E	\$1.56A
2009	\$1.49E	\$1.49E
2010		\$1.56E

P/E		
2008	14.8x	15.2x
2009	15.9x	15.9x
2010		15.2x

Dividend Per Share	
2008	\$1.00A
2009	\$1.04E
2010	\$1.10E

Yield	
2008	4.2%
2009	4.4%
2010	4.7%

Company Description

Fortis owns the primary electric distribution companies in Newfoundland and PEI and has a significant Caribbean presence through a 70% interest in Belize Electricity and 57% in Caribbean Utilities.

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Pipelines, Utilities, & Power

Fortis Inc.

Reports In-line Results

- Fortis reported Q4/08 adjusted earnings of \$0.48/share compared with \$0.46/share last year and was right in line with our estimate. Segmented results were also, for the most part, in line with expectations.
- Terasen Gas and FortisAlberta/FortisBC earnings both grew over the prior year, generally reflecting both higher allowed ROEs and rate base growth. Newfoundland Power and Caribbean Utilities, by contrast, declined modestly y/y reflecting minor and temporary issues.
- On the non-regulated side, Fortis Generation earnings grew y/y reflecting higher production and lower financing costs. Fortis Properties earnings, on the other hand, declined over last year, reflecting a higher-than-anticipated tax rate in Q4/08 versus an unusually low tax rate in the prior year.
- Fortis continues to offer strong rate base growth through 2013, although 2009E EPS is expected to dip reflecting the long-anticipated April 2009 contractual end to power supply from OPG from the Rankine Power facility. Premium valuation is deserved. We maintain our SP rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

CIBC World Markets Inc., P.O. Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 (416) 594-7000

Q4 Results

Q4 Earnings Performance

Fortis (FTS-SP) reported Q4/08 adjusted EPS of \$0.48/share compared with \$0.46/share in Q4/07, and in line with our \$0.48/share estimate.

Q4 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen Gas contributed comparable earnings of \$47 million for the quarter, up from \$45 million in Q4/07, reflecting an increase in gas distribution rates effective January 1, 2008 consistent with a higher allowed ROE, partially offset by higher operating expenses driven by increased labour costs. Our current estimate for the full-year 2009 stands at \$115 million (up from \$113 million in 2008), reflecting a slight decline in allowed ROEs for 2009 (under the application of automatic ROE adjustment mechanisms) at both Terasen Gas Inc. (TGI) and Terasen Gas (Vancouver Island) (TGVI), more than offset by anticipated growth in the rate base. Both TGI and TGVI are currently preparing rate applications related to 2010, which will require BCUC approval given that current settlement agreements expire at the end of 2009. As part of the filings, TGI and TGVI will seek a review of the current generic ROE adjustment mechanism and of the deemed equity components of the capital structure.
- **Alberta & B.C. Utilities:** Comparable earnings from FortisAlberta and FortisBC amounted to \$18 million for Q4/08, up from \$13 million in Q4/07 and in line with our \$18 million estimate. Y/Y growth in earnings primarily reflects an increase in FortisAlberta earnings due to a higher allowed ROE, growth in the rate base and a lower tax rate. For 2009, we are anticipating combined earnings contribution from FortisAlberta and FortisBC to total \$85 million, up from \$79 million in 2008, reflecting strong rate base growth mitigated slightly by a small decline in allowed ROEs. A decision from the BCUC on remaining elements of FortisBC's 2009/2010 capital expenditure plan is expected during Q1. In FortisAlberta's case, the generic ROE for 2009 has not yet been confirmed in light of the 2009 Generic Cost of Capital Proceeding scheduled for the second quarter of 2009 which will include a review of the allowed ROE level, the adjustment mechanism and utility capital structures for all gas, electric and pipeline utilities in Alberta that are regulated by the AUC.
- **Newfoundland Power:** Newfoundland Power earnings of \$8 million were lower than \$9 million reported last year, but higher than our \$6 million estimate. The y/y decline reflects a shift in the quarterly distribution of annual purchased power expense, which decreased earnings in Q4 by approximately \$2 million (we had been anticipating more). Excluding this, earnings were higher over last year reflecting higher customer rates and lower expenses.
- **Carribean Utilities:** Carribean Utilities earnings totaled \$8 million, below \$9 million last year and our \$10 million expectation. Results reflected a revenue loss related to Hurricane Ike and related lower sales from Fortis Turks and Caicos.

Non-Regulated Businesses

- **Fortis Generation:** Fortis Generation earnings came in at \$8 million, basically in line with our \$9 million estimate, and higher than Q4/07 earnings of \$7 million, reflecting higher production and lower financing costs.
- **Fortis Properties:** Earnings of \$4 million were down over last year's \$8 million level, and our estimate of \$7 million. The decline reflected a higher than anticipated tax rate during Q4/08, compared with an unusually low tax rate last year.

Exhibit 1. Q4/08 Earnings Summary (\$ mlns., except per share)

Segmented Earnings	Q4/08A	Q4/08E	Q4/07A
Regulated Utilities			
Terasen Gas	47	46	45
Alberta & B.C. Utilities	18	18	13
Newfoundland Power	8	6	9
Other Canadian Utilities	3	3	3
Caribbean Utilities (Belize, CUC, T&C)	8	10	9
Total Regulated Utilities	84	82	79
Non-Regulated Operations			
Fortis Generation	8	9	7
Fortis Properties	4	7	8
Total Non-Regulated Operations	12	15	15
Corporate	(20)	(21)	(22)
Operating Earnings For Common	76	77	72
Unusual Items	0	0	7
Reported Earnings	76	77	79
Average Shares Outstanding	159	159	155
Operating EPS	0.48	0.48	0.46
Reported EPS	0.48	0.48	0.51

Source: Company reports and CIBC World Markets Inc.

Other Issues

- **Belize Electricity:** Fortis informed that as at December 31, 2008, Belize Electricity did not meet certain debt covenant financial ratios related to \$11 million of bank loans, which will result in Belize Electricity being prohibited from incurring new indebtedness or declaring dividends. Fortis has asked its lenders for the appropriate waivers, and expects that an ease in energy supply costs will provide Belize Electricity with liquidity relief in the near term. Whatever the case, the issue is a negligible one from Fortis' perspective given an annual earnings contribution from Belize electricity that only amounts to an estimated \$8 million per year (compared with over \$250 million for the entire company). This issue is part of an ongoing dispute between Belize Electricity and the PUC regarding certain fuel costs that the regulator disallowed (both

retroactively and on a forward basis) certain fuel and purchased power costs.

Forecasts

We have made minor changes to our forecasts that offset, leading to no change to our 2009 and 2010 EPS estimates of \$1.49 and \$1.56, respectively.

Exhibit 2. Earnings Summary (\$ mlns., except per share)

Segmented Earnings	2009E			2010E
	2008A	Previous	Current	
Regulated Utilities				
Terasen Gas	113	115	115	116
Alberta & B.C. Utilities	79	85	85	88
Newfoundland Power	32	33	34	35
Other Canadian Utilities	16	17	17	17
Caribbean Utilities (Belize, CUC, T&C)	20	35	35	37
Total Regulated Utilities	259	284	285	293
Non-Regulated Operations				
Fortis Generation	30	17	17	24
Fortis Properties	23	25	21	22
Total Non-Regulated Operations	53	42	38	46
Corporate	(71)	(72)	(72)	(75)
Operating Earnings For Common	241	254	251	264
Unusual Items	(8)	0	0	0
Reported Earnings	234	254	251	264
Average Shares Outstanding	157	171	169	169
Operating EPS	1.56	1.49	1.49	1.56
Reported EPS	1.52	1.49	1.49	1.56

Source: Company reports and CIBC World Markets Inc.

Funding Profile

On December 19, 2008, Fortis closed a common share offering of 11.7 million shares at a price of \$25.65 per share, resulting in gross proceeds of just over \$300 million.

On an annual basis, Fortis generates roughly \$470 million in cash flow after dividends. Given a capital program that amounts to approximately \$900 million per annum in spending over the next five years, along with long term debt maturities averaging \$180 million over the same timeframe, we would expect Fortis to continue to access the debt and, to a lesser extent, equity markets. As of December 31, 2008, Fortis and its subsidiaries had consolidated authorized lines of credit of \$2.2 billion of which approximately \$1.5 billion was unused.

Price Target Calculation

Our target of \$28 remains based upon an 18x multiple on 2010E EPS, at the high end of our regulated utility targets, which in turn reflect an anticipated improvement in the current credit environment (and hence an improvement in the general equity valuation level within the group). Fortis deserves a higher end multiple given strong anticipated rate base growth over the longer term.

Outlook and Investment Summary

Outlook and investment considerations include the following:

- **Strong Rate Base Growth:** Fortis' collective rate base is expected to grow from roughly \$7 billion currently at a CAGR of 7% through 2013.
- **A Dip in 2009E EPS:** The dip in forecast 2009E EPS reflects the April 2009 expiry of the agreement between Fortis Ontario and OPG under which Fortis received 75 MW of power supply from the Rankine Power Facility in exchange for Fortis' water rights on the Niagara River.
- **Valuation:** Fortis currently trades at 15.2x 2010E EPS compared with roughly 13.5x for its Canadian regulated utility comparables, a premium that reflects Fortis' superior core rate base growth.

A dip in EPS this year in the context of the premium valuation (deserved from a long-term perspective) prompts us to maintain our Sector Performer rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
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Sector Performer (Hold/Neutral)	157	49.8%	Sector Performer (Hold/Neutral)	135	86.0%
Sector Underperformer (Sell)	32	10.2%	Sector Underperformer (Sell)	21	65.6%
Restricted	12	3.8%	Restricted	12	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 05 Feb 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

April 30, 2009

Stock Rating:
Sector Performer

Sector Weighting:
Overweight

12-18 mo. Price Target \$28.00
FTS-TSX (4/30/09) \$22.15

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$20.70-\$28.34
Shares Outstanding 169.8M
Float 169.8M Shrs
Avg. Daily Trading Vol. 571,893
Market Capitalization \$3,760.2M
Dividend/Div Yield \$1.04 / 4.7%
Fiscal Year Ends December
Book Value \$18.36 per Shr
2009 ROE (E) 8.1%
LT Debt \$5.3B
Preferred \$667.00M
Common Equity \$3.1B
Convertible Available No

Earnings Per Share	Prev	Current
2008		\$1.56A
2009	\$1.49E	\$1.49E
2010	\$1.56E	\$1.60E

P/E		
2008		14.2x
2009	14.9x	14.9x
2010	14.2x	13.8x

Dividend Per Share	
2008	\$1.00A
2009	\$1.04E
2010	\$1.10E

Yield	
2008	4.5%
2009	4.7%
2010	5.0%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

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Pipelines, Utilities, & Power

Fortis Inc.

Q1 A Bit Light, But 2009E EPS Unchanged And 2010E EPS Moves Higher.

- Q2/09 adjusted EPS of \$0.53 was \$0.05 below both last year's level and our forecast, the variance reflecting higher-than-expected operating costs at FortisAlberta/FortisBC (largely timing), along with lower sales (due to cooler weather) in the Caribbean.
- We have actually raised our FortisAlberta/FortisBC forecast earnings contributions for both 2009 and 2010, reflecting strong rate base investment. For 2009, we are also reducing our earnings contribution from the Caribbean assets reflecting Q1 results.
- Offsetting changes in 2009 result in no change to estimated EPS. For 2010, our EPS rises from \$1.56/share to \$1.60/share. We have left our \$28 price target intact (slight decline in target multiple from 18x 2010E to 17.5x).
- The Fortis situation is highly attractive long-term, given strong rate base growth anticipated, and upside potential related to regulatory changes to allowed ROEs. We would prefer to wait until after Q2/09 results, which will reflect the end of the Rankine power agreement with OPG. SP rated.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Q1 Results

Q1 Earnings Performance

Fortis (FTS-SP) reported Q1/09 adjusted EPS of \$0.53/share, compared with \$0.58/share in Q1/08, and our \$0.58/share estimate. The variance from our expectation was largely due to timing issues surrounding certain operating costs at both FortisAlberta and FortisBC that will largely resolve over the course of the year, along with cooler weather resulting in lower electricity sales at Fortis' Caribbean utilities.

Q1 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** The Terasen Gas Companies reported segment earnings of \$58 million compared with \$58 million last year, and virtually in line with our \$59 million estimate. Higher rates during the quarter (reflecting rate base growth partly offset by a slightly lower y/y allowed ROEs) were offset by higher labour and employee benefit costs. We have left our forecasts for 2009 and 2010 unchanged at \$115 million and \$116 million, respectively, reflecting model assumptions that call for modest rate base growth and level allowed ROEs at both Terasen Gas Inc. and Terasen Gas (Vancouver Island).
- **Alberta & B.C. Utilities:** Combined earnings from FortisAlberta and FortisBC amounted to \$26 million in Q1/09, up from \$22 million in Q1/08, but below our \$29 million forecast. Higher rates in both utilities (reflecting rate base growth offset partly by slightly lower y/y allowed ROEs) were offset by higher operating expenses in the quarter, which in large part reflect timing issues related to maintenance activities and certain employee costs, which should resolve itself over the remainder of the year. We have actually increased our combined earnings contribution anticipated for 2009, from \$85 million to \$89 million, reflecting higher anticipated capital now budgeted for FortisBC. For 2010, we have increase our earnings estimate from \$88 million to \$96 million, reflecting stronger growth anticipated in both the FortisAlberta and FortisBC rate bases, combined with a flat allowed ROE assumption.
- **Newfoundland Power/Other Canadian Utilities:** Newfoundland Power earnings amounted to \$6 million compared with \$6 million in the prior year, and roughly in line with our \$7 million estimate. We are leaving our \$34 million and \$35 million forecasts for 2009 and 2010, respectively, unchanged. Other Canadian Utilities contributed \$5 million for the quarter, up slightly over last year (Q1/08 \$4 million) and roughly in line with our \$4 million estimate. Earnings forecasts for Other Canadian Utilities remain at \$17 million for both 2009 and 2010.
- **Caribbean Utilities:** The Caribbean segment contributed earnings of \$4 million in Q1/09 compared with \$7 million last year, and below our \$8 million expectation. The variance from expectations was due primarily to cooler than normal weather in the region and a resulting decline in electricity sales. We have lowered our full year 2009 forecast for the Caribbean segment from \$35 million to \$31 million, but left our 2010 forecast unchanged at \$37 million.

Non-Regulated Businesses

Non-regulated business consisting of Fortis Properties and Fortis Generation reported earnings that were in line with expectations, at \$2 million and \$6 million, respectively, compared with \$3 million and \$6 million last year. We are leaving our 2009 and 2010 forecasts unchanged for both segments.

Exhibit 1. Q1/09 Earnings Summary (\$ mlns., except per share)

Segmented Earnings	Q1/09A	Q1/09E	Q1/08A
Regulated Utilities			
Terasen Gas	58	59	58
Alberta & B.C. Utilities	26	29	22
Newfoundland Power	6	7	6
Other Canadian Utilities	5	4	4
Caribbean Utilities (Belize, CUC, T&C)	4	8	7
Total Regulated Utilities	99	107	97
Non-Regulated Operations			
Fortis Generation	6	6	6
Fortis Properties	2	2	3
Total Non-Regulated Operations	8	8	9
Corporate	(17)	(16)	(16)
Operating Earnings For Common	90	99	90
Unusual Items	2	0	0
Reported Earnings	92	99	90
Average Shares Outstanding	169	169	157
Operating EPS	0.53	0.58	0.58
Reported EPS	0.54	0.58	0.58

Source: Company reports and CIBC World Markets Inc.

Forthcoming Rate Hearings

In March 2009, the NEB released a decision granting a positive variance to allowed returns for the TQM pipeline for 2007 and 2008. In addition, the NEB's reasoning surrounding the decision suggests changes in the generic formula may be in order, resulting in higher allowed returns. This has resulted in attention being drawn to the considerable upside potential to Fortis' earnings in the event that provincial regulators eventually change their formulas as well (for more information refer to our March 23 sector comment entitled *NEB Issues Decision On TQM Cost of Capital For 2007 and 2008: Potentially Significant Implications For Canadian Regulated Returns*). We have estimated upside potential to Fortis' earnings of roughly \$0.19/share to the extent that changes in all relevant provincial allowed formula ROEs reflected similar magnitude as that implicit in the TQM decision. Forthcoming provincial regulatory hearings that are pertinent to the matter include the following:

- **Alberta Utilities Commission:** A Generic Cost of Capital Proceeding hearing has been scheduled for Q2/09. The Proceeding will review ROE levels, adjustment mechanisms and utility capital structures, and is pertinent for all regulated gas electricity and pipeline utilities in Alberta that are regulated by the AUC. In respect of this hearing, FortisAlberta submitted

evidence back in November. A decision from the regulator on the issue would likely be forthcoming in the September/October timeframe.

- **BCUC:** The Terasen Companies will be applying for a review of the current generic ROE adjustment mechanisms and the deemed equity component of their capital structures. The timing of any possible decision is likely to come after the AUC's ruling related to its Proceeding.

Forecasts

The forecast changes discussed in the highlights section, including an increase in forecast 2009 and 2010 earnings from FortisAlberta/FortisBC, along with the reduction in forecast 2009 earnings from the Caribbean segment (and other minor adjustments) are summarized in Exhibit 2.

Exhibit 2. Earnings Summary (\$ mlns., except per share)

Segmented Earnings	2009E			2010E	
	2008A	Previous	Current	Previous	Current
Regulated Utilities					
Terasen Gas	113	115	115	116	116
Alberta & B.C. Utilities	79	85	89	88	96
Newfoundland Power	32	34	34	35	35
Other Canadian Utilities	16	17	17	17	17
Caribbean Utilities (Belize, CUC, T&C)	20	35	31	37	37
Total Regulated Utilities	259	285	285	293	302
Non-Regulated Operations					
Fortis Generation	30	17	17	24	22
Fortis Properties	23	21	21	22	22
Total Non-Regulated Operations	53	38	38	46	44
Corporate	(71)	(72)	(72)	(75)	(75)
Operating Earnings For Common	241	251	251	264	270
Unusual Items	(8)	0	2	0	0
Reported Earnings	234	251	253	264	270
Average Shares Outstanding	157	170	170	170	169
Operating EPS	1.56	1.49	1.49	1.56	1.60
Reported EPS	1.52	1.49	1.50	1.56	1.60

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

At this stage we are going to leave our \$28 price target intact, now reflecting a 17.5x 2010E multiple (versus 18x previously), which continues to reflect an ongoing improvement in the credit environment, and also a well-deserved premium valuation for Fortis relative to its peers, given the strong organic growth in regulated rate base anticipated.

Outlook and Investment Summary

Fortis is a situation we find highly attractive for the long term. The company is expected to post strong rate base growth over the next five years that will continue to drive organic earnings growth. The only remaining issue for us is one of timing; Q2/09 results will reflect the end of the Rankine power agreement, thus permanently removing this component of earnings. The most opportune timing for purchase may come following the release of Q2/09 results, and ahead of an AUC autumn decision on cost of capital. For now, we maintain our SP rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2008 Current	\$0.58A	\$0.28A	\$0.26A	\$0.48A	\$1.56A
2009 Prior	\$0.58E	\$0.28E	\$0.16E	\$0.46E	\$1.49E
2009 Current	\$0.53A	\$0.29E	\$0.19E	\$0.47E	\$1.49E
2010 Prior	--	--	--	--	\$1.56E
2010 Current	--	--	--	--	\$1.60E

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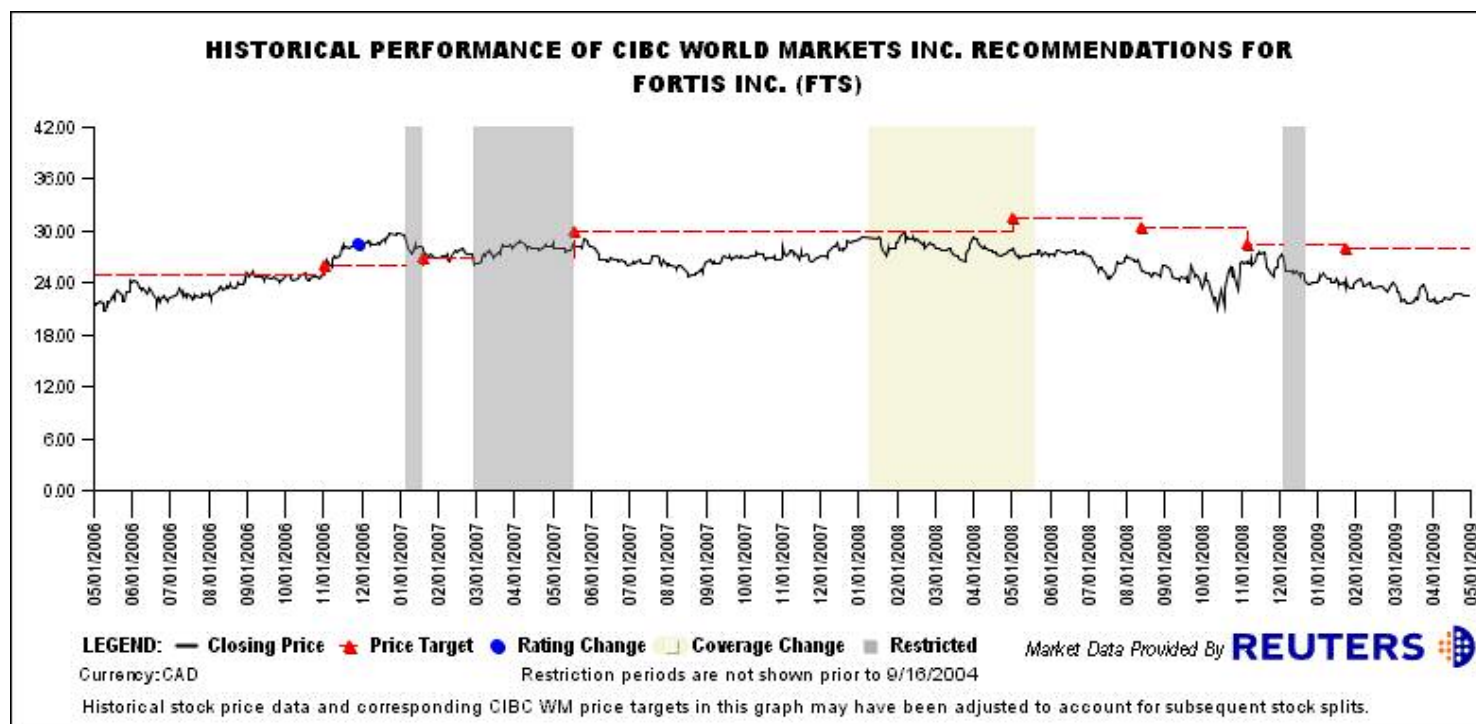
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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Sector Outperformer (Buy)	117	36.8%	Sector Outperformer (Buy)	105	89.7%
Sector Performer (Hold/Neutral)	146	45.9%	Sector Performer (Hold/Neutral)	123	84.2%
Sector Underperformer (Sell)	39	12.3%	Sector Underperformer (Sell)	29	74.4%
Restricted	15	4.7%	Restricted	15	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 30 Apr 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

August 5, 2009

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$28.00
FTS-TSX (8/5/09) \$25.63

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$20.70-\$28.00
Shares Outstanding 170.3M
Float 170.3M Shrs
Avg. Daily Trading Vol. 580,178
Market Capitalization \$4,365.1M
Dividend/Div Yield \$1.04 / 4.1%
Fiscal Year Ends December
Book Value \$18.20 per Shr
2009 ROE (E) 8.2%
LT Debt \$5.4B
Preferred \$667.00M
Common Equity \$3.1B
Convertible Available No

Earnings Per Share	Prev	Current
2008		\$1.56A
2009	\$1.49E	\$1.49E
2010	\$1.60E	\$1.60E

P/E	
2008	16.4x
2009	17.2x
2010	16.0x

Dividend Per Share	
2008	\$1.00A
2009	\$1.04E
2010	\$1.10E

Yield	
2008	3.9%
2009	4.1%
2010	4.3%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

www.fortisinc.com

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Pipelines, Utilities, & Power

Fortis Inc.

Q2 Slightly Above Forecast; Steady Growth Profile With Regulatory Upside

- Fortis reported adjusted EPS of \$0.31 in Q2/09, up from \$0.28 in Q2/08 and above our \$0.29 forecast. Results were in line with expectations in most segments, with a moderately better-than-expected performance at FortisAlberta.
- Currently, the NEB as well as provincial regulators are reviewing their cost of capital formulas following the NEB decision in March to grant TQM a positive variance to allowed returns. Upside exists with respect to our estimates if provincial regulators' reviews yield positive results.
- Fortis is expected to spend \$5 billion in capital between 2009 and 2013, the bulk of which will be in its regulated utilities. Substantially all of the expenditures will be funded at the subsidiary level, with minimal equity requirements, especially in the near term (2009-2010).
- Our estimates and price target remain unchanged. The large capital investment over the next five years should drive organic earnings growth, while upside exists with regards to the regulatory reviews. Valuations are deservedly at the high end of the peer group range. SP maintained.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Q2 Results

Q2 Earnings Performance

Fortis (FTS-SP) reported Q2/09 adjusted EPS of \$0.31, up from \$0.28 in Q2/08 and modestly above our \$0.29 forecast. Results were in line with expectations in most segments, with moderately better-than-expected performance at FortisAlberta.

Q2 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen reported earnings of \$14 million in Q2/09, compared to \$12 million in Q2/08 and our \$12 million estimate. The y/y increase in earnings was the result of a lower effective corporate income tax rate, lower finance charges related to decreased borrowing rates and lower borrowings under credit facilities, and higher customer delivery rates.
- **Alberta & B.C. Utilities:** Combined earnings from FortisAlberta and FortisBC amounted to \$24 million in Q2/09, up from \$14 million in Q2/08 and modestly above our \$21 million estimate. The y/y increase was the result of lower corporate income taxes and the impact of increased customer distribution rates and overall load and customer growth at FortisAlberta.
- **Newfoundland Power:** Newfoundland Power contributed earnings of \$11 million in the quarter, up from \$10 million in Q2/08 and in line with our \$11 million estimate. The y/y increase reflects a change in the quarterly allocation costs (resulting in lower amortization costs in Q2/09), the impact of a lower effective income tax rate and a gain on the sale of property.
- **Other Canadian Utilities:** Earnings from Other Canadian Utilities totaled \$4 million in Q2/09, unchanged from \$4 million in Q2/08 and in line with our \$4 million estimate. During the quarter, FortisOntario entered into an agreement to acquire Great Lakes Power Distribution Inc., an electric distribution utility serving 12,000 customers in northern Ontario, for approximately \$68 million. FortisOntario also purchased a 10% interest in Grimsby Power Inc. for approximately \$1 million. Grimsby Power is an electric distribution utility serving 10,000 customers in a service territory that is close to FortisOntario's operations in Fort Erie.
- **Caribbean Utilities:** The Caribbean segment contributed earnings of \$7 million in the quarter, versus \$8 million in Q2/08 and our \$9 million estimate, with the y/y decline reflecting lower allowed ROA at Belize Electricity and increased amortization costs.

Non-Regulated Businesses:

Non-regulated operations earnings totaled \$11 million in Q2/09, down from \$14 million in Q2/08 and in line with our \$10 million estimate. The y/y decline reflects lower earnings at Fortis Generation as a result of the April 30, 2009, expiration of the power-for-water exchange agreement at the Rankine hydroelectric generating facility in Ontario and lower wholesale market energy prices in Upper New York State and Ontario.

Exhibit 1. Q2/09 Earnings Summary (\$ mlns., except per share)

Segmented Earnings	Q2/09A	Q2/09E	Q2/08A
Regulated Utilities			
Terasen Gas	14	12	12
Alberta & B.C. Utilities	24	21	14
Newfoundland Power	11	11	10
Other Canadian Utilities	4	4	4
Caribbean Utilities (Belize, CUC, T&C)	7	9	8
Total Regulated Utilities	60	57	48
Non-Regulated Operations			
Fortis Generation	3	4	7
Fortis Properties	8	7	7
Total Non-Regulated Operations	11	10	14
Corporate	(18)	(18)	(18)
Operating Earnings For Common	53	50	44
Unusual Items	0	0	(15)
Reported Earnings	53	50	29
Average Shares Outstanding	170	170	157
Operating EPS	0.31	0.29	0.28
Reported EPS	0.31	0.29	0.18

Source: Company reports and CIBC World Markets Inc.

Regulatory Update

In March 2009, the National Energy Board (NEB) released a decision granting a positive variance to allowed returns for the TQM pipeline for 2007 and 2008. The NEB's reasoning surrounding the decision has opened the door to possible future changes in the NEB's generic formula, and also to provincial generic formulas, that would result in higher allowed returns for regulated utilities. For more information on this topic refer to our March 23 sector comment entitled *NEB Issues Decision On TQM Cost of Capital For 2007 and 2008: Potentially Significant Implications For Canadian Regulated Returns*. We have estimated upside potential to Fortis' earnings of roughly \$0.19/share to the extent that changes in all relevant provincial allowed formula ROEs reflected similar magnitude as that implicit in the TQM decision.

Proceedings on this front related Fortis' companies are listed below:

- **Terasen Gas Companies:** In May 2009, the Terasen Gas companies filed an application with the British Columbia Utilities Commission (BCUC) requesting a review of the current generic allowed ROE adjustment mechanism and the deemed equity component for Terasen Gas Inc. (TGI). Terasen is requesting an increase in TGI's allowed ROE from 8.47% to 11% effective July 1, 2009, and an increase in TGI's allowed common equity from 35% to 40% effective January 1, 2010. Terasen has not requested a change in the risk-premium spread over TGI's allowed ROE used to calculate Terasen Gas (Vancouver Island) Inc. (TGVI), implying a requested allowed

ROE of 11.7% for TGV. The company expects a decision will be rendered in late 2009/early 2010.

- **FortisAlberta:** The Alberta Utilities Commission (AUC) Generic Cost of Capital Proceeding took place in Q2/09, and an AUC order is expected before the end of 2009. The AUC is reviewing ROE levels, adjustment mechanisms and utility capital structures, applicable to all pipelines and utilities that are regulated by the AUC.
- **Newfoundland Power:** In May 2009, Newfoundland Power filed a 2010 general rate application, seeking an increase in the allowed ROE from 8.95% to 11% on a deemed common equity of 45% (unchanged). A hearing on the application is expected in fall 2009.

Estimates Unchanged

We have made minor adjustments to our model, but overall our estimates remain unchanged.

Exhibit 2. Earnings Summary (\$ mlns., except per share)

Segmented Earnings	2009E			2010E	
	2008A	Previous	Current	Previous	Current
Regulated Utilities					
Terasen Gas	113	115	115	116	116
Alberta & B.C. Utilities	79	89	89	96	96
Newfoundland Power	32	34	34	35	35
Other Canadian Utilities	16	17	18	17	19
Caribbean Utilities (Belize, CUC, T&C)	30	31	32	37	37
Total Regulated Utilities	270	285	286	302	304
Non-Regulated Operations					
Fortis Generation	30	17	17	22	22
Fortis Properties	23	21	21	22	22
Total Non-Regulated Operations	53	38	38	44	44
Corporate	(71)	(72)	(72)	(75)	(75)
Operating Earnings For Common	252	251	253	270	273
Unusual Items	(8)	2	2	0	0
Reported Earnings	244	253	255	270	273
Average Shares Outstanding	157	170	170	170	171
Operating EPS	1.56	1.49	1.49	1.60	1.60
Reported EPS	1.52	1.49	1.50	1.59	1.60

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

Our price target remains unchanged at \$28, reflecting a 17.5x 2010E EPS target multiple, deservedly at the high end of utilities valuations in light of its consistently solid performance and strong growth profile.

Outlook and Investment Summary

Fortis is expected to spend \$5 billion in capital between 2009 and 2013, which will drive organic earnings growth. Substantially all expenditures will be financed at the subsidiary level, with minimal equity requirements, particularly in the near term (2009-2010). Upside potential exists to the extent that provincial generic cost of capital reviews produce positive results. At 16.1x 2010E EPS versus the utilities average of 12.7x, valuations are deservedly at the high end of the Utilities group range. We maintain our Sector Performer rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2008 Current	\$0.58A	\$0.28A	\$0.26A	\$0.48A	\$1.56A
2009 Prior	\$0.53A	\$0.29E	\$0.19E	\$0.47E	\$1.49E
2009 Current	\$0.53A	\$0.31A	\$0.19E	\$0.46E	\$1.49E
2010 Prior	--	--	--	--	\$1.60E
2010 Current	--	--	--	--	\$1.60E

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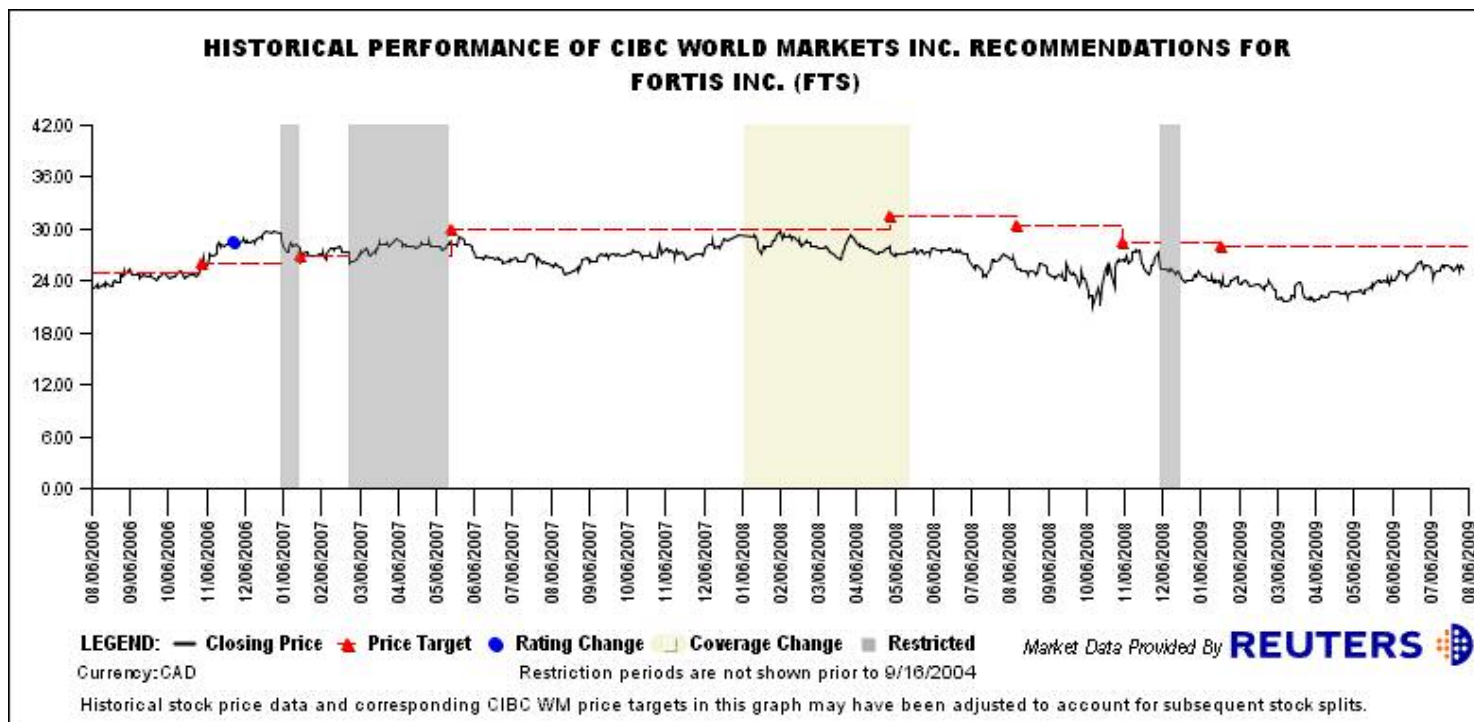
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- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/01/2006	▲	25.75	SP	26.00	Matthew Akman
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SP	27.00	Matthew Akman
05/18/2007	▲	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 05 Aug 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	118	38.8%	Sector Outperformer (Buy)	106	89.8%
Sector Performer (Hold/Neutral)	151	49.7%	Sector Performer (Hold/Neutral)	135	89.4%
Sector Underperformer (Sell)	30	9.9%	Sector Underperformer (Sell)	20	66.7%
Restricted	4	1.3%	Restricted	4	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 05 Aug 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

November 6, 2009

Stock Rating: Sector Performer

Sector Weighting: Overweight

12-18 mo. Price Target \$28.00
FTS-TSX (11/5/09) \$25.81

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$21.52-\$28.00
Shares Outstanding 170.7M
Float 170.7M Shrs
Avg. Daily Trading Vol. 469,419
Market Capitalization \$4,404.5M
Dividend/Div Yield \$1.04 / 4.0%
Fiscal Year Ends December
Book Value \$18.17 per Shr
2009 ROE (E) 8.3%
LT Debt \$5.7B
Preferred \$667.00M
Common Equity \$3.1B
Convertible Available No

Earnings Per Share	Prev	Current
2008		\$1.56A
2009	\$1.49E	\$1.51E
2010		\$1.60E

P/E		
2008		16.5x
2009	17.3x	17.1x
2010		16.1x

Dividend Per Share		
2008		\$1.00A
2009		\$1.04E
2010		\$1.10E

Yield		
2008		3.9%
2009		4.0%
2010		4.3%

Company Description

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Pipelines, Utilities, & Power

Fortis Inc.

Reports Slightly Higher-than-expected Q3 Results,

- Q3/09 EPS of \$0.21 compared with \$0.26 last year, and was slightly above our \$0.19 expectation. Earnings declined y/y reflecting the April 2009 expiration of the Rankine contract. Q3/09 results from Fortis' Canadian regulated utilities were slightly higher-than-expected.
- Fortis continues to offer considerable EPS upside related to potential regulatory changes. The recent NEB decision sets the stage for possible changes at the provincial level, the latter which is relevant for Fortis. We estimate \$0.19 in related EPS upside.
- A \$5 billion capital program between 2009 and 2013, largely in regulated utilities will drive organic growth. Funding will likely occur at the subsidiary level, with minimal equity requirements.
- We have made only minor changes to our forecasts, and no change to our \$28 price target or recommendation. Valuations are justifiably at the higher end of the peer group range. SP rated.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Exhibit 1. A Closer Look

Valuation	2008A	2009E	2010E
P/E Ratio (x)			
Fortis	16.6	17.1	16.1
Utilities Average	13.7	14.8	12.9
EV/EBITDA (x)			
Fortis	9.7	10.4	10.8
Utilities Average	8.4	8.3	8.2
Other Data	2008A	2009E	2010E
Dividend	1.00	1.04	1.10
Dividend Yield	3.9%	4.0%	4.3%
Payout Ratio	64.2%	68.8%	68.8%
Book Value per Share	18.00	18.47	18.99
Price/Book Value (x)	1.4	1.4	1.4
Net Debt/EBITDA (x)	5.3	5.5	5.9
Debt/Total Capital	54.6%	56.4%	58.2%
Income Statement	2008A	2009E	2010E
Terasen Gas	113	115	116
Alberta & B.C. Utilities	79	94	98
Newfoundland Power	32	32	34
Other Canadian Utilities	16	18	19
Caribbean Utilities (Belize, CUC, T&C)	30	32	37
Regulated Earnings	270	291	305
Fortis Generation	30	17	22
Fortis Properties	23	21	22
Non-regulated Earnings	53	38	44
Corporate	(71)	(72)	(75)
Operating Earnings	252	257	274
Unusual Items	(8)	2	0
Reported Earnings	244	259	274
Average Shares Outstanding	157	170	171
Operating EPS	1.56	1.51	1.60
Reported EPS	1.52	1.52	1.60
Cash Flow	2008A	2009E	2010E
Operating Earnings	252	257	274
Depreciation and Amortization	348	363	377
Other	15	13	13
Operating Cash Flow	615	633	664
Estimated Maintenance Capex	(318)	(318)	(318)
Net FCF After Maintenance Capex	296	315	346
Net FCF per Share	1.88	1.85	2.02
Balance Sheet	2008A	2009E	2010E
Cash and Cash Equivalents	66	18	37
Other Current Assets	1,084	1,084	1,084
Utility Capital Assets and Income Producing Properties	7,693	8,375	9,042
Other Assets	2,335	2,335	2,335
Total Assets	11,178	11,812	12,498
Current Liabilities	1,047	1,047	1,047
Short Term Borrowings	410	410	410
Long Term Debt and Capital Lease Obligations (incl. Current)	5,124	5,654	6,234
Other Liabilities	739	739	739
Non-controlling Interest	145	143	141
Preferred Shares	667	667	667
Shareholders' Equity	3,046	3,152	3,260
Total Liabilities and Equity	11,178	11,812	12,498

Company Profile

- Fortis is the the largest investor-owned distribution utility in Canada with total assets approaching \$12 billion.

- The company's growth has been driven by two major acquisitions: FortisAlberta and FortisBC in 2004 (\$1.5 billion) and Terasen Gas Companies in 2007 (\$3.7 billion).

- Fortis operates electric distribution utilities in 5 Canadian provinces (B.C., Alberta, Ontario, Prince Edward Island and Newfoundland) and three Caribbean countries (Belize, Cayman Islands, Turks and Caicos), and a natural gas utility in (Terasen).

- Fortis owns and operates non-regulated generation assets across Canada, in Belize and in Upper New York State.

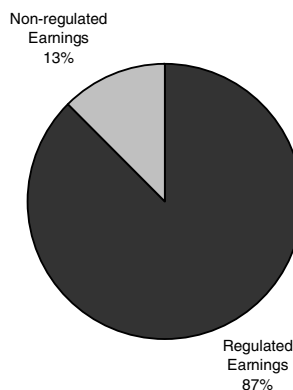
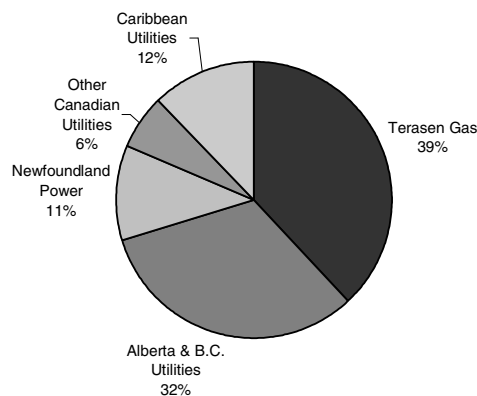
- Fortis also owns hotels and commercial real estate across Canada.

Investment Thesis

- Fortis is expected to spend \$5 billion in capital between 2009 and 2013 which will drive organic EPS growth. We expect that this will be funded at the subsidiary level, with minimal equity requirements.

- In addition, we estimate roughly \$0.19/share in EPS upside to the extent that provincial regulators follow suit with recent NEB decisions and allowed ROEs are increased.

- Fortis deservedly trades at the high end of Canadian utilities valuations as a result of its consistently solid performance and strong growth profile.

2010E Regulated vs. Non-regulated Earnings (excl. Corporate)

2010E Regulated Earnings


Source: Company reports, Bloomberg and CIBC World Markets Inc.



Q3 Results

Q3 Earnings Performance

Fortis (FTS-SP) reported Q3/09 EPS of \$0.21, down from \$0.26 in Q3/08, and slightly above our \$0.19 estimate. Earnings declined y/y as anticipated, reflecting the April 30, 2009 expiration of the power-for-water exchange agreement with Ontario Power Generation (OPG). Earnings were modestly higher-than-anticipated as a result of slightly stronger-than-expected results from Fortis' regulated Canadian Utilities.

Q3 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen Gas loss totaled \$3 million in Q3/09, versus a loss of \$5 million in Q3/08, slightly lower than our expected loss of \$5 million. The variance over both last year and our estimates was due to a lower than expected tax rate during the quarter. Management states that year-to-date customer growth at 800 is considerably below the same period last year at 5,400 due to slowing economic growth and growth in multi-family housing, where natural gas use is less prevalent compared to single-family housing.
- **Alberta & B.C. Utilities:** Alberta and BC regulated utilities contributed \$24 million to earnings in Q3/09, versus \$26 million in Q3/08, slightly above our forecast of \$21 million. The variance from our estimate reflects stronger-than-expected earnings at FortisAlberta due to rate base growth, mitigating a decline in the allowed ROE from 8.75% in 2008 to 8.51% in 2009. FortisBC earnings were comparable y/y.
- **Newfoundland Power:** Newfoundland Power earnings were \$7 million in Q3/09, compared with \$8 million in Q3/08, and below our \$9 million estimate. The y/y variance and the variance from our expectations was due to a change in the quarterly allocation of amortization costs resulting in higher amortization in Q3/09.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$7 million in Q3/08 versus \$7 million last year, and basically in-line with our \$8 million estimate.

Non-Regulated Businesses:

Non-regulated operations earnings totaled \$13 million in Q3/09, down from \$18 million in Q3/08, roughly in line with our \$12 million estimate. The y/y decline reflected lower earnings at Fortis Generation as a result of the April 30, 2009 expiration of the agreement with OPG, which involved the exchange of water rights on the Niagara River in return for a regular power payment from the Rankine Power Station.

Exhibit 2. Q3/09 Earnings Summary (\$ mlns., except per share)

Segmented Earnings	Q3/09A	Q3/09E	Q3/08A
Regulated Utilities			
Terasen Gas	(3)	(5)	(5)
Alberta & B.C. Utilities	24	21	26
Newfoundland Power	7	9	8
Other Canadian Utilities	5	4	5
Caribbean Utilities (Belize, CUC, T&C)	7	8	7
Total Regulated Utilities	40	37	41
Non-Regulated Operations			
Fortis Generation	4	3	9
Fortis Properties	9	9	9
Total Non-Regulated Operations	13	12	18
Corporate	(17)	(17)	(17)
Operating Earnings For Common	36	32	42
Unusual Items	0	0	8
Reported Earnings	36	32	50
Average Shares Outstanding	170	170	157
Operating EPS	0.21	0.19	0.26
Reported EPS	0.21	0.19	0.32

Source: Company reports and CIBC World Markets Inc.

Regulatory Update

In October 2009, the NEB released a decision to drop the generic multi-pipeline formula, without replacement, electing instead to allow for returns to be fully determined through negotiated settlement. While Fortis does not have NEB-regulated assets, the decision nevertheless appears to open the door for further positive regulatory developments on the same issue in provincial jurisdictions.

Important proceedings on this front related Fortis' companies are listed below:

- Terasen Gas Companies:** In May 2009, the Terasen Gas Companies filed an application with the British Columbia Utilities Commission (BCUC) requesting a review of the current generic allowed ROE adjustment mechanism and the deemed equity component for Terasen Gas Inc. (TGI). Terasen is requesting an increase in TGI's allowed ROE from 8.47% to 11% effective July 1, 2009, and an increase in TGI's allowed common equity from 35% to 40% effective January 1, 2010. Terasen has not requested a change in the risk-premium spread of TGI's allowed ROE used to calculate Terasen Gas (Vancouver Island) Inc. (TGVI), implying a requested allowed ROE of 11.7% for TGVI. The company expects a decision will be rendered in late 2009/early 2010.
- FortisAlberta:** The Alberta Utilities Commission (AUC) Generic Cost of Capital Proceeding took place in Q2/09, and an AUC order is expected before the end of 2009. The AUC is reviewing ROE levels, adjustment mechanisms

and utility capital structures, applicable to all pipelines and utilities that are regulated by the AUC.

- **Newfoundland Power:** In May 2009, Newfoundland Power filed a 2010 general rate application, seeking an increase in the allowed ROE from 8.95% to 11% on a deemed common equity of 45% (unchanged). A hearing on the application occurred in October, with a decision pending.

Estimates Unchanged

We have made only minor adjustments to our model, essentially building in Q3/09 results. As a result, 2009E EPS rises from \$1.49 to \$1.51, while 2010E EPS remains at \$1.60.

Price Target Calculation

Our price target remains unchanged at \$28, reflecting a 17.5x 2010E EPS target multiple, deservedly at the high end of utilities valuations in light of Fortis' consistently solid performance and strong growth profile.

Outlook and Investment Summary

Fortis is expected to spend \$5 billion in capital between 2009 and 2013, which will drive organic EPS growth. We expect that expenditures will be funded at the subsidiary level, with minimal equity requirements, particularly in the shorter term through 2010. On top of that, we estimate roughly \$0.19/share in regulatory upside potential, to the extent provincial regulators follow suit with recent NEB decisions. Valuations remain deservedly at the high end of the Utilities group range. We maintain our SP rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2008 Current	\$0.58A	\$0.28A	\$0.26A	\$0.48A	\$1.56A
2009 Prior	\$0.53A	\$0.31A	\$0.19E	\$0.46E	\$1.49E
2009 Current	\$0.53A	\$0.31A	\$0.21A	\$0.46E	\$1.51E
2010 Current	--	--	--	--	\$1.60E

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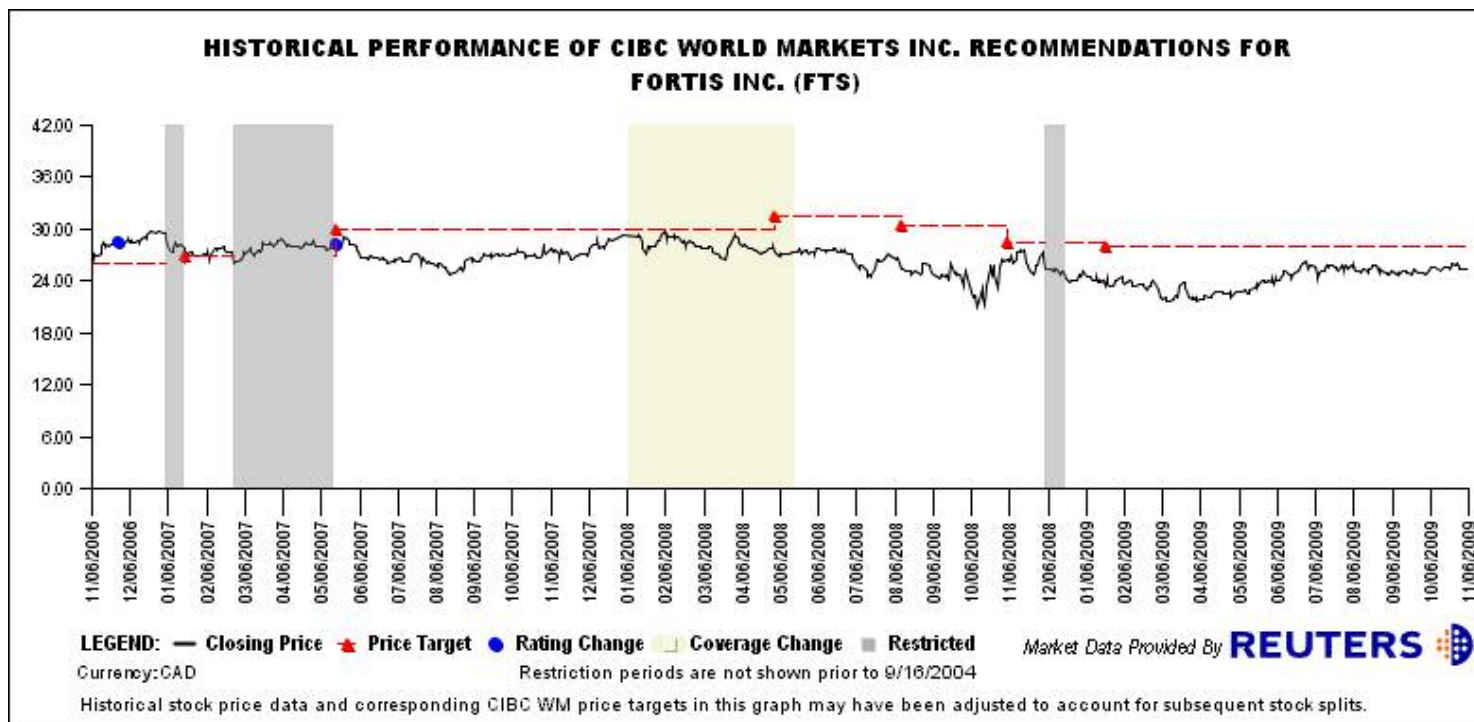
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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/27/2006	●	28.42	SU	26.00	Matthew Akman
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SU	27.00	Matthew Akman
05/18/2007	▲●	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 05 Nov 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	133	41.6%	Sector Outperformer (Buy)	117	88.0%
Sector Performer (Hold/Neutral)	149	46.6%	Sector Performer (Hold/Neutral)	133	89.3%
Sector Underperformer (Sell)	25	7.8%	Sector Underperformer (Sell)	18	72.0%
Restricted	12	3.8%	Restricted	12	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 05 Nov 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research

Change in Recommendation

December 17, 2009

Stock Rating: Sector Outperformer

Sector Weighting: Overweight

12-18 mo. Price Target \$32.50
FTS-TSX (12/17/09) \$28.54

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$21.52-\$28.68
Shares Outstanding 170.7M
Float 170.7M Shrs
Avg. Daily Trading Vol. 469,419
Market Capitalization \$4,870.4M
Dividend/Div Yield \$1.04 / 3.6%
Fiscal Year Ends December
Book Value \$18.17 per Shr
2009 ROE (E) 8.6%
LT Debt \$5.7B
Preferred \$667.00M
Common Equity \$3.1B
Convertible Available No

Earnings Per Share	Prev	Current
2009	\$1.55E	\$1.57E
2010	\$1.64E	\$1.72E
2011	\$1.75E	\$1.85E

P/E		
2009	18.4x	18.2x
2010	17.4x	16.6x
2011	16.3x	15.4x

Dividend Per Share	
2009	\$1.04A
2010	\$1.12E
2011	\$1.20E

Yield	
2009	3.7%
2010	4.0%
2011	4.3%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

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Pipelines, Utilities, & Power

Fortis Inc.

Positive BCUC Decision; Raising EPS Estimates, Price Target And Rating

- Terasen Gas announced that it has received the BCUC decision on its Return on Equity and Capital Structure Application. The BCUC set its allowed ROE for Terasen Gas Inc. (TGI) at 9.5% (versus 8.47% currently) and increased its deemed common equity to 40% (versus 35% currently).
- Allowed ROEs for Terasen Gas (Vancouver Island) Inc. (TGVI) and FortisBC increase to 10.00% (from 9.17%) and 9.90% (from 8.87%), respectively. The new allowed ROEs for TGI and TGVI are effective July 1, 2009, while the new rate for FortisBC is effective January 1, 2010.
- We have made changes to our Terasen Gas and FortisBC estimates, reflecting the BCUC decision. As a result, our 2009E EPS increases from \$1.55 to \$1.57, our 2010E EPS increases from \$1.64 to \$1.72, and our 2011E EPS increases from \$1.75 to \$1.85.
- We are increasing our price target from \$30.50 to \$32.50, based on a target multiple of 17.5x 2011E EPS (unchanged). Positive regulatory decisions combined with a \$5 billion capital program set the stage for strong growth through 2013. We raise our rating to SO from SP, as of December 17.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Exhibit 1. A Closer Look (\$ mlns., except per share)

Valuation	2009E	2010E	2011E
P/E Ratio (x)			
Fortis	18.0	16.4	15.3
Utilities Average	16.1	14.4	13.2
EV/EBITDA (x)			
Fortis	10.1	9.9	9.8
Utilities Average	8.7	8.4	8.1
Other Data	2009E	2010E	2011E
Dividend	1.04	1.12	1.20
Dividend Yield	3.7%	4.0%	4.3%
Payout Ratio	66.3%	65.0%	65.0%
Book Value per Share	18.63	19.30	20.01
Price/Book Value (x)	1.5	1.5	1.4
Net Debt/EBITDA (x)	5.2	5.2	5.3
Debt/Total Capital	60.4%	61.5%	62.3%
Income Statement	2009E	2010E	2011E
Terasen Gas Companies	120	128	140
FortisAlberta	63	67	74
FortisBC	36	41	45
Newfoundland Power	32	35	36
Other Canadian Electric Utilities	17	19	19
Regulated Electric Utilities - Caribbean	26	35	35
Regulated Earnings	294	326	350
Fortis Generation	17	22	22
Fortis Properties	27	27	27
Non-regulated Earnings	43	50	50
Corporate	(71)	(80)	(80)
Operating Earnings	267	295	320
Unusual Items	3	0	0
Reported Earnings	270	295	320
Average Shares Outstanding	170	171	173
Operating EPS	1.57	1.72	1.85
Reported EPS	1.59	1.72	1.85
Cash Flow	2009E	2010E	2011E
Operating Earnings	267	295	320
Depreciation and Amortization	354	377	398
Other	13	13	13
Operating Cash Flow	634	686	731
Estimated Maintenance Capex	(318)	(318)	(318)
Net FCF After Maintenance Capex	316	367	413
Net FCF per Share	1.85	2.14	2.39
Balance Sheet	2009E	2010E	2011E
Cash and Cash Equivalents	73	137	167
Other Current Assets	1,084	1,084	1,084
Utility Capital Assets and Income Producing Properties	8,366	8,943	9,562
Other Assets	2,335	2,335	2,335
Total Assets	11,858	12,499	13,148
Current Liabilities	1,047	1,047	1,047
Short Term Borrowings	410	410	410
Long Term Debt and Capital Lease Obligations (incl. Current)	5,674	6,174	6,674
Other Liabilities	739	739	739
Non-controlling Interest	143	141	139
Preferred Shares	667	667	667
Shareholders' Equity	3,178	3,321	3,472
Total Liabilities and Equity	11,858	12,499	13,148

Source: Company reports, Bloomberg and CIBC World Markets Inc.

Company Profile

- Fortis is the the largest investor-owned distribution utility in Canada with total assets approaching \$12 billion.

- The company's growth has been driven by two major acquisitions: FortisAlberta and FortisBC in 2004 (\$1.5 billion) and Terasen Gas Companies in 2007 (\$3.7 billion).

- Fortis operates electric distribution utilities in 5 Canadian provinces (B.C., Alberta, Ontario, Prince Edward Island and Newfoundland) and three Caribbean countries (Belize, Cayman Islands, Turks and Caicos), and a natural gas utility in (Terasen).

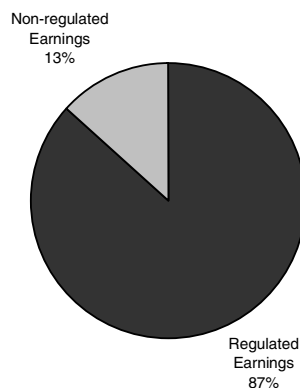
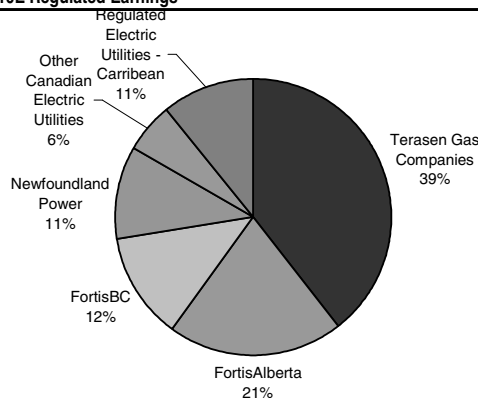
- Fortis owns and operates non-regulated generation assets across Canada, in Belize and in Upper New York State.

- Fortis also owns hotels and commercial real estate across Canada.

Investment Thesis

- Fortis is expected to spend \$5 billion in capital between 2009 and 2013 which will drive organic EPS growth. We expect that this will be funded at the subsidiary level, with minimal equity requirements.

- Fortis deservedly trades at the high end of Canadian utilities valuations as a result of its consistently solid performance and strong growth profile.

2010E Regulated vs. Non-regulated Earnings (excl. Corporate)**2010E Regulated Earnings**

BCUC Return On Equity And Capital Structure Decision

Terasen Gas, Fortis' (FTS-SP) wholly owned gas utility in British Columbia, announced today that it has received the British Columbia Utilities Commission's (BCUC) decision on its Return on Equity and Capital Structure Application. The BCUC set its allowed ROE for Terasen Gas Inc. (TGI) at 9.5%, up from the current level of 8.47%. The BCUC also maintained TGI as a benchmark for calculating the Terasen Gas (Vancouver Island) Inc. (TGVI) ROE, which now reflects a 50-basis-point (bps) premium (down from 70 bps previously) to TGI's ROE. As a result, the TGVI allowed ROE rises to 10.00% from 9.17% previously. The new allowed ROEs for TGI and TGVI are effective July 1, 2009. Therefore, the average 2009 allowed ROEs for TGI and TGVI are 8.98% and 9.58%, respectively. Fortis' electric utility, FortisBC, is also impacted by the decision. FortisBC's allowed ROE increases to 9.90% from 8.87% effective January 1, 2010.

In addition, for TGI, the deemed common equity component increased to 40% from 35%, effective January 1, 2010. The equity components for TGVI and FortisBC remain at 40%. Late in November 2009 the BCUC approved the Negotiated Settlement Agreements for TGI and TGVI, which reflect a rebasing of incentive earnings and do not include provisions for a performance-based rate-setting incentive mechanism going forward, suggesting that the allowed ROE and achieved ROE will be closer going forward.

Revising Estimates

We have made changes to our Terasen Gas and FortisBC estimates to reflect the BCUC decision. As a result, our 2009E EPS increases from \$1.55 to \$1.57, our 2010E EPS rises from \$1.64 to \$1.72, and our 2011E EPS rises from \$1.75 to \$1.85. Our changes are outlined in Exhibit 2.

Exhibit 2. Earnings Summary (\$ mlns., except per share)

	2009E		2010E		2011E	
	Previous	Current	Previous	Current	Previous	Current
Regulated Utilities						
Terasen Gas Companies	\$117	\$120	\$118	\$128	\$127	\$140
FortisAlberta	63	63	67	67	74	74
FortisBC	36	36	37	41	41	45
Newfoundland Power	32	32	35	35	36	36
Other Canadian Electric Utilities	17	17	19	19	19	19
Regulated Electric Utilities – Caribbean	26	26	35	35	35	35
Total Regulated Utilities	291	294	311	326	332	350
Non-regulated Operations						
Fortis Generation	17	17	22	22	22	22
Fortis Properties	27	27	27	27	27	27
Total Non-regulated Operations	43	43	50	50	50	50
Corporate	(71)	(71)	(80)	(80)	(80)	(80)
Operating Earnings	263	267	281	295	302	320
Unusual Items	3	3	0	0	0	0
Reported Earnings	266	270	281	295	302	320
Average Shares Outstanding (mlns.)	170	170	171	171	173	173
Operating EPS	\$1.55	\$1.57	\$1.64	\$1.72	\$1.75	\$1.85
Reported EPS	\$1.57	\$1.59	\$1.64	\$1.72	\$1.75	\$1.85

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

We are increasing our price target from \$30.50 to \$32.50, based on a target multiple of 17.5x 2011E EPS (unchanged), deservedly at the high end of utilities valuations in light of Fortis' comparatively strong utilities-based growth profile.

Outlook And Investment Summary

The BCUC decision is another positive regulatory ruling for Fortis, following the AUC's decision in November regarding a new ROE level of 9% for all AUC-regulated utilities and varying increases in equity thickness. All of these changes, which collectively have added roughly \$0.14/share to Fortis' forward EPS estimates, along with a \$5 billion capital program between 2009 and 2013, set the stage, we believe, for strong EPS growth over the next several years. Valuations deservedly remain at the higher end of the utilities group. We prefer Fortis to Emera (EMA-SP), given Fortis' comparatively strong EPS growth profile at relatively similar valuations (approximately 15x 2011E EPS for both Fortis and Emera). Our new target, including dividend, implies a roughly 18% return over the next year. As a result, we are raising our rating from Sector Performer to Sector Outperformer, as of December 17.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2009 Prior	\$0.53A	\$0.31A	\$0.21A	\$0.50E	\$1.55E
2009 Current	\$0.53A	\$0.31A	\$0.21A	\$0.52E	\$1.57E
2010 Prior	--	--	--	--	\$1.64E
2010 Current	--	--	--	--	\$1.72E
2011 Prior	--	--	--	--	\$1.75E
2011 Current	--	--	--	--	\$1.85E

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Emera Inc. (2a, 2c, 2e, 2g, 7) (EMA-TSX, \$25.20, Sector Performer)

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- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
01/03/2007	■	29.51	R	-	Matthew Akman
01/18/2007	■	27.75	SU	26.00	Matthew Akman
01/18/2007	▲	27.75	SU	27.00	Matthew Akman
02/26/2007	■	27.38	R	-	Matthew Akman
05/17/2007	■	28.39	SU	27.00	Matthew Akman
05/18/2007	▲ ●	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 17 Dec 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	128	41.3%	Sector Outperformer (Buy)	124	96.9%
Sector Performer (Hold/Neutral)	144	46.5%	Sector Performer (Hold/Neutral)	132	91.7%
Sector Underperformer (Sell)	22	7.1%	Sector Underperformer (Sell)	20	90.9%
Restricted	15	4.8%	Restricted	15	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 17 Dec 2009)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	50.0%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	4	50.0%	Sector Performer (Hold/Neutral)	2	50.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

February 5, 2010

Stock Rating:
Sector Outperformer

Sector Weighting:
Overweight

12-18 mo. Price Target \$32.50
FTS-TSX (2/4/10) \$27.76

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$21.52-\$29.24
Shares Outstanding	171.1M
Float	171.1M Shrs
Avg. Daily Trading Vol.	469,419
Market Capitalization	\$4,749.7M
Dividend/Div Yield	\$1.12 / 4.0%
Fiscal Year Ends	December
Book Value	\$18.70 per Shr
2010 ROE (E)	8.9%
LT Debt	\$5.9B
Preferred	\$667.00M
Common Equity	\$3.2B
Convertible Available	No

Earnings Per Share	Prev	Current
2009	\$1.57E	\$1.51A
2010	\$1.72E	\$1.70E
2011	\$1.85E	\$1.84E

P/E		
2009	17.7x	18.4x
2010	16.1x	16.3x
2011	15.0x	15.1x

Dividend Per Share	
2009	\$1.04A
2010	\$1.12E
2011	\$1.20E

Yield	
2009	3.7%
2010	4.0%
2011	4.3%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

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Pipelines, Utilities, & Power

Fortis Inc.

Q4 A Tad Light, But Mostly One-Time. Outlook Intact.

- Fortis reported Q4/09 adjusted EPS of \$0.47, down from \$0.48 in Q4/08 and below our \$0.52 estimate. The variance from our estimate was mainly the result of \$5 million (\$0.03/share) in one-time costs at Terasen as well as lower-than-expected results at Fortis Properties.
- The costs relate to customer appliance conversions due to Terasen Gas Whistler Inc.'s switch from propane to natural gas distribution completed in August 2009. Terasen is seeking regulatory approval to include the conversion costs in the rate base, which would lead to a reversal.
- We have made minor revisions to our estimates, mainly reflecting lower expected earnings in Caribbean Utilities and non-regulated operations (Fortis Generation and Fortis Properties). As a result, our 2010E and 2011E EPS decline from \$1.72 and \$1.85 to \$1.70 and \$1.84, respectively.
- Our price target remains at \$32.50, based on a 17.5x 2011E multiple (unchanged). We expect earnings growth to ramp up in 2010, reflecting several positive regulatory decisions and the impact of the large capex program. We maintain our Sector Outperformer rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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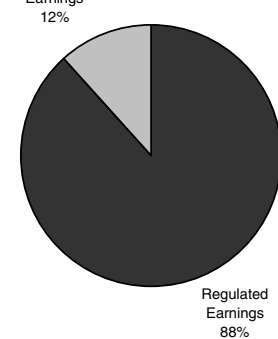
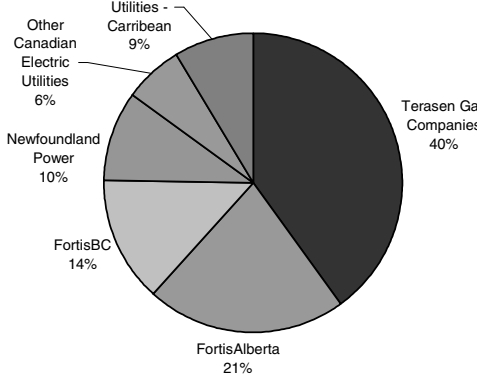
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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Exhibit 1. A Closer Look

	Fortis Inc. (FTS-TSX)			Sector Outperformer		
	Current Price: \$27.76			Petro Panarites, CFA (416-594-8249) petro.panarites@cibc.ca		
	12- To 18-Month Price Target: \$32.50			Osvaldo Matias, CFA (416-956-6428) osvaldo.matias@cibc.ca		
Valuation	2009A	2010E	2011E	Company Profile		
P/E Ratio (x)				- Fortis is the the largest investor-owned distribution utility in Canada with total assets approaching \$12 billion.		
Fortis	18.5	16.4	15.1	- The company's growth has been driven by two major acquisitions: FortisAlberta and FortisBC in 2004 (\$1.5 billion) and Terasen Gas Companies in 2007 (\$3.7 billion).		
Utilities Average	15.7	14.0	12.8	- Fortis operates electric distribution utilities in 5 Canadian provinces (B.C., Alberta, Ontario, Prince Edward Island and Newfoundland) and three Caribbean countries (Belize, Cayman Islands, Turks and Caicos), and a natural gas utility in (Terasen).		
EV/EBITDA (x)				- Fortis owns and operates non-regulated generation assets across Canada, in Belize and in Upper New York State.		
Fortis	10.3	9.8	9.7	- Fortis also owns hotels and commercial real estate across Canada.		
Utilities Average	8.6	8.3	8.0	Investment Thesis		
Other Data	2009A	2010E	2011E	- Fortis is expected to spend \$5 billion in capital between 2010 and 2014 which will drive organic EPS growth. We expect that this will be funded at the subsidiary level, with minimal equity requirements.		
Dividend	1.04	1.12	1.20	- Fortis deservedly trades at the high end of Canadian utilities valuations as a result of its consistently solid performance and strong growth profile.		
Dividend Yield	3.7%	4.0%	4.3%	2011E Regulated vs. Non-regulated Earnings (excl. Corporate)		
Payout Ratio	69.1%	66.0%	65.0%			
Book Value per Share	18.66	19.30	20.01	2011E Regulated Earnings		
Price/Book Value (x)	1.5	1.4	1.4			
Net Debt/EBITDA (x)	5.2	5.1	5.2			
Debt/Total Capital	59.8%	61.3%	62.2%			
Income Statement	2009A	2010E	2011E			
Terasen Gas Companies	117	128	139			
FortisAlberta	60	66	74			
FortisBC	37	43	47			
Newfoundland Power	32	33	34			
Other Canadian Electric Utilities	17	22	22			
Regulated Electric Utilities - Caribbean	25	30	30			
Regulated Earnings	288	322	346			
Fortis Generation	16	18	19			
Fortis Properties	24	25	27			
Non-regulated Earnings	40	43	46			
Corporate	(72)	(73)	(73)			
Operating Earnings	256	292	319			
Unusual Items	6	0	0			
Reported Earnings	262	292	319			
Average Shares Outstanding	170	172	173			
Operating EPS	1.50	1.70	1.84			
Reported EPS	1.54	1.70	1.84			
Cash Flow	2009A	2010E	2011E			
Operating Earnings	256	292	319			
Depreciation and Amortization	364	385	406			
Other	34	13	13			
Operating Cash Flow	654	690	738			
Estimated Maintenance Capex	(318)	(318)	(318)			
Net FCF After Maintenance Capex	336	371	419			
Net FCF per Share	1.97	2.16	2.42			
Balance Sheet	2009A	2010E	2011E			
Cash and Cash Equivalents	85	108	187			
Other Current Assets	1,041	1,041	1,041			
Utility Capital Assets and Income Producing Propertie	8,246	8,959	9,530			
Other Assets	2,788	2,788	2,788			
Total Assets	12,160	12,896	13,545			
Current Liabilities	955	955	955			
Short Term Borrowings	415	415	415			
LT Debt and Capital Lease Obligations (incl. Current)	5,500	6,100	6,600			
Other Liabilities	1,307	1,307	1,307			
Non-controlling Interest	123	121	119			
Preferred Shares	667	667	667			
Shareholders' Equity	3,193	3,331	3,482			
Total Liabilities and Equity	12,160	12,896	13,545			

Source: Company reports, Bloomberg and CIBC World Markets Inc.

Q4 Results

Q4 Earnings Performance

Fortis (FTS-SO) reported Q4/09 EPS of \$0.47, down from \$0.48 in Q4/08 and below our \$0.52 estimate. The variance from our estimate was mainly the result of \$5 million (\$0.03/share) in one-time costs at Terasen, as well as lower-than-expected results at Fortis Properties.

Q4 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen Gas earnings totaled \$48 million in Q4/09, up from \$47 million in Q4/08, but below our \$51 million estimate. The variance from our estimate is the result of higher than anticipated operating expenses as a result of \$5 million in costs associated with the conversion of customer's appliances, in association with Terasen Gas Whistler Inc.'s (TGW1) conversion from propane to a natural gas distribution completed in August 2009. Terasen is seeking regulatory approval (BCUC) to include the additional conversion costs in the rate base, in which case there would be a reversal to earnings. Excluding this impact, earnings increased as a result of the retroactive impact of the BCUC decision to increase allowed ROEs, effective July 1, 2009. The allowed ROE was increased from 8.47% to 9.5% for Terasen Gas Inc. (TGI), and increased from 9.17% to 10% for Terasen Gas (Vancouver Island) Inc. (TGVI) and TGWI.
- **FortisAlberta:** FortisAlberta contributed \$15 million to earnings in Q4/09, compared to \$11 million in Q4/08 and our \$18 million estimate. Revenues increased as a result of the retroactive impact of the AUC cost of capital decision which increased the allowed ROE at FortisAlberta to 9% from an interim allowed ROE of 8.51% and increased the deemed equity component from 37% to 41% effective January 1, 2009. This was partially offset by increased amortization costs and finance charges related to the company's investment in capital assets and resulting higher debt levels.
- **FortisBC:** FortisBC earnings totaled \$8 million in Q4/09, compared to \$7 million in Q4/08 and our \$7 million estimate. The y/y increase reflects higher customer electricity rates and customer growth offsetting increased labour and financing costs.
- **Newfoundland Power:** Newfoundland Power earnings were \$8 million in the quarter, unchanged from \$8 million in Q4/08 and in line with our estimate. Higher electricity sales were offset by higher demand charges from Newfoundland Hydro associated with meeting peak load requirements during the winter season.
- **Other Canadian Electric Utilities:** Earnings from Other Canadian Electric Utilities totaled \$3 million in Q4/09, unchanged from Q4/08 and in line with our estimate. In October 2009, FortisOntario acquired Great Lakes Power Distribution Inc. (subsequently renamed Algoma Power) for an aggregate purchase price of \$75 million. Algoma Power is a regulated distribution utility serving 12,000 customers in the District of Algoma in northern Ontario.

- **Caribbean Utilities:** Earnings from the Caribbean Utilities came in at \$7 million, compared to \$8 million in Q4/08 and our \$8 million estimate. The y/y decline in earnings was the result of two additional months of contribution from the Caribbean Utilities Company in Q4/08, which changed its fiscal year end from April 30 to December 31 in 2009. The impact of the additional two months was approximately \$2 million in earnings. The company expects that, as a result of the impact of the economic downturn on the tourism industry in the Caribbean, electricity demand growth in 2010 will be modest.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$3 million in the quarter, down from \$8 million in Q4/08 and in line with our \$4 million estimate. The y/y decline reflects the April 30, 2009 expiration of the Rankine power-for-water exchange agreement with Ontario Power Generation (OPG), as well as lower power prices in upper New York State, and decreased production in upper New York State and Belize. The new Vaca hydroelectric generating facility will be commissioned in Q1/10, and is expected to add approximately 80 GWh of production out of Belize.
- **Fortis Properties:** Fortis Properties earnings totaled \$5 million, up from \$4 million in Q4/08 but below our \$8 million estimate. The variance from our estimate was the result of lower-than-expected hospitality revenue due to lower hotel occupancy, particularly in western Canada and Ontario. Fortis expects that hospitality revenue growth will continue to be challenged in 2010 as a result of the impact of the economic slowdown on leisure and business travel hotel stays.

Exhibit 2. Q4/09 Earnings Summary (\$ mlns., except per share)

	Q4/09A	Q4/09E	Q4/08A
Regulated Utilities			
Terasen Gas Companies	48	51	47
FortisAlberta	15	18	11
FortisBC	8	7	7
Newfoundland Power	8	8	8
Other Canadian Electric Utilities	3	3	3
Regulated Electric Utilities - Caribbean	7	8	8
Total Regulated Utilities	89	95	84
Non-Regulated Operations			
Fortis Generation	3	4	8
Fortis Properties	5	8	4
Total Non-Regulated Operations	8	11	12
Corporate	(19)	(18)	(20)
Operating Earnings	78	89	76
Unusual Items	3	0	0
Reported Earnings	81	89	76
Average Shares Outstanding	171	171	159
Operating EPS	0.47	0.52	0.48
Reported EPS	0.48	0.52	0.48

Source: Company reports and CIBC World Markets Inc.

Recap of Recent Provincial Regulatory Decisions

- Terasen Gas Companies:** As discussed above, in December 2009, the British Columbia Utilities Commission (BCUC) increased TGI's allowed ROE from 8.47% to effective July 1, 2009. In addition, TGI's deemed common equity component increased from 35% to 40% effective January 1, 2010. The BCUC also maintained TGI as a benchmark for calculating the TGVI and TGWI ROE, which now reflects a 50 bps premium (down from 70 bps previously), implying a TGVI and TGWI allowed ROE of 10%. The equity component for TGVI and TGWI remain at 40%. The BCUC also determined that the automatic adjustment mechanism that was used to determine the ROE on an annual basis will no longer apply, and the ROE as determined in the decision will apply until further reviewed by the BCUC.
- FortisAlberta:** In November 2009, the Alberta Utilities Commission (AUC) issued its decision related to the 2009 Generic Cost of Capital proceeding. The AUC established an allowed ROE of 9% for all Alberta utilities for 2009 and 2010, compared to the 8.61% that the now-discontinued adjustment formula would have produced for 2009. In addition, the AUC ordered that the generic allowed ROE be established on an interim basis at 9% for 2011. The AUC intends to re-examine the generic ROE and consider whether an adjustment formula should be re-imposed.

- **FortisBC:** The BCUC decision outlined above also impacted FortisBC, with its allowed ROE increasing from 8.87% to 9.9% effective January 1, 2010.
- **Newfoundland Power:** In December 2009, the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) issued a decision increasing the allowed ROE from 8.95% in 2009 to 9% in 2010. The PUB also ordered that Newfoundland Power's allowed ROE for each of 2011 and 2012 be determined using the ROE automatic adjustment formula, although the formula is subject to a review in Q1/10.

Revising Estimates

We are making minor revisions to our estimates mainly reflecting lower expected earnings in Caribbean Utilities and non-regulated operations (Fortis Generation and Fortis Properties). As a result of these changes, our 2010E EPS declines from \$1.72 to \$1.70, and our 2011E EPS declines from \$1.85 to \$1.84.

Exhibit 3. Estimate Revisions

	2009A	2010E		2011E	
		Previous	Current	Previous	Current
Regulated Utilities					
Terasen Gas Companies	117	128	128	140	139
FortisAlberta	60	67	66	74	74
FortisBC	37	41	43	45	47
Newfoundland Power	32	35	33	36	34
Other Canadian Electric Utilities	17	19	22	19	22
Regulated Electric Utilities - Caribbean	25	35	30	35	30
Total Regulated Utilities	288	326	322	350	346
Non-Regulated Operations					
Fortis Generation	16	22	18	22	19
Fortis Properties	24	27	25	27	27
Total Non-Regulated Operations	40	50	43	50	46
Corporate	(72)	(80)	(73)	(80)	(73)
Operating Earnings	256	295	292	320	319
Unusual Items	6	0	0	0	0
Reported Earnings	262	295	292	320	319
Average Shares Outstanding	170	171	172	173	173
Operating EPS	1.51	1.72	1.70	1.85	1.84
Reported EPS	1.54	1.72	1.70	1.85	1.84

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

We are maintaining our price target at \$32.50, based on a target multiple of 17.5x 2011E EPS (unchanged), deservedly at the high end of utilities valuations in light of Fortis' comparatively strong utilities-based growth profile.

Outlook and Investment Summary

Lighter-than-expected EPS in Q4/09 in large part reflected one-time costs that might ultimately be included in the rate base resulting in a reversal. Beyond that, the outlook remains largely intact. Earnings growth is expected to ramp up beginning in 2010, reflecting several positive regulatory decisions as well as the impact of strong rate base growth. Fortis expects to spend approximately \$1.1 billion in capex in 2010, and approximately \$5 billion between 2010 and 2014, with 97% of the capital spend in regulated utilities. We would be buyers ahead of strong earnings growth ahead. We maintain our Sector Outperformer rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2009 Prior	\$0.53A	\$0.31A	\$0.21A	\$0.52E	\$1.57E
2009 Current	\$0.53A	\$0.31A	\$0.21A	\$0.47A	\$1.51A
2010 Prior	--	--	--	--	\$1.72E
2010 Current	\$0.58E	\$0.34E	\$0.24E	\$0.53E	\$1.70E
2011 Prior	--	--	--	--	\$1.85E
2011 Current	--	--	--	--	\$1.84E

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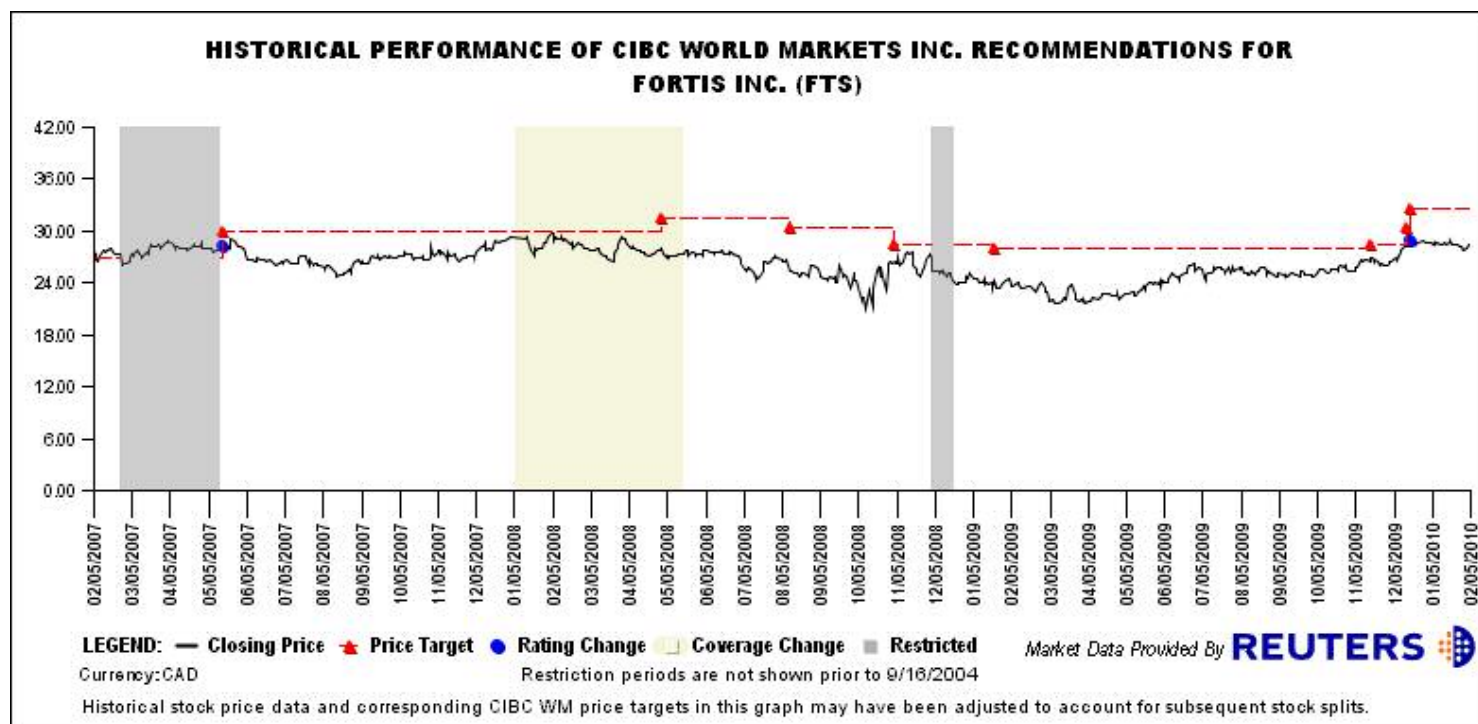
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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/26/2007		27.38	R	-	Matthew Akman
05/17/2007		28.39	SU	27.00	Matthew Akman
05/18/2007	▲ ●	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

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(as of 04 Feb 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	112	44.8%	Sector Outperformer (Buy)	105	93.8%
Sector Performer (Hold/Neutral)	111	44.4%	Sector Performer (Hold/Neutral)	98	88.3%
Sector Underperformer (Sell)	18	7.2%	Sector Underperformer (Sell)	16	88.9%
Restricted	9	3.6%	Restricted	8	88.9%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 04 Feb 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

May 2, 2010

Stock Rating:
Sector Outperformer

Sector Weighting:
Overweight

12-18 mo. Price Target \$32.50
FTS-TSX (4/30/10) \$28.05

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$22.15-\$29.32
Shares Outstanding	172.2M
Float	172.2M Shrs
Avg. Daily Trading Vol.	469,419
Market Capitalization	\$4,830.2M
Dividend/Div Yield	\$1.12 / 4.0%
Fiscal Year Ends	December
Book Value	\$18.58 per Shr
2010 ROE (E)	9.0%
LT Debt	\$5.7B
Preferred	\$912.00M
Common Equity	\$3.2B
Convertible Available	No

Earnings Per Share	Prev	Current
2009		\$1.51A
2010	\$1.70E	\$1.70E
2011	\$1.84E	\$1.84E

P/E		
2009		18.6x
2010	16.5x	16.5x
2011	15.2x	15.2x

Dividend Per Share	
2009	\$1.04A
2010	\$1.12E
2011	\$1.20E

Yield	
2009	3.7%
2010	4.0%
2011	4.3%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

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Pipelines, Utilities, & Power

Fortis Inc.

Strong Q1 Results

- Fortis reported Q1/10 EPS of \$0.58, up from \$0.53 in Q1/09, and in line with our \$0.58 estimate. Y/Y growth was mainly driven by higher allowed ROEs at Terasen Gas, offset by the impact of the April 2009 expiration of the Rankine power-for-water exchange agreement at Fortis Generation.
- Terasen Gas earnings totaled \$73 million in the quarter, up from \$58 million in Q1/09, mainly reflecting increased allowed ROEs (8.47% to 9.50% for TGI and 9.17% to 10.00% for TGVI and TGWI), which took effect July 1, 2009, as well as lower finance charges due to lower interest rates.
- We have made minor revisions to our estimates, reflecting modestly higher expected earnings at Terasen and lower expectations from Caribbean Utilities and Fortis Generation. These changes are offsetting, and as a result our 2010E and 2011E EPS remain at \$1.70 and \$1.84, respectively.
- Our price target remains at \$32.50, based on a 17.5x 2011E EPS multiple (unchanged). As demonstrated in Q1, earnings growth is expected to be strong in 2010 due to several positive regulatory decisions. A \$5 billion capex program bodes well for EPS growth through 2014. Maintain SO.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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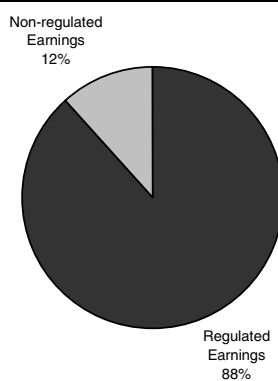
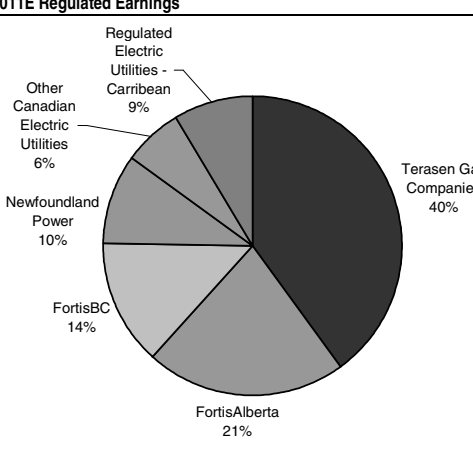
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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Exhibit 1. A Closer Look

	Fortis Inc. (FTS-TSX)			Sector Outperformer		
	Current Price: \$28.05			Petro Panarites, CFA (416-594-8249) petro.panarites@cibc.ca		
	12- To 18-Month Price Target: \$32.50			Osvaldo Matias, CFA (416-956-6428) osvaldo.matias@cibc.ca		
Valuation	2009A	2010E	2011E	Company Profile		
P/E Ratio (x)				- Fortis is the the largest investor-owned distribution utility in Canada with total assets approaching \$12 billion.		
Fortis	18.6	16.5	15.2	- The company's growth has been driven by two major acquisitions: FortisAlberta and FortisBC in 2004 (\$1.5 billion) and Terasen Gas Companies in 2007 (\$3.7 billion).		
Utilities Average	16.2	14.7	13.4	- Fortis operates electric distribution utilities in 5 Canadian provinces (B.C., Alberta, Ontario, Prince Edward Island and Newfoundland) and three Caribbean countries (Belize, Cayman Islands, Turks and Caicos), and a natural gas utility in (Terasen).		
EV/EBITDA (x)				- Fortis owns and operates non-regulated generation assets across Canada, in Belize and in Upper New York State.		
Fortis	10.6	9.9	9.7	- Fortis also owns hotels and commercial real estate across Canada.		
Utilities Average	9.0	8.4	8.4	Investment Thesis		
Other Data	2009A	2010E	2011E	- Fortis is expected to spend \$5 billion in capital between 2010 and 2014 which will drive organic EPS growth. We expect that this will be funded at the subsidiary level, with minimal equity requirements.		
Dividend	1.04	1.12	1.20	- Fortis deservedly trades at the high end of Canadian utilities valuations as a result of its consistently solid performance and strong growth profile.		
Dividend Yield	3.7%	4.0%	4.3%	2011E Regulated vs. Non-regulated Earnings (excl. Corporate)		
Payout Ratio	69.1%	66.0%	65.0%			
Book Value per Share	18.66	19.30	20.01	2011E Regulated Earnings		
Price/Book Value (x)	1.5	1.5	1.4			
Net Debt/EBITDA (x)	5.2	5.1	5.2			
Debt/Total Capital	59.8%	61.3%	62.2%			
Income Statement	2009A	2010E	2011E			
Terasen Gas Companies	117	128	139			
FortisAlberta	60	66	74			
FortisBC	37	43	47			
Newfoundland Power	32	33	34			
Other Canadian Electric Utilities	17	22	22			
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Regulated Earnings	288	322	346			
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Operating Earnings	256	292	319			
Unusual Items	6	0	0			
Reported Earnings	262	292	319			
Average Shares Outstanding	170	172	173			
Operating EPS	1.50	1.70	1.84			
Reported EPS	1.54	1.70	1.84			
Cash Flow	2009A	2010E	2011E			
Operating Earnings	256	292	319			
Depreciation and Amortization	364	385	406			
Other	34	13	13			
Operating Cash Flow	654	690	738			
Estimated Maintenance Capex	(318)	(318)	(318)			
Net FCF After Maintenance Capex	336	371	419			
Net FCF per Share	1.97	2.16	2.42			
Balance Sheet	2009A	2010E	2011E			
Cash and Cash Equivalents	85	108	187			
Other Current Assets	1,041	1,041	1,041			
Utility Capital Assets and Income Producing Propertie	8,246	8,959	9,530			
Other Assets	2,788	2,788	2,788			
Total Assets	12,160	12,896	13,545			
Current Liabilities	955	955	955			
Short Term Borrowings	415	415	415			
LT Debt and Capital Lease Obligations (incl. Current)	5,500	6,100	6,600			
Other Liabilities	1,307	1,307	1,307			
Non-controlling Interest	123	121	119			
Preferred Shares	667	667	667			
Shareholders' Equity	3,193	3,331	3,482			
Total Liabilities and Equity	12,160	12,896	13,545			

Source: Company reports, Bloomberg and CIBC World Markets Inc.

Q1 Results

Q1 Earnings Performance

Fortis (FTS-SO) reported Q1/10 EPS was \$0.58, up from \$0.53 in Q1/09 and in line with our \$0.58 estimate.

Q1 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen Gas earnings totaled \$73 million in Q1/10, up from \$58 million in Q1/09 and above our \$61 million estimate. Strong earnings in the quarter reflect increased customer delivery rates as a result of the increased allowed ROEs that took effect July 1, 2009, as well as lower finance charges due to lower interest rates and lower average credit facility borrowings. Allowed ROEs increased from 8.47% to 9.50% for Terasen Gas Inc. (TGI), and from 9.17% to 10.00% for Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW).
- **FortisAlberta:** FortisAlberta contributed \$14 million to earnings in Q1/10, versus \$12 million in Q1/09, and our \$14 million estimate. The y/y increase reflects an interim 7.5% increase in electricity distribution rates, in advance of FortisAlberta's 2010-2011 Revenue Requirements Application, which is expected to get final approval in Q2/10. The rate increase is driven by FortisAlberta's ongoing investment infrastructure to support customer growth and maintain and upgrade the electricity system.
- **FortisBC:** FortisBC earnings totaled \$14 million in Q1/10, compared to \$14 million in Q1/09, and our \$16 million estimate. Higher customer electricity rates as a result of an increase in allowed ROE effective January 1, 2010 (from 8.87% to 9.90%) were offset by higher finance charges due to higher debt levels and lower electricity sales due to warmer weather.
- **Newfoundland Power:** Newfoundland Power earnings were \$7 million in the quarter, compared to \$6 million in Q1/09 and our \$6 million estimate. The y/y increase reflects increased customer electricity rates due to a slightly higher allowed ROE (from 8.95% to 9.00% effective January 1, 2010) and lower-than-expected operating costs due to the timing of capital projects.
- **Other Canadian Electric Utilities:** Earnings from Other Canadian Electric Utilities totaled \$5 million in the quarter, unchanged from \$5 million in Q1/09, and in line with our \$5 million estimate. Algoma Power, acquired in October 2009, contributed \$0.4 million in earnings during the quarter.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$4 million, versus \$4 million in Q1/09 and our \$7 million estimate. The variance from our estimate reflects the weaker U.S. dollar as well as higher finance charges.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$2 million in Q1/10, down from \$6 million in Q1/09 and below our \$4 million estimate. Results were negatively impacted by lower production in Belize as a result of lower rainfall. The y/y decline mainly reflected the expiration of the Rankine power-for-water exchange agreement with Ontario Power Generation (OPG), which contributed \$3 million to earnings in Q1/09. The new Vaca

hydroelectric generating facility in Belize was commissioned in March 2010, and is expected to increase average annual production by 80 GWh.

- **Fortis Properties:** Fortis Properties earnings totaled \$2 million in Q1/10, compared to \$2 million in Q1/09 and our \$3 million estimate. Improved performance from the real estate division and hotel operations in Atlantic Canada were offset by lower occupancies at hotels in western Canada.

Exhibit 2. Q1/10 Earnings Summary (\$ mlns., except per share)

	Q1/10A	Q1/10E	Q1/09A
Regulated Utilities			
Terasen Gas Companies	73	61	58
FortisAlberta	14	14	12
FortisBC	14	16	14
Newfoundland Power	7	6	6
Other Canadian Electric Utilities	5	5	5
Regulated Electric Utilities - Caribbean	4	7	4
Total Regulated Utilities	117	109	99
Non-Regulated Operations			
Fortis Generation	2	4	6
Fortis Properties	2	3	2
Total Non-Regulated Operations	4	7	8
Corporate	(21)	(17)	(17)
Operating Earnings	100	99	90
Unusual Items	0	0	2
Reported Earnings	100	99	92
Average Shares Outstanding	172	171	169
Operating EPS	0.58	0.58	0.53
Reported EPS	0.58	0.58	0.54

Source: Company reports and CIBC World Markets Inc.

Estimates Unchanged

We have made minor revisions to our model, reflecting modestly higher expected earnings from Terasen and lower expected earnings from Caribbean Utilities and Fortis Generation. These changes are offsetting, leaving our 2010 and 2011 EPS estimates unchanged at \$1.70 and \$1.84, respectively.

Price Target Calculation

We are maintaining our \$32.50 price target, based on a target multiple of 17.5x 2011E EPS (unchanged), deservedly at the high end of utilities valuations in light of Fortis' comparatively strong utilities-based growth profile.

Outlook And Investment Summary

Q1/10 exhibited strong earnings growth as a result of several positive regulatory decisions, something we should continue to see in future quarters. Positive regulatory impacts are underpinned by strong rate base growth, with \$1.1 billion in capital expenditures expected in 2010, and \$5 billion expected between 2010 and 2014. We maintain our Sector Outperformer rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2009 Current	\$0.53A	\$0.31A	\$0.21A	\$0.47A	\$1.51A
2010 Prior	\$0.58E	\$0.34E	\$0.24E	\$0.53E	\$1.70E
2010 Current	\$0.58A	\$0.34E	\$0.23E	\$0.54E	\$1.70E
2011 Prior	--	--	--	--	\$1.84E
2011 Current	--	--	--	--	\$1.84E

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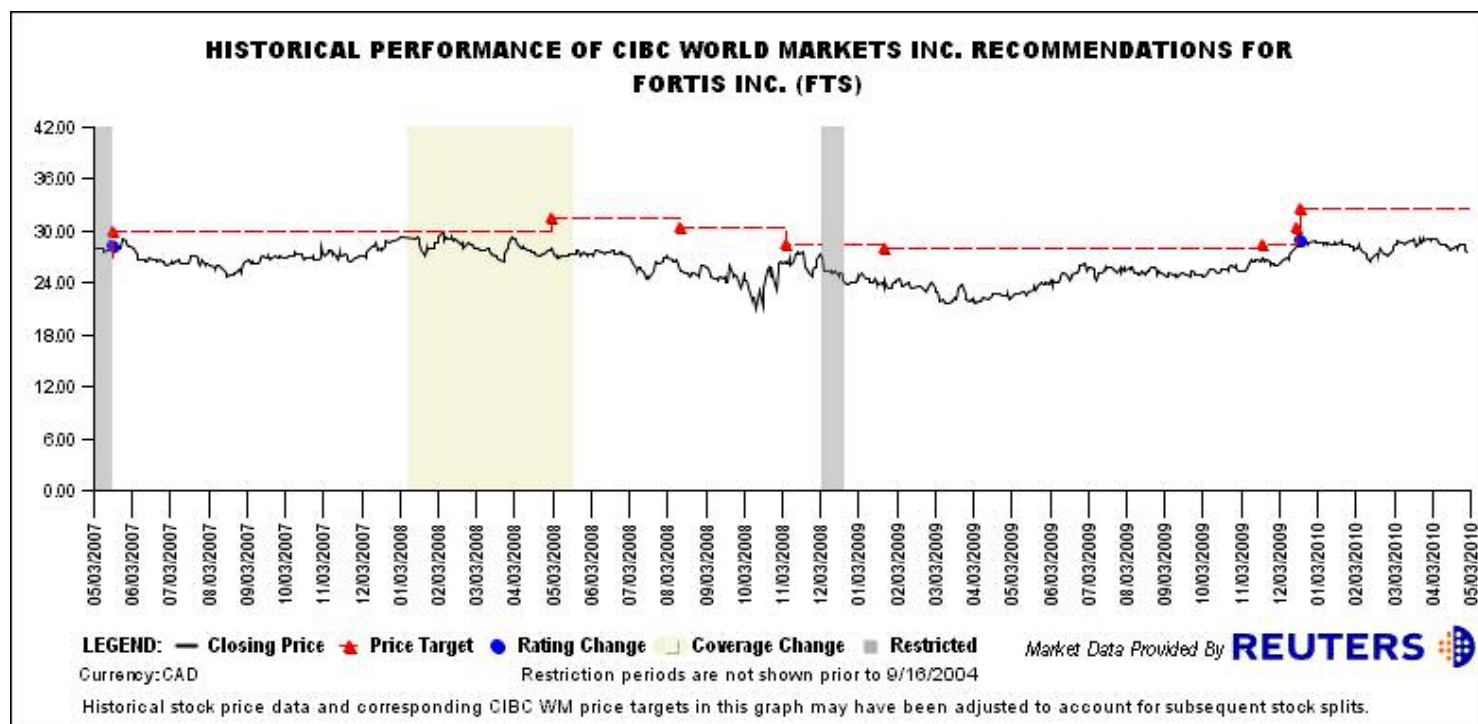
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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/17/2007		28.39	SU	27.00	Matthew Akman
05/18/2007	▲ ●	28.20	SP	30.00	Matthew Akman
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.

Sector Weightings**

O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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(as of 02 May 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	116	44.6%	Sector Outperformer (Buy)	112	96.6%
Sector Performer (Hold/Neutral)	123	47.3%	Sector Performer (Hold/Neutral)	114	92.7%
Sector Underperformer (Sell)	15	5.8%	Sector Underperformer (Sell)	13	86.7%
Restricted	5	1.9%	Restricted	5	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 02 May 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

August 4, 2010

Stock Rating:
Sector Outperformer

Sector Weighting:
Overweight

12-18 mo. Price Target \$32.00
FTS-TSX (8/4/10) \$28.84

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$21.60-\$29.51
Shares Outstanding	172.9M
Float	172.9M Shrs
Avg. Daily Trading Vol.	469,419
Market Capitalization	\$4,985.4M
Dividend/Div Yield	\$1.12 / 3.9%
Fiscal Year Ends	December
Book Value	\$18.51 per Shr
2010 ROE (E)	8.8%
LT Debt	\$5.7B
Preferred	\$912.00M
Common Equity	\$3.2B
Convertible Available	No

Earnings Per Share	Prev	Current
2009		\$1.51A
2010	\$1.70E	\$1.68E
2011	\$1.84E	\$1.82E

P/E		
2009		19.1x
2010	17.0x	17.2x
2011	15.7x	15.8x

Dividend Per Share	
2009	\$1.04A
2010	\$1.12E
2011	\$1.20E

Yield	
2009	3.6%
2010	3.9%
2011	4.2%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

www.fortisinc.com

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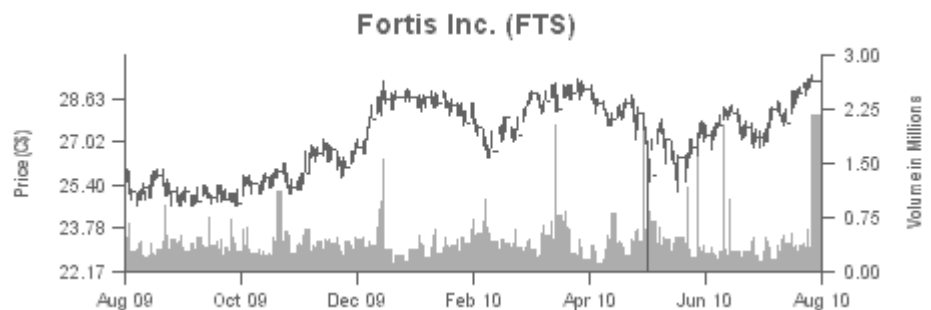
Pipelines, Utilities, & Power

Fortis Inc.

Q2 Slightly Below Expectations; Outlook Unchanged

- Fortis reported Q2/10 EPS of \$0.32, up from \$0.31 in Q2/09, and slightly below our \$0.34 expectation. The variance from our estimate reflects higher corporate costs and slightly lower-than-expected performance from regulated utilities.
- Earnings from regulated utilities totaled \$64 million in the quarter, compared to \$60 million in Q2/09, and our \$66 million estimate. Marginally lower-than-expected results at FortisAlberta, FortisBC and Newfoundland Power were partially offset by higher earnings from Terasen Gas.
- We have made minor changes reflecting Q2 results, along with slightly higher anticipated earnings from Terasen offset by higher corporate costs. As a result, our 2010 EPS estimate declines from \$1.70 to \$1.68, while our 2011 EPS estimate declines from \$1.84 to \$1.82.
- We are reducing our price target from \$32.50 to \$32.00, based on a target multiple of 17.5x 2011E EPS (unchanged). Strong rate base growth as a result of a \$5 billion capex program through 2014 and positive regulatory developments should continue to drive growth. We maintain our SO rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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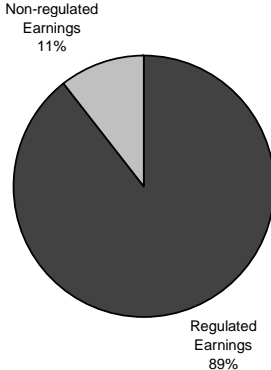
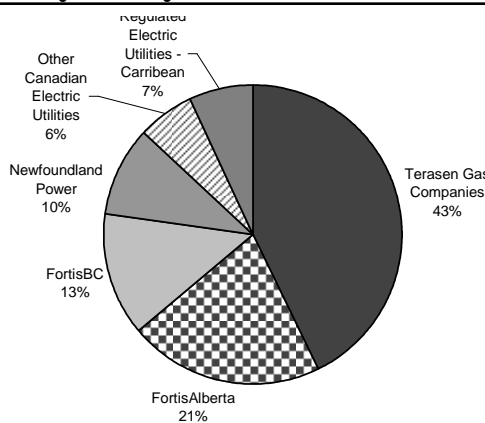
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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Exhibit 1. A Closer Look

	Fortis Inc. (FTS-TSX)			Sector Outperformer		
	Current Price: \$28.84			Petro Panarites, CFA (416-594-8249) petro.panarites@cibc.ca		
	12- To 18-Month Price Target: \$32.00			Osvaldo Matias, CFA (416-956-6428) osvaldo.matias@cibc.ca		
Valuation	2009A	2010E	2011E	Company Profile		
P/E Ratio (x)				- Fortis is the the largest investor-owned distribution utility in Canada with total assets approaching \$12 billion.		
Fortis	19.2	17.2	15.8	- The company's growth has been driven by two major acquisitions: FortisAlberta and FortisBC in 2004 (\$1.5 billion) and Terasen Gas Companies in 2007 (\$3.7 billion).		
Utilities Average	17.2	15.3	14.2			
EV/EBITDA (x)				- Fortis operates electric distribution utilities in 5 Canadian provinces (B.C., Alberta, Ontario, Prince Edward Island and Newfoundland) and three Caribbean countries (Belize, Cayman Islands, Turks and Caicos), and a natural gas utility in (Terasen).		
Fortis	10.8	9.8	9.8	- Fortis owns and operates non-regulated generation assets across Canada, in Belize and in Upper New York State.		
Utilities Average	9.5	8.9	8.8			
Other Data	2009A	2010E	2011E	- Fortis also owns hotels and commercial real estate across Canada.		
Dividend	1.04	1.12	1.20	Investment Thesis		
Dividend Yield	3.6%	3.9%	4.2%	- Fortis is expected to spend \$5 billion in capital between 2010 and 2014 which will drive organic EPS growth. We expect that this will be funded at the subsidiary level, with minimal equity requirements.		
Payout Ratio	69.1%	66.8%	66.0%	- Fortis deservedly trades at the high end of Canadian utilities valuations as a result of its consistently solid performance and strong growth profile.		
Book Value per Share	18.64	19.25	19.93			
Price/Book Value (x)	1.5	1.5	1.4	2011E Regulated vs. Non-regulated Earnings (excl. Corporate)		
Net Debt/EBITDA (x)	5.7	5.1	5.2			
Debt/Total Capital	59.8%	61.3%	62.2%			
Income Statement				2011E Regulated Earnings		
Terasen Gas Companies	117	140	151			
FortisAlberta	60	66	74			
FortisBC	37	43	47			
Newfoundland Power	32	33	34			
Other Canadian Electric Utilities	17	22	22			
Regulated Electric Utilities - Caribbean	25	25	25			
Regulated Earnings	288	329	353			
Fortis Generation	16	15	15			
Fortis Properties	24	25	27			
Non-regulated Earnings	40	40	42			
Corporate	(72)	(79)	(79)			
Operating Earnings	256	289	316			
Unusual Items	6	0	0			
Reported Earnings	262	289	316			
Average Shares Outstanding	170	172	174			
Operating EPS	1.50	1.68	1.82			
Reported EPS	1.54	1.68	1.82			
Cash Flow						
Operating Earnings	256	289	316			
Depreciation and Amortization	364	384	405			
Other	34	13	13			
Operating Cash Flow	654	686	734			
Estimated Maintenance Capex	(318)	(318)	(318)			
Net FCF After Maintenance Capex	336	368	416			
Net FCF per Share	1.97	2.13	2.39			
Balance Sheet						
Cash and Cash Equivalents	85	105	178			
Other Current Assets	1,041	1,041	1,041			
Utility Capital Assets and Income Producing Propertie	8,246	8,960	9,531			
Other Assets	2,788	2,788	2,788			
Total Assets	12,160	12,894	13,538			
Current Liabilities	955	955	955			
Short Term Borrowings	415	415	415			
LT Debt and Capital Lease Obligations (incl. Current)	5,500	6,100	6,600			
Other Liabilities	1,307	1,307	1,307			
Non-controlling Interest	123	121	119			
Preferred Shares	667	667	667			
Shareholders' Equity	3,193	3,329	3,475			
Total Liabilities and Equity	12,160	12,894	13,538			

Source: Company reports, Bloomberg and CIBC World Markets Inc.

Q2 Results

Q2 Earnings Performance

Fortis (FTS-SO) reported Q2/10 EPS of \$0.32, up from \$0.31 in Q2/09, and slightly below our \$0.34 expectation. The variance from our estimate reflects higher corporate costs and slightly lower-than-expected performance in regulated utilities.

Q2 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen Gas earnings totaled \$17 million in Q2/10, up from \$14 million in Q2/09 and above our \$15 million estimate. The y/y increase reflects higher customer delivery rates as a result of the increase in allowed ROE and equity component at Terasen.
- **FortisAlberta:** FortisAlberta contributed \$17 million to earnings in Q2/10, versus \$17 million in Q2/09, and our \$18 million estimate. FortisAlberta's higher allowed ROE and equity component, along with increased infrastructure investment and customers, was offset by lower corporate income tax recoveries and lower net transmission revenue.
- **FortisBC:** FortisBC earnings totaled \$8 million in Q2/10, compared to \$7 million in Q2/09, and our \$9 million estimate. Higher allowed ROE and infrastructure investment was partially offset by lower electricity sales due to cooler weather in June 2010.
- **Newfoundland Power:** Newfoundland Power earnings were \$11 million in the quarter, compared to \$11 million in Q2/09 and our \$12 million estimate. Slightly higher electricity rates and higher sales were offset by higher operating expenses.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$7 million, versus \$7 million in Q2/09 and our \$7 million estimate. Higher electricity sales due to warmer weather was offset by the weaker US\$ and higher business taxes at Belize Electricity.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$3 million, compared to \$3 million in Q2/09 and our \$5 million estimate. Earnings from the Vaca generating facility, which was commissioned in March 2010, were offset by the impact of the weaker US\$ on earnings.
- **Fortis Properties:** Fortis Properties earnings totaled \$8 million, compared to \$8 million in Q2/09 and our \$6 million estimate. Improved performance in Real Estate and Atlantic and central Canadian hotel operations were offset by lower occupancies in western Canada.
- **Corporate Costs:** Corporate costs totaled \$20 million in Q2/10, compared to \$18 million in Q2/09 and our \$18 million estimate. Costs increased as a result of dividends associated with preferred shares issued in January 2010 and higher business development costs.

Exhibit 2. Q2/10 Earnings Summary (\$ mlns., except per share)

	Q2/10A	Q2/10E	Q2/09A
Regulated Utilities			
Terasen Gas Companies	17	15	14
FortisAlberta	17	18	17
FortisBC	8	9	7
Newfoundland Power	11	12	11
Other Canadian Electric Utilities	4	5	4
Regulated Electric Utilities - Caribbean	7	7	7
Total Regulated Utilities	64	66	60
Non-Regulated Operations			
Fortis Generation	3	5	3
Fortis Properties	8	6	8
Total Non-Regulated Operations	11	11	11
Corporate	(20)	(18)	(18)
Operating Earnings	55	59	53
Unusual Items	0	0	0
Reported Earnings	55	59	53
Average Shares Outstanding	172	172	170
Operating EPS	0.32	0.34	0.31
Reported EPS	0.32	0.34	0.31

Source: Company reports and CIBC World Markets Inc.

Estimate Revisions

We have made minor changes reflecting Q2 results, along with slightly higher anticipated earnings from Terasen offset by higher corporate costs. As a result, our 2010 EPS estimate declines from \$1.70 to \$1.68, while our 2011 EPS estimate declines from \$1.84 to \$1.82.

Price Target Calculation

We are reducing our price target from \$32.50 to \$32.00, based on a target multiple of 17.5x 2011E EPS (unchanged), deservedly at the high end of utilities valuations in light of Fortis' comparatively strong utilities-based growth profile.

Outlook and Investment Summary

While Q2/10 was slightly below expectations, the quarter, along with Q3, tends to be the seasonally weak quarters with Q1 and Q4 making up roughly two-thirds of annual earnings. Strong rate base growth as a result of a \$5 billion capex program through 2014 and positive regulatory developments should continue to drive growth, with particularly strong comparisons anticipated in Q4. We maintain our Sector Outperformer rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2009 Current	\$0.53A	\$0.31A	\$0.21A	\$0.47A	\$1.51A
2010 Prior	\$0.58A	\$0.34E	\$0.23E	\$0.54E	\$1.70E
2010 Current	\$0.58A	\$0.32A	\$0.24E	\$0.53E	\$1.68E
2011 Prior	--	--	--	--	\$1.84E
2011 Current	--	--	--	--	\$1.82E

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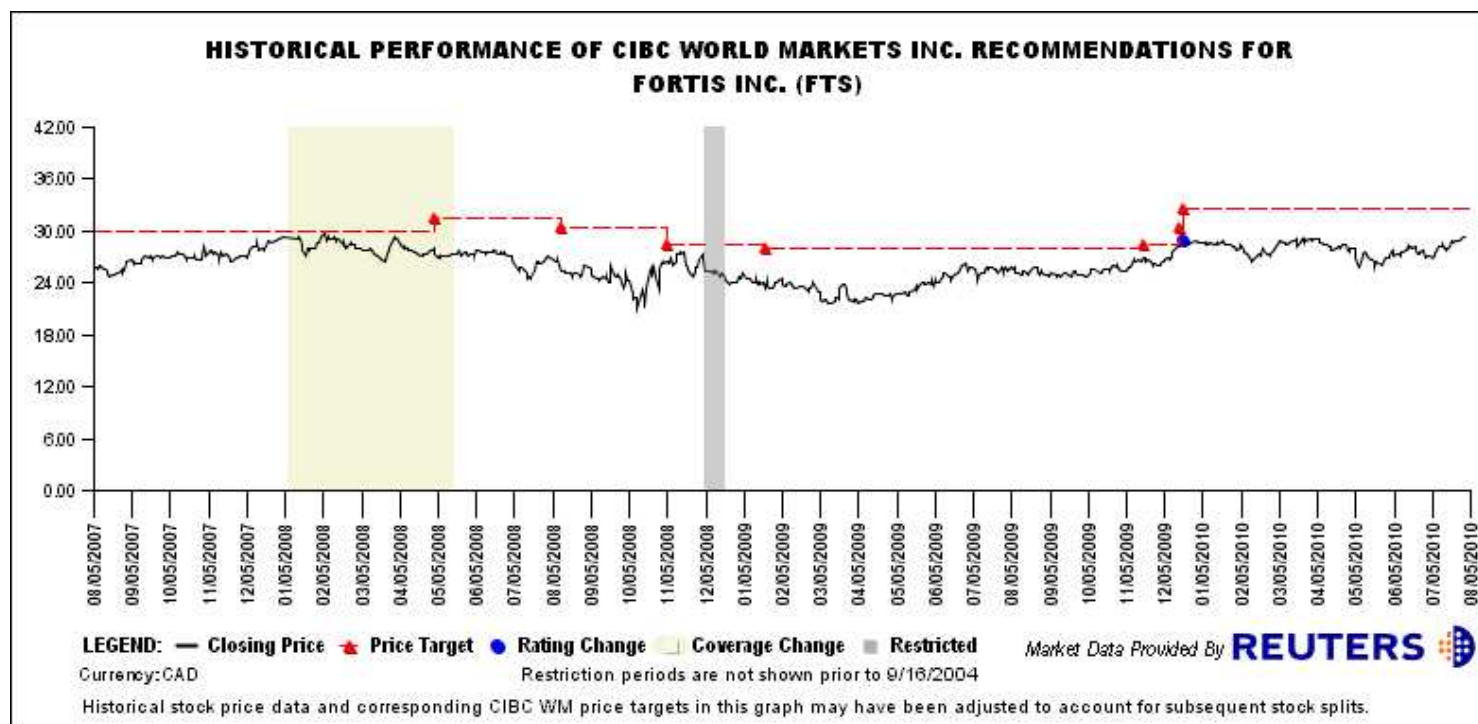
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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲●	28.84	SO	32.50	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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(as of 04 Aug 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	136	45.0%	Sector Outperformer (Buy)	133	97.8%
Sector Performer (Hold/Neutral)	135	44.7%	Sector Performer (Hold/Neutral)	130	96.3%
Sector Underperformer (Sell)	23	7.6%	Sector Underperformer (Sell)	22	95.7%
Restricted	7	2.3%	Restricted	7	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 04 Aug 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Earnings Update

November 7, 2010

Stock Rating:
Sector Outperformer

Sector Weighting:
Overweight

12-18 mo. Price Target \$35.00
FTS-TSX (11/5/10) \$33.26

Key Indices: Toronto, TSXUtils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$21.60-\$33.58
Shares Outstanding 173.6M
Float 173.6M Shrs
Avg. Daily Trading Vol. 469,419
Market Capitalization \$5,773.2M
Dividend/Div Yield \$1.12 / 3.4%
Fiscal Year Ends December
Book Value \$19.01 per Shr
2010 ROE (E) 8.9%
LT Debt \$5.9B
Preferred \$912.00M
Common Equity \$3.3B
Convertible Available No

Earnings Per Share	Prev	Current
2009		\$1.51A
2010	\$1.68E	\$1.69E
2011	\$1.82E	\$1.84E

P/E		
2009		22.0x
2010	19.8x	19.7x
2011	18.3x	18.1x

Dividend Per Share	
2009	\$1.04A
2010	\$1.12E
2011	\$1.20E

Yield	
2009	3.1%
2010	3.4%
2011	3.6%

Company Description

Fortis owns a natural gas utility in B.C., as well as electric distribution utilities in five Canadian provinces and three Caribbean countries, along with generation and real estate assets.

www.fortisinc.com

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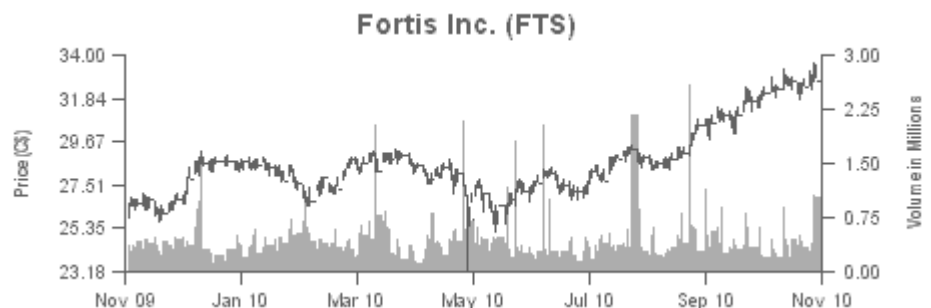
Pipelines, Utilities, & Power

Fortis Inc.

Strong Q3 Results; Strong Growth Outlook

- Fortis reported Q3/10 EPS of \$0.26, up from \$0.21 in Q3/09 and above our \$0.24 expectation. The variance from our estimate reflects stronger-than-expected earnings from Fortis Generation, due to higher rainfall in Belize and the impact of the recently commissioned Vaca generating facility.
- Fortis is taking a 51% interest in the Waneta Expansion, which is a 335 MW hydro generating facility in B.C. Fortis' investment will total roughly \$460 million, and it will operate and maintain the non-regulated investment when the facility comes into service, which is expected in spring 2015.
- We have made minor changes to our forecasts, reflecting Q3 results and modestly stronger expectations for Fortis Generation. Our 2010E and 2011E EPS increase from \$1.68 and \$1.82 to \$1.69 and \$1.84, respectively. Our 2012E EPS goes from \$1.91 to \$1.94.
- We are increasing our price target from \$34.50 to \$35.00, based on a target multiple of 18x 2012E EPS (unchanged). Fortis' \$5.5 billion capital program from 2011-2015 will drive stable, strong long-term growth. We maintain our Sector Outperformer rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Exhibit 1. A Closer Look

	Fortis Inc. (FTS-TSX)			Sector Outperformer		
	Current Price: \$33.26			Petro Panarites, CFA (416-594-8249) petro.panarites@cibc.ca		
	12- To 18-Month Price Target: \$35.00			Osvaldo Matias, CFA (416-956-6428) osvaldo.matias@cibc.ca		
Valuation				2009A	2010E	2011E
P/E Ratio (x)						
Fortis				22.1	19.7	18.0
Utilities Average				18.2	16.8	14.9
EV/EBITDA (x)						
Fortis				11.7	10.6	10.4
Utilities Average				9.9	9.4	9.1
Other Data				2009A	2010E	2011E
Dividend				1.04	1.12	1.20
Dividend Yield				3.1%	3.4%	3.6%
Payout Ratio				69.1%	66.3%	65.0%
Book Value per Share				18.64	19.34	20.07
Price/Book Value (x)				1.8	1.7	1.7
Net Debt/EBITDA (x)				5.5	5.0	5.0
Debt/Total Capital				59.8%	58.5%	59.3%
Income Statement				2009A	2010E	2011E
Terasen Gas Companies				117	140	151
FortisAlberta				60	66	74
FortisBC				37	43	47
Newfoundland Power				32	35	36
Other Canadian Electric Utilities				17	18	19
Regulated Electric Utilities - Caribbean				25	26	26
Regulated Earnings				288	329	354
Fortis Generation				16	18	20
Fortis Properties				24	25	27
Non-regulated Earnings				40	42	47
Corporate				(72)	(79)	(79)
Operating Earnings				256	292	322
Unusual Items				6	0	0
Reported Earnings				262	292	322
Average Shares Outstanding				170	173	175
Operating EPS				1.50	1.69	1.84
Reported EPS				1.54	1.69	1.84
Cash Flow				2009A	2010E	2011E
Operating Earnings				256	292	322
Depreciation and Amortization				364	385	406
Other				34	0	0
Operating Cash Flow				654	677	728
Estimated Maintenance Capex				(318)	(318)	(318)
Net FCF After Maintenance Capex				336	359	410
Net FCF per Share				1.97	2.08	2.35
Balance Sheet				2009A	2010E	2011E
Cash and Cash Equivalents				85	68	(73)
Other Current Assets				1,041	1,041	1,041
Utility Capital Assets and Income Producing Propertie				8,246	8,959	9,644
Other Assets				2,788	2,788	2,788
Total Assets				12,160	12,856	13,400
Current Liabilities				955	955	955
Short Term Borrowings				415	415	415
LT Debt and Capital Lease Obligations (incl. Current)				5,500	5,785	6,185
Other Liabilities				1,307	1,307	1,307
Non-controlling Interest				123	115	107
Preferred Shares				667	909	909
Shareholders' Equity				3,193	3,370	3,522
Total Liabilities and Equity				12,160	12,856	13,400

Company Profile

- Fortis is the the largest investor-owned distribution utility in Canada with total assets approaching \$12 billion.

- The company's growth has been driven by two major acquisitions: FortisAlberta and FortisBC in 2004 (\$1.5 billion) and Terasen Gas Companies in 2007 (\$3.7 billion).

- Fortis operates electric distribution utilities in 5 Canadian provinces (B.C., Alberta, Ontario, Prince Edward Island and Newfoundland) and three Caribbean countries (Belize, Cayman Islands, Turks and Caicos), and a natural gas utility in (Terasen).

- Fortis owns and operates non-regulated generation assets across Canada, in Belize and in Upper New York State.

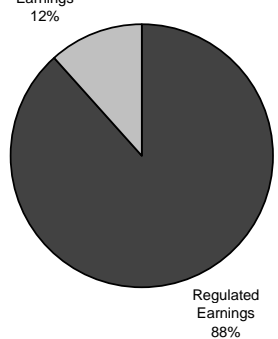
- Fortis also owns hotels and commercial real estate across Canada.

Investment Thesis

- Fortis is expected to spend \$5.5 billion in capital between 2011 and 2015 which will drive organic EPS growth. We expect that this will be funded at the subsidiary level, with minimal equity requirements.

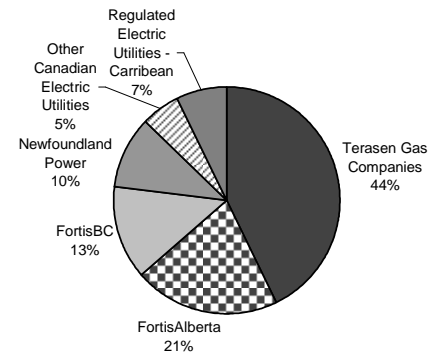
- Fortis deservedly trades at the high end of Canadian utilities valuations as a result of its consistently solid performance and strong growth profile.

2011E Regulated vs. Non-regulated Earnings (excl. Corporate)



Regulated Earnings	88%
Non-regulated Earnings	12%

2011E Regulated Earnings



Terasen Gas Companies	44%
FortisAlberta	21%
FortisBC	13%
Newfoundland Power	10%
Other Canadian Electric Utilities	5%
Regulated Electric Utilities - Caribbean	7%

Source: Company reports, Bloomberg and CIBC World Markets Inc.

Q3 Results

Q3 Earnings Performance

Fortis (FTS-SO) reported Q3/10 EPS of \$0.26, up from \$0.21 in Q3/09 and above our \$0.24 estimate. The variance from our estimate reflects stronger-than-expected earnings from Fortis Generation.

Q3 Highlights

Regulated Utilities:

- **Terasen Gas Companies:** Terasen Gas recorded a \$5 million loss in Q3/10, compared to a \$3 million loss in Q3/09 and our estimate for a \$1 million loss. The higher y/y loss reflects increased operating and maintenance expenses related to activities approved as part of the Negotiated Settlement Agreement. Q3 is Terasen's seasonally weakest quarter, with most of its earnings coming in Q1 and Q4.
- **FortisAlberta:** FortisAlberta contributed \$19 million to earnings in Q3/10, versus \$16 million in Q3/09, and our \$17 million estimate. Increased earnings were the result of FortisAlberta's higher allowed ROE and equity component, along with increased infrastructure investment and customer growth.
- **FortisBC:** FortisBC earnings totaled \$8 million in Q3/10, compared to \$7 million in Q3/09, and our \$7 million estimate. Higher allowed ROE and infrastructure investment was partially offset by a weather-related decrease in electricity sales.
- **Newfoundland Power:** Newfoundland Power earnings were \$8 million in the quarter, compared to \$7 million in Q3/09 and our \$7 million estimate. Higher electricity rates and higher sales were partially offset by \$2 million in additional operating costs related to repairing damage from Hurricane Igor.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$8 million, versus \$7 million in Q3/09 and our \$7 million estimate. The increase reflects the deferral, for future collection in customer rates, of previously expensed business taxes at Belize Electricity.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$9 million, up from \$4 million in Q3/09, and above our \$4 million estimate. The outperformance was the result of increased hydroelectric production in Belize due to higher rainfall and the commissioning of the Vaca generating facility in March 2010.
- **Fortis Properties:** Fortis Properties earnings totaled \$9 million, in line with \$9 million in Q3/09 and our estimate of \$9 million. Lower income taxes were offset by lower occupancies at hotel operations in western Canada.

Exhibit 2. Q3/10 Earnings Summary (\$ mlns., except per share)

	Q3/10A	Q3/10E	Q3/09A
Regulated Utilities			
Terasen Gas Companies	(5)	(1)	(3)
FortisAlberta	19	17	16
FortisBC	11	10	8
Newfoundland Power	8	7	7
Other Canadian Electric Utilities	5	7	5
Regulated Electric Utilities - Caribbean	8	7	7
Total Regulated Utilities	46	47	40
Non-Regulated Operations			
Fortis Generation	9	5	4
Fortis Properties	9	9	9
Total Non-Regulated Operations	18	14	13
Corporate	(19)	(19)	(18)
Operating Earnings	45	42	35
Unusual Items	0	0	1
Reported Earnings	45	42	36
Average Shares Outstanding	173	173	170
Operating EPS	0.26	0.24	0.21
Reported EPS	0.26	0.24	0.21

Source: Company reports and CIBC World Markets Inc.

Waneta Expansion

On October 4, Fortis and Columbia Power (a Crown corporation wholly owned by the Province of B.C.) announced an agreement to construct 335 MW hydroelectric generating facility, at an estimated cost of approximately \$900 million. The facility is sited near the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, B.C. Fortis owns a 51% interest in the Waneta Expansion, implying an investment of roughly \$460 million. Fortis will operate and maintain the non-regulated investment when the facility comes into service, which is expected in spring 2015.

Estimate Revisions

We have made minor revisions to our model, mainly reflecting Q3 results and modestly stronger expectations for Fortis Generation going forward. As a result, our 2010E EPS increases from \$1.68 to \$1.69, while our 2011E EPS increases from \$1.82 to \$1.84. Our 2012E EPS also moves up from \$1.91 to \$1.94.

Price Target Calculation

We are increasing our price target from \$34.50 to \$35.00, based on a target multiple of 18x 2012E EPS (unchanged). Our target multiple is deservedly at the

high end of utilities valuations in light of Fortis' comparatively strong utilities-based growth profile.

Outlook and Investment Summary

With the Waneta Expansion, Fortis now has a \$5.5 billion capital program in place from 2011-2015. The vast majority of these investments will be in the company's utilities, producing stable, strong long-term growth. We maintain our Sector Outperformer rating.

Key Risks To Price Target

Fortis could fall short of our earnings forecasts (and fail to meet our price target) for various reasons, including (but not limited to) the impact of negative regulatory decisions in Alberta and BC, weak power prices in Ontario, low hydro flows, environmental costs that cannot be adequately recovered through higher rates, and tourism conditions (real estate division). In addition, the utility stocks are sensitive to changes in interest rates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2009 Current	\$0.53A	\$0.31A	\$0.21A	\$0.47A	\$1.51A
2010 Prior	\$0.58A	\$0.32A	\$0.24E	\$0.53E	\$1.68E
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.53E	\$1.69E
2011 Prior	--	--	--	--	\$1.82E
2011 Current	--	--	--	--	\$1.84E

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CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
01/07/2008	■	29.30	SP	30.00	Alda Pavao, CFA
05/01/2008	▲	27.96	SP	31.50	Alda Pavao, CFA
05/19/2008	■	27.40	SP	31.50	Petro Panarites, CFA
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 07 Nov 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	139	42.6%	Sector Outperformer (Buy)	134	96.4%
Sector Performer (Hold/Neutral)	146	44.8%	Sector Performer (Hold/Neutral)	139	95.2%
Sector Underperformer (Sell)	27	8.3%	Sector Underperformer (Sell)	24	88.9%
Restricted	13	4.0%	Restricted	13	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 07 Nov 2010)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	33.3%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	55.6%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	1	11.1%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.X, CPX, CU, EMA, ENB, FTS, SE, TA, TRP.

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Institutional Equity Research Initiating Coverage

May 24, 2011

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$34.50
FTS-TSX (5/18/11) \$32.93

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$25.14-\$35.45
Shares Outstanding 175.4M
Float 175.4M Shrs
Avg. Daily Trading Vol. 471,979
Market Capitalization \$5,776.6M
Dividend/Div Yield \$1.16 / 3.5%
Fiscal Year Ends December
Book Value \$19.38 per Shr
2011 ROE (E) 9.1%
LT Debt \$5.9B
Preferred \$912.00M
Common Equity \$3.4B
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011		\$1.79E
2012		\$1.88E

P/E	
2010	20.0x
2011	18.4x
2012	17.5x

Dividend Per Share

2010	\$1.12A
2011	\$1.16E
2012	\$1.22E

Yield

2010	3.4%
2011	3.5%
2012	3.7%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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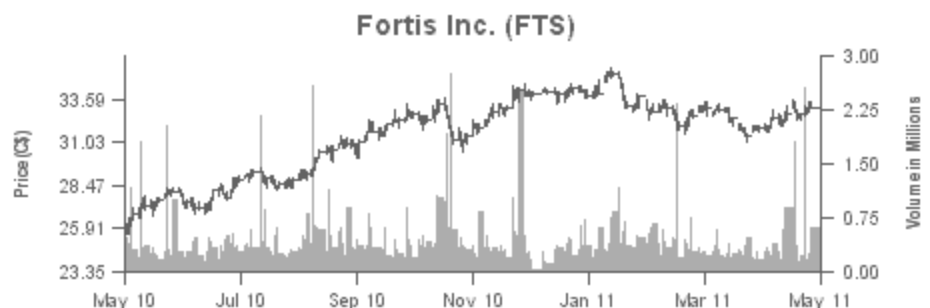
Pipelines, Utilities, & Power

Fortis Inc.

Solid Low-risk Growth, Already Priced In

- Fortis has expanded from its Atlantic Canada roots through a series of acquisitions to now own a strong western Canadian franchise and operations in the Caribbean. Acquired businesses have grown rapidly post-acquisition given ongoing investments and customer growth.
- The pace of growth is unlikely to slow in the short term, as Fortis is in the early stages of a five-year, \$5.5 billion capital program, which is expected to increase the regulated rate base by a CAGR of 6% and includes 51% of the non-regulated \$900 million Waneta expansion project.
- Fortis provides the benefits (stability) of its regulated utility business, but is in a period of solid organic investment and growth. Risks from non-regulated assets (Waneta) and international operations (Belize) appear containable, with little variability expected from overall operations.
- Our main concern is valuation. Despite solid low-risk growth, we believe the stock already reflects this outlook and expect a modest TSR of 8.3% to our price target. We are, therefore, initiating coverage with a Sector Performer rating and \$34.50 price target, as of May 24.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc. (FTS-TSX)

Current Price: **\$32.93**

12 to 18 month Price Target: **\$34.50**

Sector Performer

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All Figures in \$ millions, except per share data

Valuation	F2010A	F2011E	F2012E
P/E	20.0x	18.4x	17.5x
EV/EBITDA	10.8x	10.2x	9.5x
Pipeline And Utility Sector Average			
P/E	17.8x	18.2x	17.5x
EV/EBITDA	10.5x	9.5x	9.0x

Other Data	F2010A	F2011E	F2012E
Dividend Per Share	\$1.12	\$1.16	\$1.22
Dividend Yield (%)	3.4	3.5	3.7
Payout Ratio (%)	67.9	64.8	65.0
Book Value Per Share	\$18.97	\$20.20	\$21.03
Price / Book Value (x)	1.7	1.6	1.6
Cash Per Share	\$0.63	\$0.49	\$0.40
Debt / Total Capital (%)	57.9	57.0	57.9
Net Debt/EBITDA (x)	5.1	5.0	5.0

Income Statement	F2010A	F2011E	F2012E
FortisBC Energy	130	143	158
FortisAlberta	68	76	86
FortisBC Electric	42	50	55
Newfoundland Power	35	33	33
Other Canadian Electric Utilities	19	19	19
Regulated Electric Utilities - Caribbean	23	27	27
Fortis Generation	20	22	22
Fortis Properties	26	27	27
Corporate	(78)	(80)	(80)
Operating Earnings	285	316	346
Unusual Items	0	0	0
Reported Earnings	285	316	346
Operating EPS	\$1.65	\$1.79	\$1.88
Reported EPS	\$1.65	\$1.79	\$1.88
Shares Outstanding	174	183	185
EBITDA	1,170	1,248	1,336

Cash Flow	F2010A	F2011E	F2012E
Earnings (incl. pref share dividends)	323	344	374
Depreciation and Amortization	410	417	442
Total Operating Cash Flow	732	761	816
Capital Expenditures	(1,024)	(1,212)	(1,229)
Dividends	(230)	(249)	(263)
Net Long Term Debt Proceeds	194	294	481
Issuance of Common / Preferred Shares	322	287	80

Balance Sheet	F2010A	F2011E	F2012E
Cash & Cash Equivalents	109	90	74
Utility Capital Assets / Income Properties	8,762	7,347	7,517
Total Assets	12,903	13,579	14,251
Current Liabilities	1,517	1,517	1,517
Debt (incl. Current and Short Term Borrowings)	6,023	6,317	6,798
Future Income Taxes	623	623	623
Non Controlling Interests	162	153	144
Preferred Shares	320	320	320
Shareholders' Equity	3,897	4,288	4,488
Total Shareholders' Equity And Liabilities	12,903	13,579	14,251

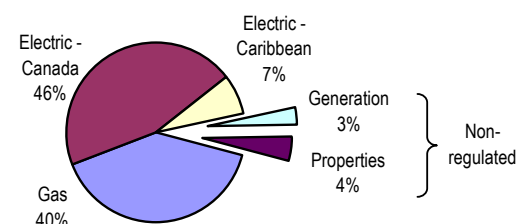
Market Data

Share Price	\$32.93	Non Control Int.	175
Shares Outstanding	175	Preferred Shares	912
Market Capitalization	5,777	Enterprise Value	12,693
Net Debt	5,829		

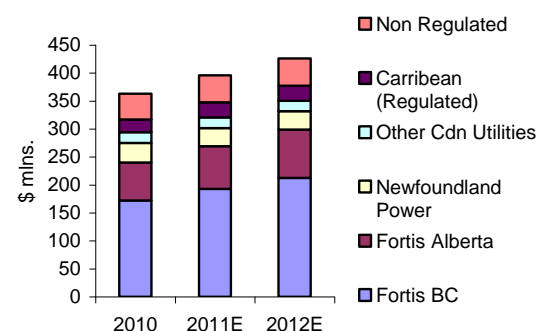
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.



Investment Summary

Fortis Inc. (FTS-SP) has expanded from its Atlantic Canada roots through a series of acquisitions to now own a strong western Canadian franchise and operations in the Caribbean. Western Canadian operations have continued to grow post-acquisition, with, for instance, FortisAlberta and FortisBC, both acquired in May 2004, growing their combined rate base at a compound average annual growth rate (CAGR) of over 12% since acquisition. Terasen Gas (now FortisBC Energy) has grown its rate base on average by 3.2% annually since its acquisition in May 2007. Fortis' Caribbean operations have grown through a series of acquisitions and development initiatives.

The pace of growth is unlikely to slow in the short term, as Fortis is in the early stages of a five-year, \$5.5 billion capital program expected to grow the overall rate base on average by 6% annually from 2010 through 2015. In addition, the company is a 51% owner in the non-regulated \$900 million Waneta Hydroelectric Expansion Project, currently under construction with a spring 2015 in-service date.

For the most part, Fortis has remained focused on its distribution utility roots, an area in which the company has proficiency: managing its distribution assets, dealing with large numbers of customers, and operating within a highly regulated environment. As such, Fortis offers the benefits of a stable, regulated utility business with the upside provided by significant growth investments (at least, significant growth in context of a regulated utility). While the company already owns a number of non-regulated hydroelectric generation facilities, the Waneta Expansion stands out given its size (\$900 million), but major risks (construction, financing, hydrology) appear well contained. Adverse regulatory rulings in Belize reveal the heightened risks of operating in Central America. However, we expect little variability in overall company results given the heavy weighting to Canadian regulated businesses.

Our main concern is one of valuation: trading at 18.4x estimated 2011 and 17.5x estimated 2012 earnings and with a 3.5% yield, the stock is reflecting both the solid growth outlook as well as the current low interest rate environment. We acknowledge Fortis' solid, low-risk, growth forecast, and believe it justifies Fortis' premium current-year earnings multiple versus the Canadian utilities group average of 16.4x and the broader pipelines and utilities group average of 18.2x. Our fundamental discounted cash flow (DCF) valuation supports a price target of \$34.50/share, for a target multiple of 18.3x estimated 2012 earnings. This represents a 12-month total shareholder return (including dividends) of 8.3%, in line with our group average of 8.5%. As such, we believe the stock fairly represents the company's outlook and we are initiating coverage, as of May 24, with a Sector Performer rating and \$34.50 price target.

Asset Overview

Fortis owns a number of regulated utilities (eight electric, one gas) with total assets of \$11.9 billion, non-regulated hydro generation facilities (\$0.4 billion) and non-regulated real estate assets (\$0.6 billion) held for tax optimization purposes. The western Canadian operations represent over 70% of rate base assets, including: FortisBC gas (40%) and electric (13%), and FortisAlberta (20%). The remainder of regulated operations are in Ontario, Atlantic Canada, Central America (Belize) and the Caribbean.

Exhibit 1. Regulated Operations (2010)

Company	Customers	Peak Demand	Rate Base (\$ blns.)	Earnings (\$ mlns.)	Allowed ROE (2011)
FortisBC Energy (Terasen)	949,000	1,421 TJ	\$3.4	\$130	9.50%
FortisAlberta	491,000	2,555 MW	1.7	68	9.00%
FortisBC	161,000	707 MW	1.1	42	9.90%
Newfoundland Power	243,000	1,206 MW	0.9	35	8.38%
Maritime Electric	74,000	207 MW	0.3	12	9.75%
FortisOntario	64,000	273 MW	0.2	7	8.01%–9.85%
Belize Electricity	77,000	81 MW	0.2	2	To be resolved
Caribbean Utilities	26,000	102 MW	0.4	11	7.75%–9.75%
Fortis Turks and Caicos	9,000	31 MW	0.2	10	17.50%

Source: Company reports and CIBC World Markets Inc.

FortisBC Energy (Formerly Terasen)

FortisBC Energy is the largest distributor of natural gas in British Columbia, serving virtually all the province's gas users. FortisBC Energy also owns a natural gas pipeline from the mainland across the Georgia Strait to service customers on Vancouver Island. Gas is sourced from northeastern BC, and from Alberta via FortisBC Energy's Southern Crossing Pipeline.

FortisBC Energy comprises three separate entities, formerly known as Terasen Gas, Terasen Gas (Vancouver Island) and Terasen Gas (Whistler). In March 2011, FortisBC Energy (and its separate Vancouver Island and Whistler entities) was rebranded from Terasen Gas to share the FortisBC name used by the company's electric utility in the province, although it will remain a separate legal entity from the FortisBC electric utility. The three separate Terasen entities are also proposing an amalgamation into one, with a regulatory application for this expected in 2011.

FortisBC Energy's allowed rate of return on equity is 9.5% [10% for FortisBC Energy (Vancouver Island) and for FortisBC Energy (Whistler)] with a 40% equity component on a total rate base of \$3.4 billion. These rates were increased by roughly 100 basis points (bps) in mid-2009. Commodity costs of natural gas (and propane gas for customers in the Revelstoke area) and mid-stream costs are flowed through to customers without mark-up.

Growth in the gas operations comes from customer additions (currently running around 1% of the installed base), as well as capital improvement projects such as: replacing suspended pipelines over the Columbia and Fraser Rivers with pipelines buried underneath the rivers; constructing a new natural gas storage facility on Vancouver Island; and, converting Whistler from propane to natural gas. FortisBC Energy had capital expenditures of \$253 million in 2010 with a further \$281 million planned for 2011 to be spent on completion of the above-noted projects, ongoing implementation of a new customer information system and related call centers, and normal course capital expenditures.

Regulated Electric Utilities – Canadian

- **FortisBC:** FortisBC is an integrated electric utility serving 161,000 customers in the southern interior of BC. The company owns ~7,000 km of transmission and distribution lines as well as four hydro projects on the Kootenay River with combined capacity of 223 MW, which generate about 45% of the utility's energy requirements, with the balance met through Power Purchase Agreements (PPAs) with third parties. FortisBC also manages a further 947 MW of hydro generation facilities in the region. Allowed ROE is 9.9% on a rate base of \$1.1 billion. Capital expenditures of \$139 million in 2010 and planned \$99 million in 2011 are directed at various system upgrades and the substantial completion of the major \$106 million Okanagan Transmission Reinforcement Project.
- **FortisAlberta:** FortisAlberta is an electric utility serving about half a million customers in southern Alberta. The company owns 112,000 km of distribution lines, representing 45% of Alberta's low voltage distribution system. Allowed ROE is 9.0% on a rate base of \$1.7 billion, although FortisAlberta is seeking a higher allowed ROE (e.g., more in line with that of FortisBC, which is at 9.9%). Growth stems from new customer additions (about 2% annually) and capital projects, including: a \$126 million project to install automated meters, the connection of multiple renewable power generation projects, and capacity expansions. Total capital expenditures were \$379 million in 2010 and Fortis is forecasting a rise to \$420 million in 2011, directed to the capital programs noted above as well as to payments to the Alberta Electric System Operator (AESO) for major transmission system upgrades.
- **FortisOntario:** FortisOntario is a small electric utility servicing regions in northern, southwestern and eastern Ontario, with a total customer base of 64,000 customers. Allowed ROE ranges from 8.01% (Canadian Niagara Power) to 9.85% (for the Algoma Power assets acquired in 2009), with a 40% equity component on a rate base of \$0.2 billion.
- **Newfoundland Power:** Newfoundland Power is the main electricity distribution utility in Newfoundland with about a quarter of a million customers – about 85% of electricity consumers in the province. The utility purchases over 90% of its electricity from Newfoundland and Labrador Hydro (a division of Nalcor Energy), but generates the remainder from its own (primarily hydro) facilities. The business has 11,000 km of transmission and distribution lines and has installed generating capacity of 139 MW. Allowed ROE is a (comparatively low) 8.38% for 2011, but on a higher-than-average equity component of 45%. Rate base assets total \$0.9 billion. Fortis made capital investments totaling \$78 million in 2010, and expects to invest a further \$73 million in 2011 towards customer additions, and system upgrades and maintenance.
- **Maritime Electric:** Maritime Electric is the main electricity utility on Prince Edward Island, serving about 74,000 customers (90% of electricity consumers). The utility has ~5,300 km of transmission and distribution lines, and has an in-house generating capacity of 150 MW from thermal-powered units although it purchases the majority (86%) of electricity needs from New Brunswick Power. Allowed ROE is 9.75%, with a 40% equity component on rate base assets of \$0.3 billion. Capital spending is being directed to improved system reliability, and connections to new renewable power projects as the business works towards a target of 30% of power sourced from renewable energy by 2013.

Regulated Electric Utilities – Caribbean

- **Belize Electricity:** Although located in Central America, Belize Electricity (BEL) is grouped in with Fortis' Caribbean businesses. Belize Electricity is the primary distributor of electricity in the country, serving 77,000 customers. Fortis owns 70% of Belize Electricity. Historically, BEL purchased about half its power from CFE, the Mexican state-owned electricity company, but recent investments in non-regulated hydro projects by Belize Electric Company (BECOL), part of Fortis Generation, as well as a new (third-party-owned) cogeneration facility, make the country self-sufficient. Unfortunately for Fortis, Belize is proving an unfriendly regulatory regime. BEL continues to battle the Belize Public Utilities Commission, which, in a reversal of prior rulings, has effectively forced BEL to absorb the cost of high oil prices in 2008 and further ordered BEL to lower electricity rates. In March 2011, BEL's appeal of these rulings to the Supreme Court of Belize was denied, and the company continues to evaluate its options to appeal the ruling.
- **Caribbean Utilities:** Caribbean Utilities serves 26,000 customers on Grand Cayman Island, with ~500 km of transmission and distribution lines and a 24 km subsea cable, and 17 generating units with a combined capacity of ~150 MW, sufficient to satisfy domestic requirements. The division's capital spending decreased 50% in 2010 to \$21 million from \$43 million in 2009, which included \$19 million related to a new 16 MW diesel generating unit.
- **Fortis Turks & Caicos:** Fortis Turks and Caicos serves 9,000 customers, approximately 88% of electricity consumers on the islands, owning and operating 325 km of transmission and distribution lines and 57 MW of diesel generation capacity, sufficient to meet demand.

Fortis Generation – Non-regulated

Fortis Generation is comprised primarily of a number of small non-regulated power generation projects with combined capacity of 139 MW, 134 MW of which is hydro. Power is sold through a mix of long-term contracts or into the market. The generation facilities are located near, and for the most part are complementary to, Fortis' utility operations in Belize, eastern Ontario, Newfoundland, and BC, although Fortis also owns four small hydro facilities in Upper New York State.

Fortis has also announced a major investment in the Waneta Expansion Hydro Project in south central BC. Fortis own 51% of the project and will also purchase some of the power from the project through its FortisBC subsidiary (more on this below).

Fortis Properties – Non-regulated

Fortis Properties includes approximately 2.7 million square feet of office and retail space primarily in Atlantic Canada and 21 hotels across the country. These properties have been acquired through a series of property-specific acquisitions through the years. The company's intent in owning these properties is to generate income sufficient to fully offset corporate costs that otherwise would not be utilized (for tax purposes), as profits in the regulated subsidiaries are not transferable. The subsidiary earned \$26 million in 2010 on assets of \$0.6 billion.

Growth Initiatives

Fortis has a projected five-year average annual growth rate for its rate base of 6% from \$7.7 billion in 2010 to \$10.1 billion by 2015. In addition to the regular course-of-business growth projects noted above, we specifically note the following:

Waneta Hydroelectric Expansion Project

Fortis announced in August 2010 that it will invest in a major hydro generation project to expand the existing Waneta Dam in south central BC. The existing 493 MW Waneta hydro project is owned by Teck Resources (TCK-SO) (2/3) and BC Hydro (1/3). The \$900 million, 335 MW Waneta Expansion Project will be 51%-owned by Fortis and the remainder by Columbia Power Corporation and Columbia Basin Trust, Crown corporations of the province of BC. Fortis will fund its 51% share of the construction costs, and will operate and maintain the facility once in service, expected by spring 2015. Fortis expects the project ROE to be about 200 bps higher than that on the company's regulated assets (i.e., about 11.5%–12.5% over the life of the project).

This project meets FortisBC's requirement for extra capacity to meet periods of peak demand, although actual energy usage is expected to be relatively modest, with BC Hydro purchasing the bulk of the generated power. As such, the Waneta Expansion will receive fixed energy and capacity payments, with 630 GWh (energy and related capacity) sold to BC Hydro under a long-term (40 year) agreement, and surplus capacity (on an average annual basis of 234 MW) sold to FortisBC (also under a 40-year agreement). Energy and capacity sales to BC Hydro are at prices "comparable" to those under BC Hydro's 2008 Clean Power Call (around \$100/MWh). Capacity payments from FortisBC will be in the range of \$11–\$17.50/kW-month.

While the project is not a regulated asset, Fortis is exposed to limited risk given: the long-term capacity and energy sales agreements, a fixed-price design-build construction contract with SNC-Lavalin (SNC-SO), and well-understood hydrology given that FortisBC already owns and/or operates several hydro facilities in the region. The expansion also falls under the Canal Plant Agreement under which BC Hydro manages the overall water resources (i.e., hydro facilities and related water usage) on the Kootenay, Columbia and Pend d'Oreille Rivers (on which the Waneta Dam and Expansion are located), thereby further reducing hydrology risk to the project.

Acquisitions

Fortis has built the business over time through a series of acquisitions, with the most significant being those of FortisAlberta and FortisBC in May 2004 for \$1.5 billion and of Terasen Gas in May 2007 for \$3.7 billion. The company has also made numerous tuck-in acquisitions to build out its operations (e.g., the October 2009 purchase of Algoma Power in Ontario for \$75 million) or properties [e.g., acquiring a Holiday Inn (IHG-NYSE) in Windsor, Ontario in April 2009 for \$7 million and a Sheraton Hotel (HOT-NYSE) in Newfoundland for \$22 million in November 2008].

Exhibit 2. Select Acquisition History

Company	Date	Vendor	Amount
Algoma Power	October 2009	Great Lakes Power	\$75 million
Terasen	May 2007	Kinder Morgan	\$3.7 billion
Fortis Turks and Caicos	August 2006	T.C. Energy Holdings	\$98 million
FortisAlberta and FortisBC	May 2004	Aquila	\$1.5 billion
Belize Electric Company	May 2004 and January 2001	Duke Energy	US\$65 million
Caribbean Utilities	Various	International Power Holdings	US\$155+ million

Source: Company reports and CIBC World Markets Inc.

Fortis continues to look for acquisitions to build out its platform. However, it does not regard Canada as fertile ground: most of the private sector electric [e.g., Emera (EMA-SO), AltaLink, ATCO (ACO.X-TSX), etc.] and gas [e.g., Enbridge Gas Distribution (ENB-SP), Union Gas (owned by Spectra Energy (SE-NYSE)), PNG (PNG-TSX)] utilities do not appear to be for sale, and the likelihood of government-owned utilities being privatized also appears low.

The company, therefore, is increasingly turning its attention south of the border, looking for regulated transmission and distribution utilities with enterprise values in the low to mid-billions of dollars. Several recent transactions have been announced/completed, with valuations in the range of 1.0x–1.2x rate base. With these valuation metrics, Fortis could acquire similar-sized companies as FortisBC Energy or FortisAlberta/FortisBC, which both currently have rate bases of around \$3 billion.

Exhibit 3. Recent U.S. Utility Acquisitions

Acquirer	Target	Date	Purchase Price (EV)	Est. Valuation (Multiple Of Rate Base)
PPL Corp.	E.ON US	Nov. 2010	US\$7.6 billion	1.1x
AGL Resources	Nicor Inc.	Dec. 2010 (announced)	3.1 billion	1.0x
Northeast Utilities	NSTAR	Oct. 2010 (announced)	4.2 billion	1.2x
FirstEnergy	Allegheny Energy	Feb. 2011	8.5 billion	NA

Source: Company reports and CIBC World Markets Inc.

The company would prefer companies in the U.S. northeast or northwest, close to its existing Canadian operations, but would not rule out other regions.

Risks/Sensitivities

- Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.

- Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions. In recent years, Fortis has benefited from increasing ROEs for most of its Canadian operations (e.g., Terasen Gas' allowed ROE rising in mid-2009 to 9.50% from 8.47%, FortisAlberta's allowed ROE rising in 2009 to 9.00% from 8.51%, and FortisBC's allowed ROE rising in 2010 to 9.90% from 8.87% in 2009).

Exhibit 4. Regulator Approved Allowed ROEs

	2007	2008	2009	2010	2011
Terasen	8.37%	8.62%	9.50% ¹	9.50%	9.50%
FortisAlberta	8.51	8.75	9.00	9.00	9.00 ²
FortisBC	8.77	9.02	8.87	9.90	9.90
Newfoundland Power	8.60	8.95	8.95	9.00	8.38 ³

Notes: 1) Effective July 1, 2009; 2) Interim basis; 3) Automatic adjustment formula.

Source: Company reports and CIBC World Markets Inc.

However, the company is also at risk of adverse regulatory decisions, with the potential that allowed ROEs could be reduced over time, as regulators that moved away from automatic ROE adjustment formulas might look to re-examine their generic ROE rates.

Fortis could also be impacted by operation-specific regulatory rulings. For instance, its regulated operation in Belize (i.e., Belize Electricity) has been denied an appeal on a Public Utilities Commission decision, which effectively forced Belize Electricity to absorb \$38 million of "excess costs" resulting from high oil prices in 2008. In Newfoundland, Fortis jointly owned 51% of a hydro facility with AbitibiBowater (ABH-TSX) through the Exploits Partnership. A dispute between AbitibiBowater and the Newfoundland and Labrador government resulted in expropriation of the Partnership's assets in 2009. The government has stated it is not its intent to adversely affect the business interests of AbitibiBowater's business partners, and although Fortis no longer controls the assets, the company continues to receive associated cash flows.

- Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Source And Uses Of Cash

Fortis has identified a five-year, \$5.5 billion capital program, including the Waneta Expansion Project, which would increase its rate base from \$7.7 billion in 2010 to \$10.1 billion by 2015, a 6% CAGR. For 2011 the company has broken out spending by operation, as noted in Exhibit 5.

Exhibit 5. Capital Spending (\$ mlns.)

	2010	2011E
FortisBC Energy	\$253	\$281
FortisAlberta	379	420
FortisBC	139	99
Newfoundland Power	78	73
Other Canadian Electric Utilities (FortisOntario/Maritime Electric)	48	46
Total Regulated Utilities –Canada	897	919
Regulated Utilities – Caribbean	72	83
Non-regulated (Generation/Properties)	104	210
Total	1,073	1,212

Source: Company reports and CIBC World Markets Inc.

We calculate that this capital spending program will contribute to estimated annual cash needs of up to \$1.9 billion over the next several years (through 2014), a little under half of which is expected to be funded from operating cash flow. Our forecast highlights the need for substantial debt issuances or utilization of credit facilities (\$1.5 billion available on total \$2.1 billion credit facilities) over the next few years to fund the growth program as well as fund scheduled debt repayments. Nevertheless, based on this outlook, we foresee the debt/capitalization ratio remaining stable at around 58% from 2010 through 2014, declining thereafter if funding requirements drop. We have, therefore, modeled only modest equity issuance (\$200 million in 2011), with some further amounts coming from various dividend reinvestment and employee share purchase and option programs.

We expect total dividends to amount to \$249 million in 2011 (up from \$230 million in 2010), with dividends expected to increase commensurately with any further equity and/or preferred share issuances and earnings growth (and based on a mid-point of the targeted 60%–70% payout range). We have also included in our outlook funds received from the company's dividend reinvestment, employee share purchase and options programs, which in 2010 resulted in the issuance of 3.1 million shares and generated a combined \$80 million, almost double the level in 2009.

Exhibit 6. Sources And Uses Of Cash (\$ mlns.)

	2010	2011E	2012E	2013E	2014E	2015E
Sources Of Cash						
Operating Cash Flow	\$732	\$761	\$816	\$876	\$928	\$986
Proceeds From Issue Of Long-term Debt/						
Utilization of Credit Facilities	523	350	750	500	750	200
Proceeds From Asset Sales and Other	79	100	100	100	100	100
Issue Of Common Shares	80	287	80	80	80	80
Issue Of Preferred Shares	242	0	0	0	0	0
Total	1656	1498	1746	1556	1858	1366
Uses Of Cash						
Capital Expenditures	(1024)	(1212)	(1229)	(1192)	(885)	(692)
Acquisitions	0	0	0	0	0	0
Dividends	(230)	(249)	(263)	(281)	(293)	(311)
Debt Repayment	(329)	(56)	(269)	(114)	(692)	(105)
Total	(1583)	(1517)	(1762)	(1586)	(1870)	(1107)
Surplus / (Requirement For) Cash	73	(19)	(16)	(30)	(12)	258

Source: CIBC World Markets Inc.

Earnings Profile

Our earnings profile captures the following factors:

- Ongoing underlying growth of the rate base across the company's operations due to customer/market growth (especially FortisAlberta) and system improvements.
- Within a framework of a five-year, \$5.5 billion capital spending program, major project activities such as: (for FortisBC Energy) a \$210 million LNG storage facility on Vancouver Island and a \$110 million customer care enhancement program; (for FortisBC) the \$106 million Okanagan Transmission Reinforcement Project; (for FortisAlberta) a \$126 million program to install automated meters and a \$283 million program to replace 80,000 aging utility poles; and, (non regulated) the \$900 million (\$459 million to Fortis) Waneta Expansion Project.
- A generally favorable regulatory environment in Canada, where allowed rates of return on equity have increased over the past couple of years, generally to the 9%+ range. Unfavorable rulings in Belize have impacted, and will likely continue to impact, those operations.

We do not include any potential upside from acquisitions, although note that Fortis has a history of such activity – both for tuck-ins (Caribbean, Ontario, properties) and major build-outs (Terasen, FortisBC/FortisAlberta).

Exhibit 7. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2010	2011E	2012E	2013E	2014E	2015E
Regulated Utilities						
FortisBC Energy	\$130	\$143	\$158	\$164	\$170	\$172
FortisAlberta	68	76	86	99	109	114
FortisBC Electric	42	50	55	60	63	65
Newfoundland Power	35	33	33	34	35	36
Other Canadian Electric Utilities	19	19	19	20	20	20
Regulated Electric Utilities – Caribbean	23	27	27	27	27	27
Total Regulated Utilities	317	348	378	404	423	434
Non-regulated Operations						
Fortis Generation	20	22	22	22	22	37
Fortis Properties	26	27	27	27	27	27
Total Non-regulated Operations	46	49	49	49	49	64
Corporate	(78)	(80)	(80)	(80)	(80)	(80)
Operating Earnings For Common	285	316	346	373	392	418
Unusual Items	0	0	0	0	0	0
Reported Earnings	285	316	346	373	392	418
Weighted Average Shares Outstanding (mlns.)	173	177	184	186	189	191
Operating EPS	1.65	1.79	1.88	2.00	2.08	2.19
Reported EPS	1.65	1.79	1.88	2.00	2.08	2.19
Dividend Per Share	1.12	1.16	1.22	1.30	1.35	1.42
Pay out Ratio	67.9%	64.8%	65.0%	65.0%	65.0%	65.0%

Source: CIBC World Markets Inc.

Our discounted cash flow analysis (Exhibit 8) captures this outlook and the expected returns from the capital spending program. We calculate that FortisBC Energy (Terasen) comprises about 41% of total company value at present, the Canadian electric utilities about 45% and the Caribbean, non-regulated operations and other the remaining 14%. Our analysis suggests a total company value of about \$34.50 per share.

Exhibit 8. Discounted Cash Flow Analysis (\$ mlns., except per share)

DCF Valuation - Fortis

	Cost Of Equity	Cost Of Debt	Equity %	WACC	Terminal Growth	Terminal Multiple	PV Of Cash Flows	PV Of Terminal	FCFF	Per Share
A) Regulated Gas Utilities (FortisBC Energy)	7.0%	6.8%	40.0%	5.9%	1.0%	20.6	\$1,634	\$3,711	\$5,345	\$30.47
B) Regulated Electric Utilities - Canada	7.0%	6.3%	40.0%	5.6%	0.5%	19.5	1,357	4,457	5,813	33.14
C) Regulated Electric Utilities - Caribbean	8.5%	6.8%	40.0%	6.5%	0.5%	16.7	202	317	519	2.96
D) Non-regulated - Generation/Properties	9.0%	5.9%	40.0%	6.3%	0.5%	17.3	-9	1,059	1,050	5.99
E) Corporate	7.0%	5.9%	40.0%	5.5%	0.0%	18.3	99	145	244	1.39

Period Ending	Q1/11	
Total FCFF	12,972	73.95
+ Cash	86	0.49
- Debt	-5,915	-33.72
- Preferreds	-912	-5.20
- Non-controlling Interest	-175	-1.00
Total FCFE	6,056	34.52
Shares Outstanding (mlns.)	175	
Value Per Share	34.52	

	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	TV
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
A) Regulated Gas Utilities (FortisBC Energy)												
EBITDA	396	426	465	488	507	519	525	531	536	541	547	
Depreciation And Amortization	-108	-109	-119	-125	-130	-133	-134	-135	-137	-138	-139	
Capex	253	281	275	250	200	150	125	126	128	129	130	
Free Cash Flow To The Firm	71	66	104	147	213	272	302	305	309	312	315	6,553
B) Regulated Electric Utilities - Canada												
EBITDA	573	616	665	735	797	838	862	866	871	875	879	
Depreciation And Amortization	-237	-252	-267	-295	-322	-339	-347	-348	-350	-352	-353	
Capex	644	638	669	677	530	427	345	348	350	352	353	
Free Cash Flow To The Firm	-155	-113	-104	-51	149	286	388	389	391	393	394	7,714
C) Regulated Electric Utilities - Caribbean												
EBITDA	86	86	86	86	86	86	86	87	87	88	89	
Depreciation And Amortization	-36	-36	-36	-36	-36	-36	-36	-36	-36	-37	-37	
Capex	72	83	40	40	40	40	40	40	40	41	41	
Free Cash Flow To The Firm	2	-10	33	33	33	33	33	34	34	35	35	594
D) Non-regulated - Generation/Properties												
EBITDA	115	120	120	120	120	163	185	186	186	187	188	
Depreciation And Amortization	-22	-20	-20	-20	-20	-32	-38	-39	-39	-39	-39	
Capex	104	210	245	225	115	75	75	39	39	39	39	
Free Cash Flow To The Firm	-12	-115	-150	-130	-20	55	73	110	111	111	112	1,947
E) Corporate												
EBITDA	14	14	14	14	14	14	14	14	14	14	15	
Depreciation And Amortization	-7	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	
Free Cash Flow To The Firm	12	13	13	13	13	13	13	13	13	13	14	247

Source: CIBC World Markets Inc.



Recommendation

Fortis presents an appealing investment proposition: stable regulated returns plus solid growth from investments in regulated and non-regulated businesses. In addition, the company has a track record of successful acquisitions, and continues to evaluate tuck-in opportunities and larger step-out targets, likely in the U.S.

Our primary concern at present is one of valuation: the company is trading at 18.4x current-year (2011) and 17.5x next-year (2012) estimated earnings, above the Canadian utility group average of 16.4x current-year earnings and the broader pipelines and utilities group at 18.2x. We view the premium earnings multiple vs. the utilities group as supportable given Fortis' low-risk profile and growth outlook. Our fundamental discounted cash flow valuation analysis suggests a price target of \$34.50, for an implied P/E multiple of 18.3x our 2012 estimate, and representing a 12-month total shareholder return of 8.3% vs. a group average of 8.5%. While acquisitions might provide upside to our forecast, we do not model these given uncertainty as to timing, magnitude and/or financial impact. While we, therefore, view Fortis as a company offering solid, low-risk growth, we believe the stock is at present fairly valued and we initiate coverage with a Sector Performer rating and \$34.50 price target.

Price Target Calculation

Our price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. The price target of \$34.50 equates to a P/E multiple of 18.3x our 2012 estimate, a premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

Key Risks To Price Target

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as an adverse ruling in Belize).
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Current	\$0.67A	\$0.35E	\$0.27E	\$0.50E	\$1.79E
2012 Current	--	--	--	--	\$1.88E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

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In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

Stock Prices as of 05/24/2011:

Emera Inc. (2a, 2c, 2e, 2g, 7) (EMA-TSX, \$31.87, Sector Outperformer)

Enbridge Inc. (2a, 2c, 2e, 2g, 7, 9) (ENB-TSX, \$31.55, Sector Performer)

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$55.90, Sector Outperformer)

Teck Resources Limited (2a, 2b, 2c, 2d, 2e, 2f, 2g, 3a, 3c, 7, 9, 12) (TCK-NYSE, \$48.75, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

Stock Prices as of 05/24/2011:

AbitibiBowater Inc. (ABH-TSX, \$23.51, Not Rated)

AGL Resource Inc. (AGL-NYSE, US\$40.11, Not Rated)

Atco Ltd. (ACO.X-TSX, \$64.50, Not Rated)

Duke Energy (DUK-NYSE, US\$18.75, Not Rated)

FirstEnergy Corp. (FE-NYSE, US\$44.64, Not Rated)

InterContinental Hotels Group plc (IHG-NYSE, US\$20.45, Not Rated)

Kinder Morgan Energy Partners (KMP-NYSE, US\$73.29, Not Rated)

NICOR Inc. (GAS-NYSE, US\$54.19, Not Rated)

Northeast Utilities (NU-NYSE, US\$35.56, Not Rated)

NStar (NST-NYSE, US\$46.22, Not Rated)

Pacific Northern Gas Ltd. (PNG-TSX, \$30.50, Not Rated)

PPL Corporation (PPL-NYSE, US\$27.81, Not Rated)

Spectra Energy Corp (SE-NYSE, US\$27.13, Not Rated)

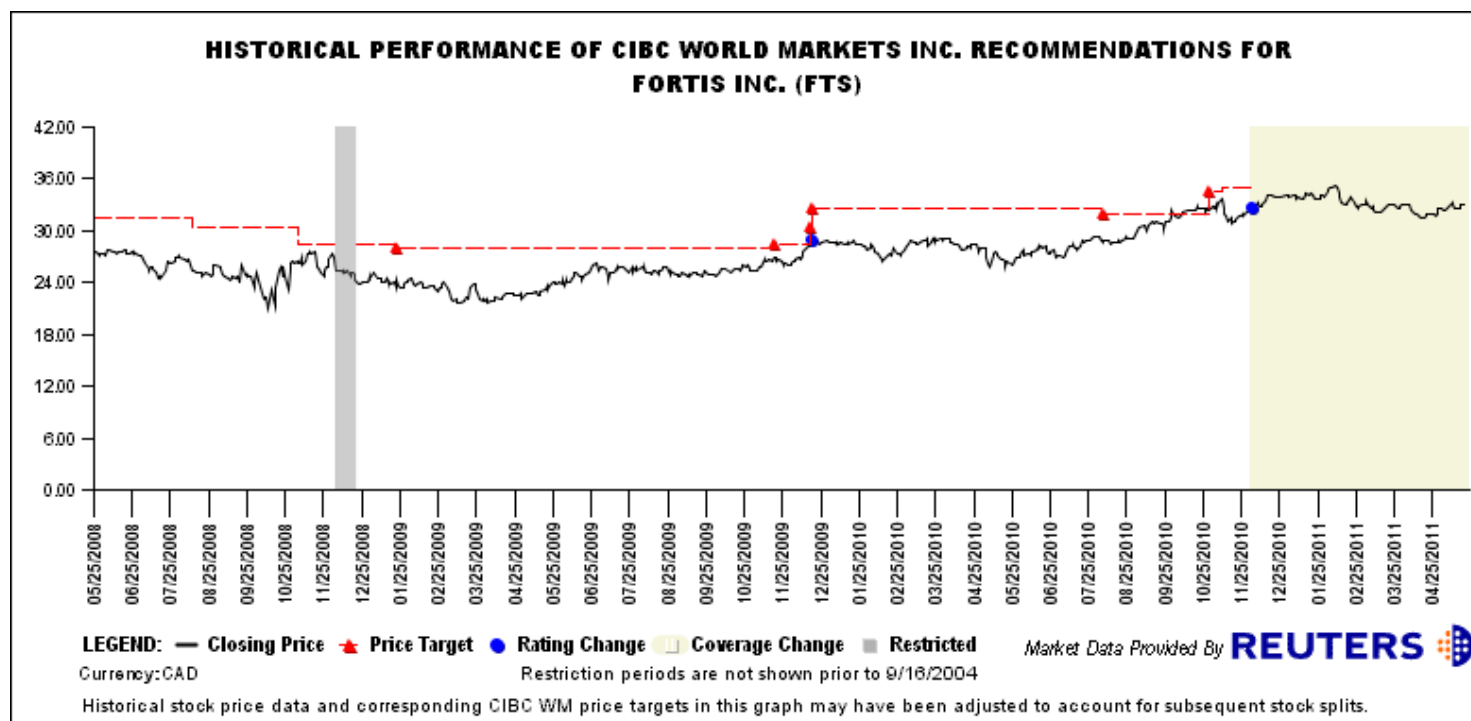
Starwood Hotels and Resorts (HOT-NYSE, US\$57.69, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 24 May 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	147	44.7%	Sector Outperformer (Buy)	147	100.0%
Sector Performer (Hold/Neutral)	143	43.5%	Sector Performer (Hold/Neutral)	140	97.9%
Sector Underperformer (Sell)	25	7.6%	Sector Underperformer (Sell)	24	96.0%
Restricted	13	4.0%	Restricted	13	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 24 May 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

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Institutional Equity Research Earnings Update

June 15, 2011

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$35.00
FTS-TSX (6/14/11) \$31.77

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$26.80-\$35.45
Shares Outstanding	184.5M
Float	184.5M Shrs
Avg. Daily Trading Vol.	471,979
Market Capitalization	\$5,862.3M
Dividend/Div Yield	\$1.16 / 3.7%
Fiscal Year Ends	December
Book Value	\$18.43 per Shr
2011 ROE (E)	8.9%
LT Debt	\$5.9B
Preferred	\$912.00M
Common Equity	\$3.4B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011	\$1.79E	\$1.75E
2012	\$1.88E	\$1.89E

P/E		
2010		19.3x
2011	17.7x	18.2x
2012	16.9x	16.8x

Dividend Per Share

2010	\$1.12A
2011	\$1.16E
2012	\$1.24E

Yield

2010	3.5%
2011	3.7%
2012	3.9%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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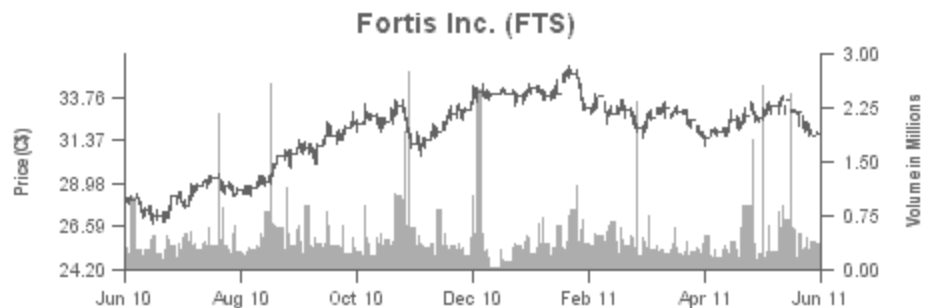
Pipelines, Utilities, & Power

Fortis Inc.

Acquisition Of New England Utility; Update On Belize

- On May 30, Fortis announced that it has entered into an agreement to acquire Central Vermont Public Service (CVPS) for approximately US\$700 million including assumed debt. CVPS is the largest electric utility in Vermont, and has a stake in the state's transmission system.
- Fortis paid full price for CVPS, although it has a strong growth profile, with its rate base expected to grow from US\$426 million in 2010 to ~US\$650 million in 2015 (9% CAGR) through the acquisition of Vermont Marble, investments in transmission, and capex in its base distribution business.
- Fortis also announced a bought deal, issuing 9.1 million shares at \$33/share, resulting in net proceeds of \$288 million. As a result, our 2011E EPS decreases from \$1.79 to \$1.75. Our 2012E and 2013E EPS increase from \$1.88 and \$2.00 to \$1.89 and \$2.03, reflecting the acquisition impact.
- We view the acquisition as modestly positive, with upside to the extent Fortis can become a consolidator in the region. In Belize, the government is looking to nationalize Fortis' operations, although financial implications are still unclear. Maintain SP rating; PT to \$35.00 vs. prior \$34.50.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.


Fortis Inc.

FTS - TSX 6/14/11 **\$31.77**
12- To 18- Month Price Target: **\$35.00**
Pipelines, Utilities & Power
Sector Weighting: **Market Weight**

Sector Performer

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Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

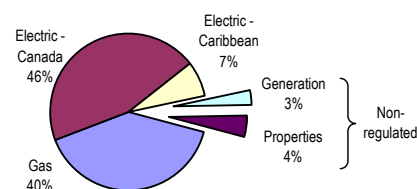
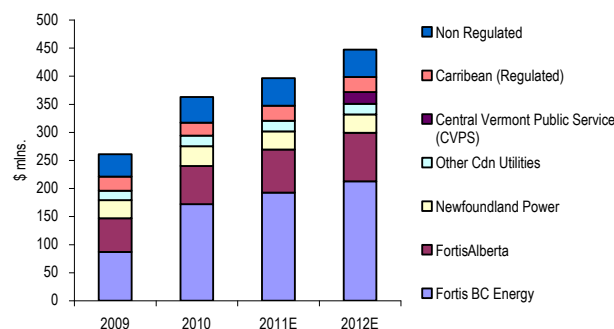
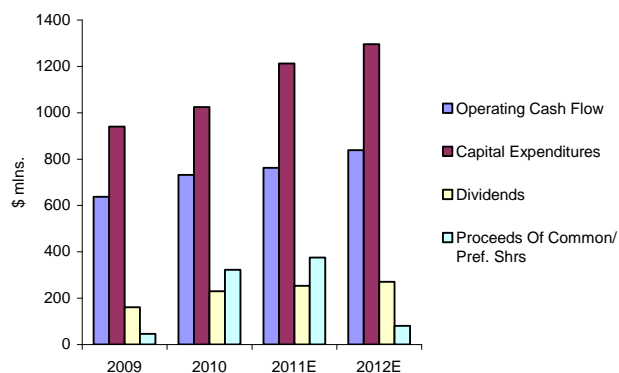
Market Data				
Share Price	\$31.77	Net Debt	5,829	
Shares Outstanding	175	Non Control Int.	175	
Market Capitalization	5,573	Preferred Shares	912	
		Enterprise Value	12,489	
Valuations				
P/E	21.0x	2010A	19.3x	2011E
EV/EBITDA	11.6x	2010A	10.7x	2012E
		2011E	18.2x	16.8x
		2012E	10.0x	8.9x
Pipeline And Utilities Sector Average				
P/E	18.0x	18.0x	18.0x	18.0x
EV/EBITDA	11.8x	11.8x	11.8x	11.8x
Other Data				
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.24
Dividend Yield	3.3%	3.5%	3.7%	3.9%
Payout Ratio	68.7%	67.9%	66.3%	65.5%
Book Value Per Share	\$18.64	\$18.97	\$20.30	\$21.11
Price / Book Value	1.7x	1.7x	1.6x	1.5x
Cash Per Share	\$0.50	\$0.63	\$0.94	\$0.47
Debt / Total Capital	59.8%	57.9%	56.6%	60.2%
Net Debt/EBITDA	5.4x	5.1x	4.9x	5.4x
Income Statement				
FortisBC Energy	117	130	143	158
FortisAlberta	60	68	76	86
FortisBC Electric	37	42	50	55
Newfoundland Power	32	35	33	33
Other Canadian Electric Utilities	17	19	19	19
Central Vermont Public Service (CVPS)	0	0	0	21
Regulated Electric Utilities - Caribbean	25	23	27	27
Fortis Generation	16	20	22	22
Fortis Properties	24	26	27	27
Corporate	(72)	(78)	(80)	(94)
Operating Earnings	256	285	316	354
Unusual Items	6	0	0	0
Reported Earnings	262	285	316	354
Operating EPS	\$1.51	\$1.65	\$1.75	\$1.89
Reported EPS	\$1.54	\$1.65	\$1.75	\$1.89
Shares Outstanding	171	174	186	189
EBITDA	1,078	1,170	1,248	1,398
Cash Flow				
Earnings (incl. pref share dividends)	280	323	344	382
Depreciation and Amortization	364	410	417	456
Total Operating Cash Flow	637	732	761	838
Capital Expenditures	940	1,024	1,212	1,295
Dividends	161	230	253	270
Net Long Term Debt Proceeds	557	194	294	1,316
Balance Sheet				
Cash & Cash Equivalents	85	109	175	89
Utility Capital Assets / Income Properties	8,246	8,762	9,457	11,050
Total Assets	12,160	12,903	13,663	15,171
Current Liabilities	1,594	1,517	1,517	1,517
Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	7,633
Future Income Taxes	5	(3)	0	0
Non Controlling Interests	123	162	153	144
Preferred Shares	667	912	912	912
Shareholders' Equity	3,540	3,897	4,372	4,573
Total Shareholders' Equity And Liabilities	12,160	12,903	13,663	15,171

Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)

Segmented Earnings (Exc. Corporate)

Major Sources, Uses Of Cash


Source: Company reports and CIBC World Markets Inc.

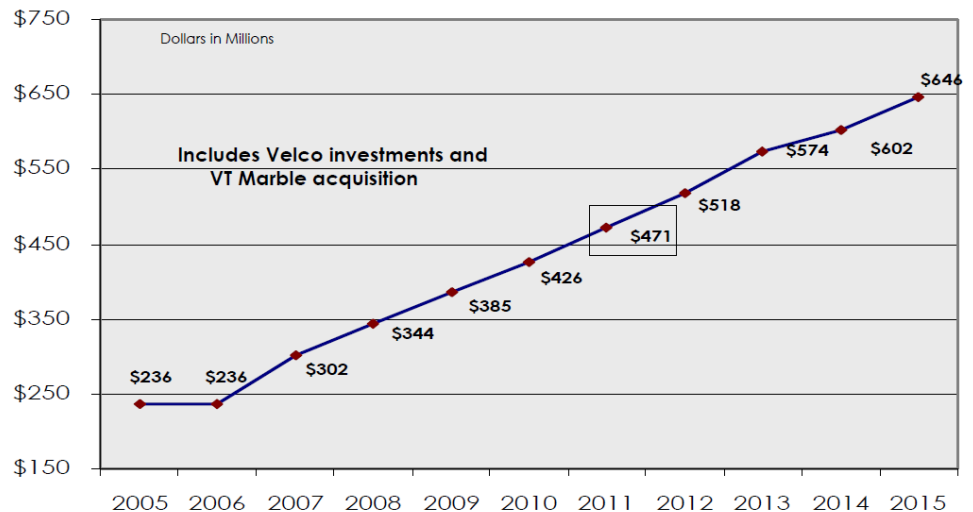
Acquiring New England Utility

On May 30, Fortis (FTS-SP) announced that it has entered into an agreement to acquire all of the outstanding common shares of Central Vermont Public Service (CVPS) (CV-NYSE) for \$35.10/share in cash, representing a 44% premium over the CVPS closing price on the prior trading day. The total purchase price, including the assumption of approximately US\$230 million in debt, amounts to roughly US\$700 million. The closing of the acquisition is subject to a variety of approvals, including CVPS shareholders, the Vermont Public Service Board, and the U.S. Federal Energy Regulatory Commission (FERC). Fortis expects the transaction to close within six to 12 months.

CVPS is the largest electric utility in Vermont, serving nearly 160,000 customers. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. CVPS also holds a 41% ownership interest in Vermont Transco LLC [managed by Vermont Electric Power Company (Velco)], which owns and operates the high-voltage transmission system in Vermont.

CVPS expects its rate base to grow from US\$426 million in 2010 to approximately US\$650 million by 2015, representing a compound annual growth rate of 9% (Exhibit 1). The rate base growth is expected to be driven by Vermont Marble (a US\$33 million acquisition of primarily transmission and distribution assets), additional investments in transmission (through its equity interest in Velco), and capital expenditures in its base distribution business. The allowed rate of return on common equity for 2011 is set at 9.45%, and equity level is set at 57%.

Exhibit 1. CVPS Rate Base Projections



Source: Company reports.

Fortis has been looking for acquisitions for some time, and targeted the U.S. northeast as a potential entry point. At US\$700 million, the CVPS acquisition is smaller than our expectation for a low- to mid-billion-dollar transaction. In addition, at a 1.4x rate base (when factoring in CVPS' proportional ownership in Velco), the acquisition is moderately more expensive than recent U.S. utility acquisitions in the 1.0x–1.2x rate base range. However, CVPS has a strong growth profile, with a 9% CAGR in its rate base expected through 2015.

In addition, while Fortis will operate CVPS in its normal decentralized fashion, there may be further opportunities to add assets in the region. Vermont has a population of roughly 600,000 people, but is home to 20 electric distributors. The second-largest utility in Vermont is Green Mountain Power, which has approximately 90,000 customers covering a territory encompassing approximately 25% of the state's population, and is owned by Gaz Metro Inc.

Equity Issuance

In conjunction with the acquisition announcement, Fortis announced a bought deal for 9.1 million shares at \$33.00/share. Net proceeds of approximately \$288 million (\$300 million in gross proceeds less underwriting fees) will be used to repay outstanding debt under the company's committed credit facility, finance additional equity injections into Fortis' western Canadian regulated utilities and the Waneta Expansion, and for general corporate purposes. While Fortis is not using the proceeds from the equity issue directly to purchase CVPS, it is using a portion of the proceeds to repay the debt on its committed credit facility, and it will ultimately use that same credit facility to fund its purchase of CVPS. There is also an overallotment option whereby the underwriters will be able to purchase an additional 1.365 million shares, which would bring an additional \$43 million in net proceeds to Fortis if fully exercised. We have not incorporated the over-allotment proceeds in our forecasts. We do not expect Fortis to issue any additional common equity over the forecast horizon, unless it makes further acquisitions.

Estimate Revisions

Fortis expects the acquisition to be accretive to EPS in its first full year of ownership. In the interim, however, we expect the impact of the equity issue to reduce EPS in 2011 from \$1.79 to \$1.75. We have assumed that the transaction will close at the end of Q1/12. Our 2012 EPS forecast increases from \$1.88 to \$1.89, reflecting the partial-year contribution from CVPS. Our 2013 EPS estimate increases from \$2.00 to \$2.03, reflecting the first full year of CVPS.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

	2010	2011E		2012E		2013E	
		Previous	Current	Previous	Current	Previous	Current
Segmented Earnings							
Regulated Utilities							
FortisBC Energy	\$130	\$143	\$143	\$158	\$158	\$164	\$164
FortisAlberta	68	76	76	86	86	99	99
FortisBC Electric	42	50	50	55	55	60	60
Newfoundland Power	35	33	33	33	33	34	34
Other Canadian Electric Utilities	19	19	19	19	19	20	20
Central Vermont Public Service (CVPS)	0	0	0	0	21	0	31
Regulated Electric Utilities – Caribbean	23	27	27	27	27	27	27
Total Regulated Utilities	317	348	348	378	398	404	435
Non-regulated Operations							
Fortis Generation	20	22	22	22	22	22	22
Fortis Properties	26	27	27	27	27	27	27
Total Non-regulated Operations	46	49	49	49	49	49	49
Corporate	(78)	(80)	(80)	(80)	(94)	(80)	(98)
Operating Earnings For Common	285	316	316	346	354	373	385
Unusual Items	0	0	0	0	0	0	0
Reported Earnings	285	316	316	346	354	373	385
Weighted Average S/O (mlns.)	173	177	181	184	187	186	190
Operating EPS	1.65	1.79	1.75	1.88	1.89	2.00	2.03
Reported EPS	1.65	1.79	1.75	1.88	1.89	2.00	2.03
Dividend Per Share	1.12	1.16	1.16	1.22	1.24	1.30	1.32
Pay out Ratio	67.9%	64.8%	66.3%	65.0%	65.5%	65.0%	65.0%

Source: CIBC World Markets Inc.

Belize Saga Continues

Fortis' regulated electricity distribution operations in Belize (Belize Electricity Limited, or BEL) have been under pressure since a June 2008 decision by the Belize Public Utilities Commission reversed previous rate-setting agreements, lowered BEL's allowable rates of return, and forced BEL to assume the cost of surging energy prices in 2008. BEL's legal appeals, including to the Belize Supreme Court, have been dismissed. The left-leaning government of Prime Minister Dean Barrow "was always ideologically opposed to the privatization of essential resources" and has resisted allowing any rate increases.

With oil prices again on the rise, and unable to increase rates accordingly, BEL has been facing mounting financial pressures. Furthermore, BEL has been unable to qualify for bank credit given the unsettled regulatory regime. Fortis is understandably unwilling to further invest in the operation. Given BEL's financial distress, the operation is facing mounting debts to Mexico's Comisión Federal de Electricidad (CFE), from which BEL purchases a substantial portion (in 2010, 33%) of its power. Year-end 2010 financial statements show BEL also owed BZ\$9 million (US\$4.5 million) to Fortis and BECOL (a hydro generation facility in Belize which Fortis also owns). BEL has asked the Belize government to prepay its energy bills of roughly \$2 million/month to help cover power purchases.

The government has now announced its intent “in purchasing majority shares in BEL so as to assume control of the company,” although no formal purchase proposal has been received by Fortis. Fortis currently owns 70% of BEL, the Belize government indirectly holds 27% (through the Social Security Board of Belize), and the remainder is held by smaller shareholders in Belize. It is unclear at present:

1. How much of BEL the government intends to buy: The government would need a further 24% to reach a majority position, but Fortis is unwilling to become a minority shareholder and would likely seek to sell its entire stake.
2. What price the government will pay: Prime Minister Barrow has stated “you trade off the fact that there is an asset value against the fact that the company virtually is insolvent” – ignoring the fact that his government’s actions have placed BEL in this situation, and that at the end of 2010 BEL had net PP&E of BZ\$445 million (approximately US\$222 million). The purchase would represent an enormous sum for the government of Belize – the country’s total GDP in 2009 was US\$1.354 billion (World Bank data), and certainly begs the question of how the government could afford to pay anything approaching fair value.
3. Whether the government will expropriate the business: The Belize government has set a precedent with the expropriation in 2009 of the country’s main telephone company, Belize Telemedia, with legal proceedings still ongoing.

The assets of BEL represent less than 2% of Fortis’ total assets; the combined assets of BEL and BECOL represent less than 3% of Fortis’ total assets. Nevertheless, a worst-case scenario could be a partial or total writedown of Fortis’ investment in BEL, with its net book investment in BEL currently at ~US\$125 million (~\$0.70/share). We are making no changes to our financial outlook at present until there is further clarity on the situation.

Price Target Calculation

We are raising our price target from \$34.50 to \$35.00, reflecting the contribution of the CVPS acquisition to our discounted cash flow (DCF) forecast. The \$35.00 price target equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given Fortis’ solid, and for the most part low-risk, growth outlook.

Outlook And Investment Summary

Overall, we view the CVPS acquisition as modestly positive to Fortis. As a standalone investment, the acquisition was on the expensive end, although CVPS has a strong growth profile through 2015. Upside may exist to the extent that Fortis can become a consolidator in the region. As noted above, we have not adjusted our financial estimates for Belize given the uncertainty as to the government’s intentions, although a nationalization of the business at a price below Fortis’ net book investment could result in an (at least partial) writedown. We maintain our Sector Performer rating.

Key Risks To Price Target

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Prior	\$0.67A	\$0.35E	\$0.27E	\$0.50E	\$1.79E
2011 Current	\$0.67A	\$0.35E	\$0.26E	\$0.48E	\$1.75E
2012 Prior	--	--	--	--	\$1.88E
2012 Current	--	--	--	--	\$1.89E

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Stock Prices as of 06/15/2011:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$53.31, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

Stock Prices as of 06/15/2011:

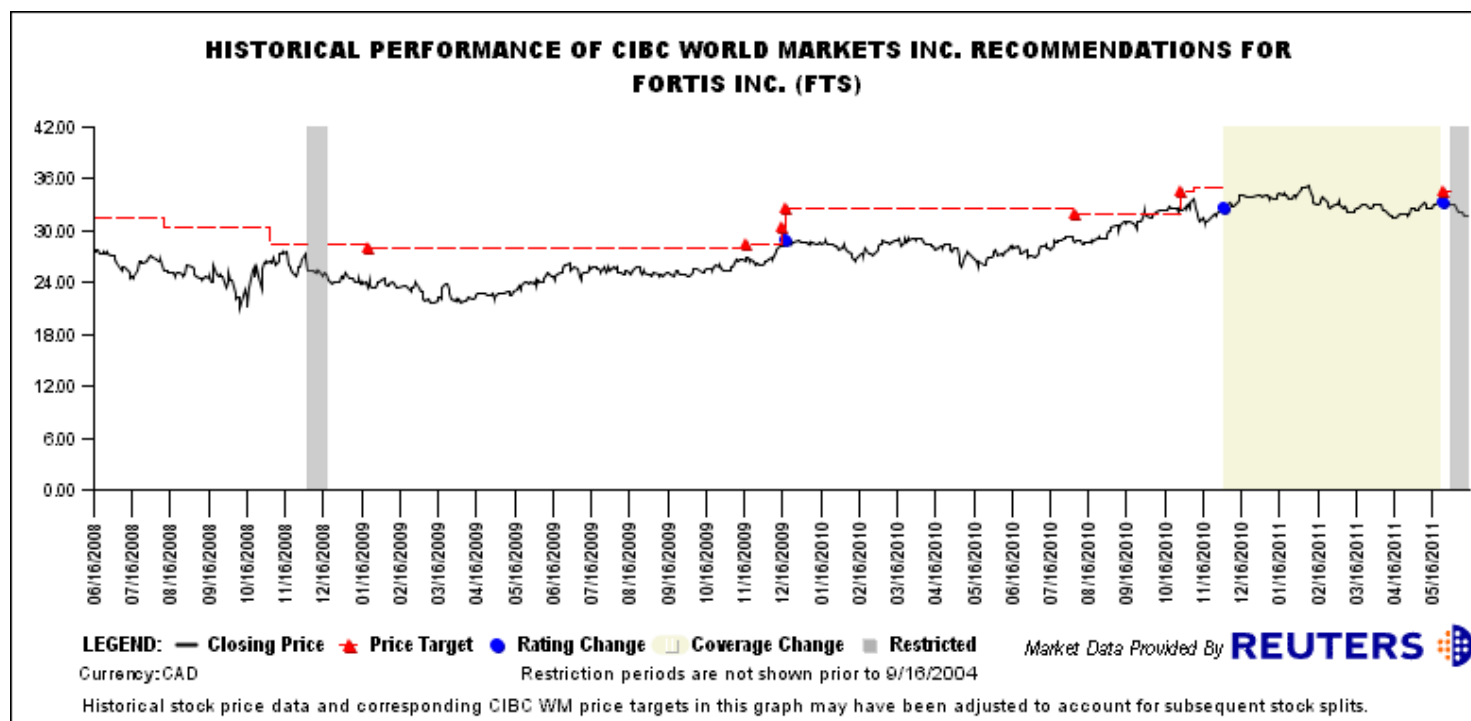
Central Vermont Public Service Corp. (CV-NYSE, US\$34.41, Not Rated)

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Key to Important Disclosure Footnotes:

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- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 15 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	44.8%	Sector Outperformer (Buy)	148	100.0%
Sector Performer (Hold/Neutral)	146	44.2%	Sector Performer (Hold/Neutral)	141	96.6%
Sector Underperformer (Sell)	26	7.9%	Sector Underperformer (Sell)	23	88.5%
Restricted	9	2.7%	Restricted	9	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 15 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

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Institutional Equity Research Company Update

June 23, 2011

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$35.00
FTS-TSX (6/23/11) \$31.46

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$26.80-\$35.45
Shares Outstanding 184.5M
Float 184.5M Shrs
Avg. Daily Trading Vol. 471,979
Market Capitalization \$5,805.1M
Dividend/Div Yield \$1.16 / 3.7%
Fiscal Year Ends December
Book Value \$18.43 per Shr
2011 ROE (E) 8.9%
LT Debt \$5.9B
Preferred \$912.00M
Common Equity \$3.4B
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011		\$1.75E
2012		\$1.89E

P/E	
2010	19.1x
2011	18.0x
2012	16.6x

Dividend Per Share	
2010	\$1.12A
2011	\$1.16E
2012	\$1.24E

Yield	
2010	3.6%
2011	3.7%
2012	3.9%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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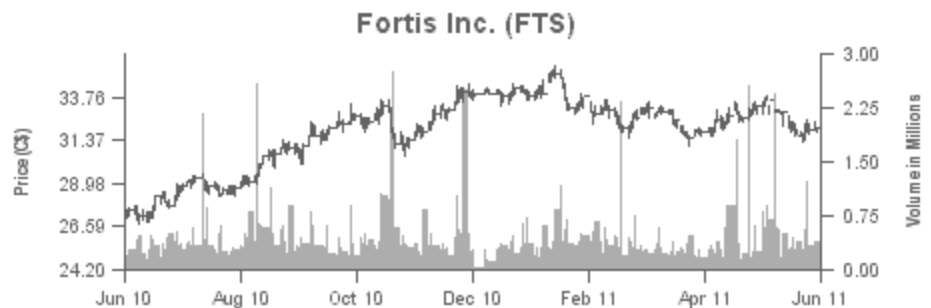
Pipelines, Utilities, & Power

Fortis Inc.

Not A Good Week: Belize Operations Expropriated, Rival Bid Emerges For CVPS

- On Monday, the government of Belize passed legislation to nationalize Fortis' 70%-owned regulated utility, Belize Electricity Limited (BEL), which is under financial duress due to adverse regulatory rulings, which provide insufficient returns and force BEL to absorb high energy costs.
- Compensation for BEL is unknown and any agreement is likely to take some time. Fortis' net book investment in BEL is ~US\$125 million (~\$0.70/share). Currently, Fortis' unregulated hydro facilities in Belize (BECOL) have not been expropriated.
- On Thursday, Gaz Metro announced a rival bid for CVPS, a Vermont utility that Fortis announced it was acquiring on May 30. Gaz Metro's bid (US\$35.25/share) is at only a US\$0.15/share premium to Fortis' bid (US\$35.10/share); CVPS must determine if this represents a superior bid.
- Given a \$17.5 million break fee + \$2 million in expense reimbursement (totaling ~US\$1.50/CVPS share), it is unclear whether Gaz Metro's bid is "superior." If it is deemed so, Fortis could match the bid, but we foresee little appetite for further increases given its existing bid is already pricey.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 6/23/11 \$31.46
 12- To 18- Month Price Target: \$35.00
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

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 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

Market Data

Share Price	\$31.46	Net Debt	5,829
Shares Outstanding	175	Non Control Int.	175
Market Capitalization	5,519	Preferred Shares	912
		Enterprise Value	12,435

Valuations

	2009A	2010A	2011E	2012E
P/E	20.8x	19.1x	18.0x	16.7x
EV/EBITDA	11.5x	10.6x	10.0x	8.9x

Pipeline And Utilities Sector Average

P/E	17.8x	17.8x	17.8x	17.8x
EV/EBITDA	11.7x	11.7x	11.7x	11.7x

Other Data

	2009A	2010A	2011E	2012E
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.24
Dividend Yield	3.3%	3.6%	3.7%	3.9%
Payout Ratio	68.7%	67.9%	66.3%	65.5%
Book Value Per Share	\$18.64	\$18.97	\$20.30	\$21.11
Price / Book Value	1.7x	1.7x	1.6x	1.5x
Cash Per Share	\$0.50	\$0.63	\$0.94	\$0.47
Debt / Total Capital	59.8%	57.9%	56.6%	60.2%
Net Debt/EBITDA	5.4x	5.1x	4.9x	5.4x

Income Statement

	2009A	2010A	2011E	2012E
FortisBC Energy	117	130	143	158
FortisAlberta	60	68	76	86
FortisBC Electric	37	42	50	55
Newfoundland Power	32	35	33	33
Other Canadian Electric Utilities	17	19	19	19
Central Vermont Public Service (CVPS)	0	0	0	21
Regulated Electric Utilities - Caribbean	25	23	27	27
Fortis Generation	16	20	22	22
Fortis Properties	24	26	27	27
Corporate	(72)	(78)	(80)	(94)

Operating Earnings

Operating Earnings	256	285	316	354
Unusual Items	6	0	0	0

Reported Earnings

Reported Earnings	262	285	316	354
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Operating EPS

Operating EPS	\$1.51	\$1.65	\$1.75	\$1.89
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Reported EPS

Reported EPS	\$1.54	\$1.65	\$1.75	\$1.89
--------------	--------	--------	--------	--------

Shares Outstanding

Shares Outstanding	171	174	186	189
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EBITDA

EBITDA	1,078	1,170	1,248	1,398
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Cash Flow

	2009A	2010A	2011E	2012E
--	-------	-------	-------	-------

Earnings (incl. pref share dividends)	280	323	344	382
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Depreciation and Amortization	364	410	417	456
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Total Operating Cash Flow	637	732	761	838
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Capital Expenditures	940	1,024	1,212	1,295
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Dividends	161	230	253	270
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Net Long Term Debt Proceeds	557	194	294	1,316
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Balance Sheet

	2009A	2010A	2011E	2012E
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Cash & Cash Equivalents	85	109	175	89
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Utility Capital Assets / Income Properties	8,246	8,762	9,457	11,050
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Total Assets	12,160	12,903	13,663	15,171
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Current Liabilities	1,594	1,517	1,517	1,517
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Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	7,633
--	-------	-------	-------	-------

Future Income Taxes	5	(3)	0	0
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Non Controlling Interests	123	162	153	144
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Preferred Shares	667	912	912	912
------------------	-----	-----	-----	-----

Shareholders' Equity	3,540	3,897	4,372	4,573
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Total Shareholders' Equity And Liabilities	12,160	12,903	13,663	15,171
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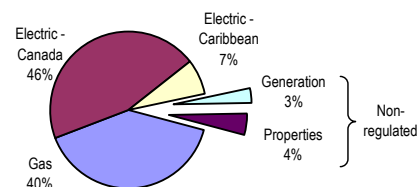
Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

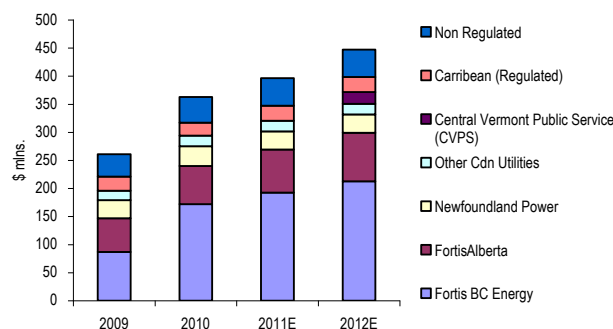
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

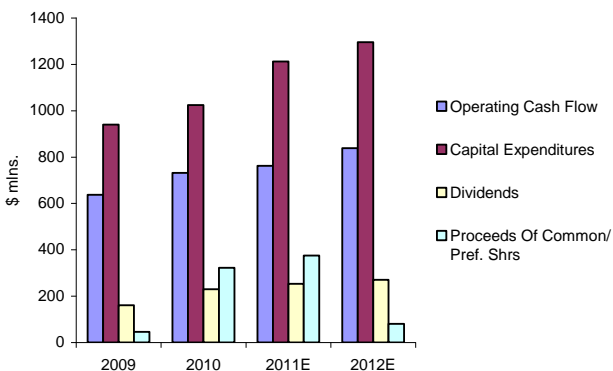
Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.



Fortis (FTS-SP) has had a rough week.

Belize Operations Expropriated, As Expected

On Monday, the Belize government announced it is expropriating Fortis' 70%-owned regulated utility, Belize Electricity Ltd. (BEL). This is not unexpected given recent government pronouncements. BEL has been under financial duress given adverse regulatory rulings that have not allowed BEL to collect appropriate returns, and, furthermore, have forced BEL to absorb high energy prices (rather than, as is typically the case, pass through energy costs to the consumers). As a result, BEL has amassed debt to major electricity suppliers, including Mexican utility CFE, which has now demanded upfront payment before making further electricity sales to BEL. Rather than rectifying the regulatory issues, the Belize government has chosen to expropriate BEL's operations.

Fortis' net book investment in BEL is ~US\$125 million, or roughly \$0.70/share. The government of Belize has not provided any compensation nor has it announced whether any (or how much) would be forthcoming. Fortis is evaluating its legal options. Fortis' unregulated hydro generation operation, BECOL, has not (yet) been similarly affected, although is at risk given amounts owed by BEL (approximately \$5 million) and its ownership by Fortis. We would not expect a speedy outcome; the Belize government expropriated telephone company Belize Telemedia in 2009 and legal proceedings are still ongoing, with no compensation paid to date.

Rival Bid For CVPS

On Thursday, Gaz Metro announced it was making an unsolicited bid for Central Vermont Public Service (CVPS) (CV-NYSE), the Vermont utility that Fortis announced an agreement to acquire on May 30. Gaz Metro's bid is at US\$35.25 per CVPS share, a slim US\$0.15/share premium to Fortis' own bid of US\$35.10/share. Gaz Metro also notes that it intends to continue making CVPS quarterly dividend payments of US\$0.23/share through closing vs. Fortis' intent to make only two regular quarterly dividend payments (and only \$0.01/share/quarter thereafter, until closing); with Gaz Metro expecting closing to take up to 12 months, this could imply further upside for CVPS shareholders.

Gaz Metro currently owns Green Mountain Power, the second-largest electric utility in Vermont (after CVPS), and believes there are synergies from owning both operations. The Gaz Metro bid also includes provisions for: CVPS employees (no layoffs), customers (cost savings from joint synergies with Green Mountain Power and the creation of a trust to subsidize low income customers), and the state of Vermont (investments in new headquarters and a solar development). The trust for low income customers will be created through the donation of a 30% economic interest in VELCO, the manager and part owner of the Vermont transmission system.

CVPS' board of directors must now determine that Gaz Metro's bid represents a "superior proposal" to the shareholders. Whether it meets this criterion is unclear given that CVPS, if it accepted Gaz Metro's bid, would be required to pay to Fortis a break fee of US\$17.5 million plus up to US\$2 million reimbursement of related fees and expenses. The US\$0.15/share premium amounts to only US\$2 million, and even factoring in additional dividend payments received under the Gaz Metro bid (if the closing takes up to a year), the total premium amounts to less than half the break fee.

If CVPS does decide that Gaz Metro's bid is superior, then Fortis must choose whether to match the relevant terms (e.g., US\$35.25/share + full dividend payments through closing) or to walk away. The small incremental costs might suggest that Fortis should be prepared to match the (initial) Gaz Metro bid, but we would not expect Fortis to get into a prolonged bidding war, as we believe its existing bid already represented full value (around 1.4x rate base). Any meaningful increase in the purchase price would bring the economics of the transaction into question.

Gaz Metro might be able to justify a higher price given the potential synergies to be realized from its existing ownership of Green Mountain Power, the second-largest Vermont electric utility (after CVPS). However, it is unclear whether any such synergies are truly sustainable, as any savings are typically required to be passed on to customers over time.

Downward Bias To Price Target, But No Change For Now

We believe that these two issues – expropriation of BEL and rival bid for CVPS – represent a downward bias on Fortis' value. The loss of BEL (with no compensation) would represent ~\$0.70/share impact; the potential loss of CVPS to Gaz Metro would represent about a further \$0.50/share. Furthermore, if Fortis were not to acquire CVPS, we note that the recent \$300 million (net \$288 million) equity offering would be dilutive until an alternate (and accretive) use of funds were found. We believe Fortis management is sufficiently disciplined to avoid acting precipitously, but nonetheless we note that there will be additional pressure for Fortis to find and close a suitable acquisition.

Despite the downward bias in valuation, we are not updating our price target (\$35) for now given the uncertainty surrounding these issues. We maintain our Sector Performer rating.

Price Target Calculation

Our \$35.00 price target equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given Fortis' solid, and for the most part low-risk, growth outlook. We note, however, that failure to close the CVPS acquisition represents a potential downside of ~\$0.50/share and a total write-off of BEL would represent ~\$0.70/share. We have not yet included either of these impacts to the stock price, given current uncertainties as to outcome.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Current	\$0.67A	\$0.35E	\$0.26E	\$0.48E	\$1.75E
2012 Current	--	--	--	--	\$1.89E

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- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
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Stock Prices as of 06/23/2011:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$54.62, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

Stock Prices as of 06/23/2011:

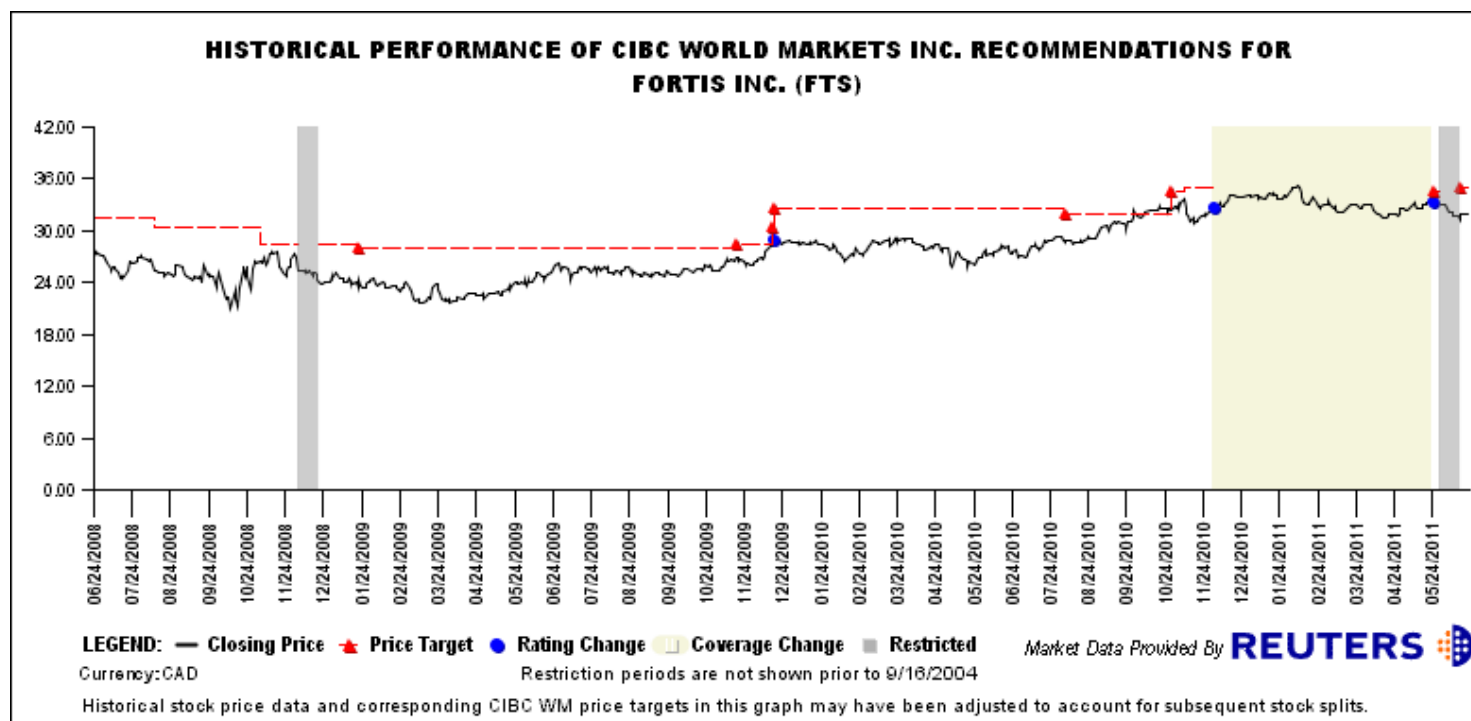
Central Vermont Public Service Corp. (CV-NYSE, US\$35.65, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

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- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 23 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	44.7%	Sector Outperformer (Buy)	148	100.0%
Sector Performer (Hold/Neutral)	146	44.1%	Sector Performer (Hold/Neutral)	141	96.6%
Sector Underperformer (Sell)	24	7.3%	Sector Underperformer (Sell)	21	87.5%
Restricted	12	3.6%	Restricted	12	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 23 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

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Institutional Equity Research

Earnings Update

August 3, 2011

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$33.50
FTS-TSX (8/3/11) \$30.87

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$28.25-\$35.45
Shares Outstanding 186.3M
Float 186.3M Shrs
Avg. Daily Trading Vol. 461,847
Market Capitalization \$5,751.1M
Dividend/Div Yield \$1.16 / 3.8%
Fiscal Year Ends December
Book Value \$19.86 per Shr
2011 ROE (E) 8.8%
LT Debt \$5.9B
Preferred \$912.00M
Common Equity \$3.7B
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011	\$1.74E	\$1.72E
2012	\$1.83E	\$1.81E

P/E		
2010		18.7x
2011	17.7x	17.9x
2012	16.9x	17.1x

Dividend Per Share

2010	\$1.12A
2011	\$1.16E
2012	\$1.20E

Yield

2010	3.6%
2011	3.8%
2012	3.9%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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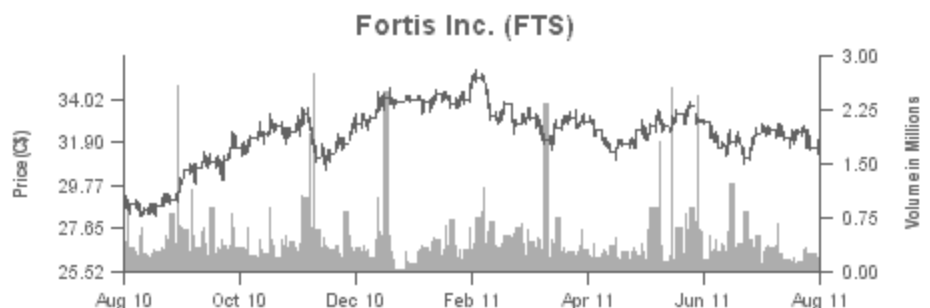
Pipelines, Utilities, & Power

Fortis Inc.

Q2 Slightly Below Expectations On Lower Gas, Generation Earnings

- Fortis reported Q2/11 EPS of \$0.33 vs. our estimate of \$0.35 (consensus \$0.35). The variance was largely due to lower earnings from FortisBC Energy (higher regulator-approved expenses), Fortis Generation (lower production in Belize), and Fortis Properties (decrease in occupancy).
- Earnings were still up Y/Y (\$0.33 vs. \$0.32 in Q2/10), largely reflecting a higher rate base (especially at company's regulated utilities in Western Canada). Fortis is on track for its \$1.2 bln. capex program in 2011, and has raised its 5-year (2011-2015) capex budget to \$5.7 bln. (up \$0.2 bln.).
- In Q2/11, Fortis suffered setbacks: 70% owned Belize Electricity was expropriated on June 20; BECOL (its Belize hydro generation facility) is owed US\$6.5 mln.; and Fortis walked away from its acquisition of CVPS after a superior bid from Gaz Metro.
- Fortis' capex program is expected to grow rate base at 6% CAGR. Fortis continues to seek a U.S. acquisition, and has a strong financial position. However, given Q2 setbacks, a slightly soft Q2, and high acquisition multiples, we maintain our SP rating. PT revised to \$33.50 (prior \$34).

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 8/3/11 \$30.87
 12- To 18- Month Price Target: \$33.50
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

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 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

Market Data

Share Price	\$30.87	Net Debt	5,559
Shares Outstanding	186	Non Control Int.	178
Market Capitalization	5,751	Preferred Shares	912
		Enterprise Value	12,400

Valuations	2009A	2010A	2011E	2012E
P/E	20.4x	18.7x	17.9x	17.1x
EV/EBITDA	11.5x	10.6x	10.0x	9.3x

Pipeline And Utilities Sector Average

P/E	18.0x	18.0x	17.5x	17.5x
EV/EBITDA	11.9x	11.4x	9.6x	9.1x

Other Data	2009A	2010A	2011E	2012E
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.20
Dividend Yield	3.4%	3.6%	3.8%	3.9%
Payout Ratio	68.7%	67.9%	67.6%	66.5%
Book Value Per Share	\$18.64	\$18.97	\$20.22	\$20.99
Price / Book Value	1.7x	1.6x	1.5x	1.5x
Cash Per Share	\$0.50	\$0.63	\$0.69	\$0.99
Debt / Total Capital	59.8%	57.9%	56.6%	57.5%
Net Debt/EBITDA	5.4x	5.1x	5.0x	4.9x

Income Statement	2009A	2010A	2011E	2012E
FortisBC Energy	117	130	141	155
FortisAlberta	60	68	78	89
FortisBC Electric	37	42	49	52
Newfoundland Power	32	35	33	34
Other Canadian Electric Utilities	17	19	21	21
Central Vermont Public Service (CVPS)	0	0	0	0
Regulated Electric Utilities - Caribbean	25	23	25	25
Fortis Generation	16	20	20	20
Fortis Properties	24	26	25	25
Corporate	(72)	(78)	(80)	(80)

Operating Earnings	256	285	311	341
Unusual Items	6	0	0	0

Reported Earnings	262	285	311	341
-------------------	-----	-----	-----	-----

Operating EPS	\$1.51	\$1.65	\$1.72	\$1.81
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Reported EPS	\$1.54	\$1.65	\$1.72	\$1.81
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Shares Outstanding	171	174	187	189
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EBITDA	1,078	1,170	1,237	1,338
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Cash Flow	2009A	2010A	2011E	2012E
-----------	-------	-------	-------	-------

Earnings (incl. pref share dividends)	280	323	339	369
---------------------------------------	-----	-----	-----	-----

Depreciation and Amortization	364	410	411	448
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Total Operating Cash Flow	637	732	750	817
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Capital Expenditures	940	1,024	1,212	1,154
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Dividends	161	230	254	265
-----------	-----	-----	-----	-----

Net Long Term Debt Proceeds	557	194	294	481
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Balance Sheet	2009A	2010A	2011E	2012E
---------------	-------	-------	-------	-------

Cash & Cash Equivalents	85	109	129	187
-------------------------	----	-----	-----	-----

Utility Capital Assets / Income Properties	8,246	8,762	9,508	10,114
--	-------	-------	-------	--------

Total Assets	12,160	12,903	13,668	14,333
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Current Liabilities	1,594	1,517	1,517	1,517
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Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	6,798
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Future Income Taxes	5	(3)	0	0
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Non Controlling Interests	123	162	153	144
---------------------------	-----	-----	-----	-----

Preferred Shares	667	912	912	912
------------------	-----	-----	-----	-----

Shareholders' Equity	3,540	3,897	4,377	4,570
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Total Shareholders' Equity And Liabilities	12,160	12,903	13,668	14,333
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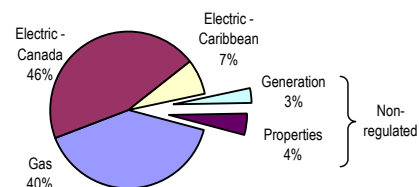
Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

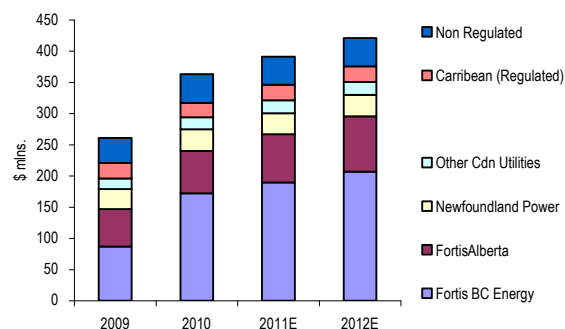
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

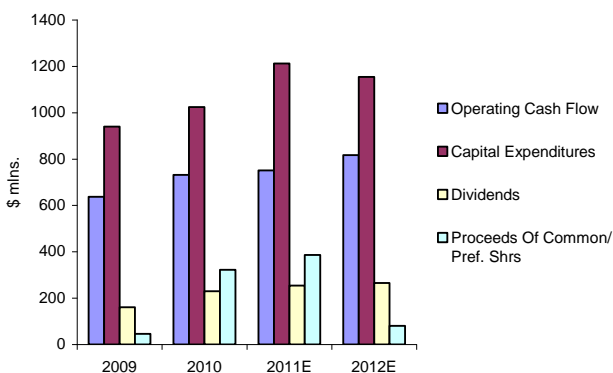
Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

Q2/11 – Slightly Below Consensus

Fortis (FTS-SP) reported Q2/11 results, with EPS of \$0.33, slightly below our estimate of \$0.35 (consensus \$0.35). The main variances to expectations were lower earnings from:

- (1) FortisBC Energy (formerly Terasen Gas), due to timing of regulator approved increases in operating expenses.
- (2) Non-regulated Fortis Generation, given decreased production in Belize due to lower rainfall.
- (3) Non-regulated Fortis Properties, given a 2.2% decrease in hotel occupancy and a 1.4% decrease in occupancy in commercial/retail real estate.

Capital Spending On Track

Earnings were still up Y/Y (\$0.33 versus \$0.32 in Q2/10), largely driven by rate base growth, especially in the Western Canadian regulated utilities. The company is on track for its \$1.2 billion capital program in 2011, with \$519 million spent through H1/11. The company also slightly raised its 5-year (2011-2015) capital plan to \$5.7 billion from \$5.5 billion, reflecting higher planned spending at FortisBC Energy.

The company has substantially completed work on many major projects, including its \$214 million LNG storage facility on Vancouver Island and \$126 million Automated Metering Project in Alberta, and expects to reach substantial completion later in the year on the \$105 million Okanagan Transmission Reinforcement Project. The Waneta Dam Expansion project is on budget/schedule.

Q2/11 Setbacks

As has been previously noted, Fortis suffered setbacks in Q2/11:

- (1) On June 20, the government of Belize expropriated Fortis' 70% interest in Belize Electricity (BEL). Fortis is starting to pursue legal avenues to seek compensation, although this will likely be a lengthy process. The book value of BEL was \$112 million; the company does not anticipate writing this value down until there is further clarity on the situation. The company's BECOL hydro generation facility remains, for now, unaffected (and management does not believe the government has any current intent to expropriate the facility), although it is currently owed US\$6.5 million from BEL (after receiving a US\$0.5 million payment in July). BECOL's book value is \$150 million.
- (2) On May 30, Fortis announced an agreement to acquire CVPS (CV-NYSE) at a total value of US\$700 million, including acquired debt. On June 23, CVPS received an unsolicited offer from Gaz Metro, which was subsequently deemed a superior offer to Fortis. Subsequently, on July 12, Fortis terminated the acquisition agreement, collecting a US\$17.5 million termination fee plus US\$2 million in expenses.

Maintain Sector Performer

Fortis continues to progress its capital spending program, which is expected to result in 6% rate base CAGR. Furthermore, the company has a strong financial position, with (at quarter end) \$1.5 billion of unused credit facilities and \$298 million in cash due to a \$300 million equity offering in June. The company continues to seek U.S. acquisition targets.

Nevertheless, given the above-noted setbacks in the quarter and the slightly lower-than-expected Q2/11 results, we believe short-term upside is more limited and continue to rate Fortis as Sector Performer, with a \$33.50 price target (down slightly from prior \$34 to reflect Q2/11 results and updated outlook).

Q2/11 Results

Fortis reported adjusted Q2/11 EPS of \$0.33, up from \$0.32 in Q2/10, and modestly below our \$0.35 expectation (consensus \$0.35). The main variance from our estimates was lower-than-expected earnings from FortisBC Energy, and a lower-than-expected contribution from its non-regulated businesses (Fortis Generation and Fortis Properties).

Exhibit 1. Q2/11 Results (\$ mlns., except per share)

Segmented Earnings	Q2/11A	Q2/11E	Q2/10A
Regulated Utilities			
FortisBC Energy	15	19	17
FortisAlberta	19	18	17
FortisBC Electric	9	9	8
Newfoundland Power	11	10	11
Other Canadian Electric Utilities	6	4	4
Regulated Electric Utilities – Caribbean	7	7	7
Total Regulated Utilities	67	67	64
Non-regulated Operations			
Fortis Generation	2	6	3
Fortis Properties	7	9	8
Total Non-regulated Operations	9	15	11
Corporate	(18)	(20)	(20)
Operating Earnings For Common	58	62	55
Unusual Items	0	0	0
Reported Earnings	58	62	55
Weighted Average Shares Outstanding (mlns.)	177	177	172
Operating EPS	0.33	0.35	0.32
Reported EPS	0.33	0.35	0.32
Dividend Per Share	0.29	0.29	0.28
Pay out Ratio	88.6%	82.3%	87.8%

Source: CIBC World Markets Inc.

Regulated Utilities:

- **FortisBC Energy:** FortisBC Energy earnings totaled \$15 million in Q2/11, compared to \$17 million in Q2/10 and our estimate of \$19 million. The variance from our estimate is the result of the timing of an increase in regulator-approved operating expenses, driven by labor and benefit costs and consulting expenses. Q2 and Q3 are FortisBC Energy's seasonally weakest quarters, with most of its earnings coming in Q1 and Q4.
- **FortisAlberta:** FortisAlberta contributed \$19 million to earnings in Q2/11, versus \$17 million in Q2/10, and our \$18 million estimate. The Y/Y increase is mainly due to \$2.5 million of accrued revenue recognized in Q2/11 associated with the cumulative return and amortization on the additional capex included in rate base associated with the Automated Metering Project.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$9 million in Q2/11, compared to \$8 million in Q2/10, and our \$9 million estimate. The Y/Y increase reflects rate base growth, as well as lower-than-expected average market-priced purchased power costs.
- **Newfoundland Power:** Newfoundland Power earnings were \$11 million in the quarter, compared to \$11 million in Q2/10 and our \$10 million estimate. Y/Y results were flat as electricity sales growth and lower effective corporate income taxes were offset by lower customer rates due to a lower allowed ROE in 2011.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$6 million in the quarter, up from \$4 million in Q2/10 and above our \$4 million estimate. The variance from our estimate was due to lower effective corporate income taxes.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$7 million, versus \$7 million in Q2/10 and our \$7 million estimate. The reduction of costs and improving efficiencies and a positive commercial customer billing adjustment at Caribbean Utilities were offset by lower electricity sales on Grand Cayman and removal of Belize Electricity from consolidated results effective June 20, 2011, the day the Government of Belize expropriated Fortis' 70% interest in Belize Electricity.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$2 million, down from \$3 million in Q2/10 and below our \$6 million estimate. Lower-than-expected results reflected lower production in Belize due to lower rainfall and higher finance charges.
- **Fortis Properties:** Fortis Properties earnings came in at \$7 million in Q2/11, compared to \$8 million in Q2/10 and our \$9 million estimate. The variance from our estimate reflects higher operating costs due to inflationary pressures, and the lower performance of hotel operations due to decreased occupancies in western Canada.

Revising Estimates

We have made minor changes to our estimates to reflect slightly lower expected earnings in Fortis' non-regulated operations (Fortis Generation and Fortis Properties). We have also updated our forecasts for the regulated businesses, mainly to reflect recently filed rate applications. As a result of these changes, our 2011 EPS estimate declines from \$1.74 to \$1.72, while our 2012 EPS estimate declines from \$1.83 to \$1.81.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2010A	2011E		2012E	
		Previous	Current	Previous	Current
Regulated Utilities					
FortisBC Energy	130	143	141	158	155
FortisAlberta	68	76	78	86	89
FortisBC Electric	42	50	49	55	52
Newfoundland Power	35	33	33	33	34
Other Canadian Electric Utilities	19	19	21	19	21
Regulated Electric Utilities – Caribbean	23	25	25	25	25
Total Regulated Utilities	317	346	346	376	376
Non-regulated Operations					
Fortis Generation	20	22	20	22	20
Fortis Properties	26	27	25	27	25
Total Non-regulated Operations	46	49	45	49	45
Corporate	(78)	(80)	(80)	(80)	(80)
Operating Earnings For Common	285	314	311	344	341
Unusual Items	0	0	0	0	0
Reported Earnings	285	314	311	344	341
Weighted Average Shares Outstanding (mlns.)	173	181	181	188	188
Operating EPS	1.65	1.74	1.72	1.83	1.81
Reported EPS	1.65	1.74	1.72	1.83	1.81
Dividend Per Share	1.12	1.16	1.16	1.20	1.20
Pay out Ratio	67.9%	66.8%	67.6%	65.5%	66.5%

Source: CIBC World Markets Inc.

Price Target Calculation

We are reducing our price target from \$34.00 to \$33.50 as a result of our reduced estimates. Our \$33.50 price target equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given Fortis' solid, and for the most part low-risk, growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), and operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Prior	\$0.67A	\$0.35E	\$0.25E	\$0.48E	\$1.74E
2011 Current	\$0.67A	\$0.33A	\$0.24E	\$0.49E	\$1.72E
2012 Prior	--	--	--	--	\$1.83E
2012 Current	--	--	--	--	\$1.81E

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SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$54.03, Sector Outperformer)

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Stock Prices as of 08/03/2011:

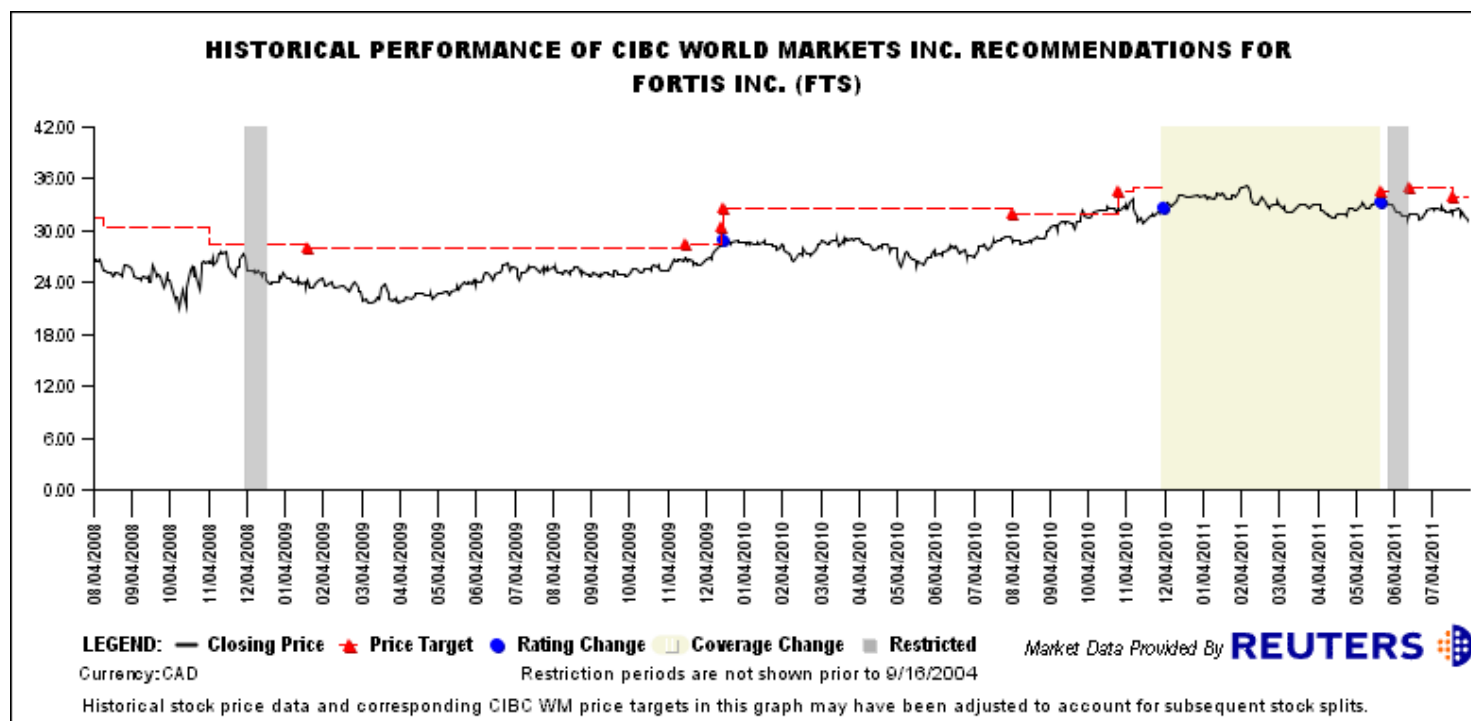
Central Vermont Public Service Corp. (CV-NYSE, US\$35.12, Not Rated)

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CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem

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Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

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(as of 03 Aug 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	43.8%	Sector Outperformer (Buy)	148	100.0%
Sector Performer (Hold/Neutral)	151	44.7%	Sector Performer (Hold/Neutral)	148	98.0%
Sector Underperformer (Sell)	25	7.4%	Sector Underperformer (Sell)	23	92.0%
Restricted	13	3.8%	Restricted	12	92.3%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 03 Aug 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

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Institutional Equity Research Earnings Update

November 3, 2011

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$33.50
FTS-TSX (11/3/11) \$34.06

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$28.24-\$35.45
Shares Outstanding	186.9M
Float	186.9M Shrs
Avg. Daily Trading Vol.	475,146
Market Capitalization	\$6,367.0M
Dividend/Div Yield	\$1.16 / 3.4%
Fiscal Year Ends	December
Book Value	\$20.33 per Shr
2011 ROE (E)	8.8%
LT Debt	\$5.8B
Preferred	\$912.00M
Common Equity	\$3.8B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011	\$1.72E	\$1.72E
2012	\$1.81E	\$1.81E

P/E		
2010		20.6x
2011	19.8x	19.8x
2012	18.8x	18.8x

Dividend Per Share	
2010	\$1.12A
2011	\$1.16E
2012	\$1.20E

Yield	
2010	3.3%
2011	3.4%
2012	3.5%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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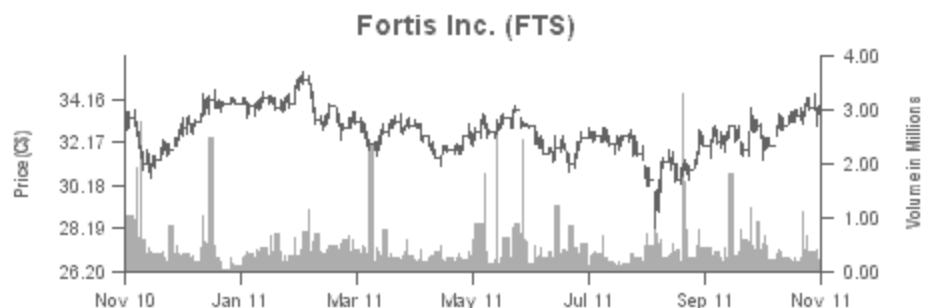
Pipelines, Utilities, & Power

Fortis Inc.

In-line Q3, No Change To Outlook

- Fortis reported Q3/11 adjusted EPS of \$0.25 vs. our \$0.24 estimate (consensus \$0.23). Our adjusted EPS figure excludes the \$11 million after-tax fee (\$0.06/share) paid to Fortis in July 2011 from the termination of the merger agreement between Fortis and Central Vermont Public Service.
- Regulated utility results were in line with expectations, while slightly lower non-regulated results were offset by lower corporate costs. Results declined y/y from \$0.26 in EPS in Q3/10 due to the issuance of 10.3 million shares in June 2011 associated with the unsuccessful attempt to acquire CVPS.
- On November 2, FortisBC filed an application to amalgamate its three natural gas utilities into one legal entity, and implement common rates and services for these customers across the province, starting January 1, 2013. This proposal is revenue neutral to FortisBC.
- There has been no change to Fortis' outlook. The company is still in the early stages of its 5-year, \$5.7 billion capital expenditure program, and continues to evaluate acquisition opportunities. Fortis offers strong, stable growth, and its multiple reflects that. We maintain SP rating and \$33.50 PT.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 11/3/11 \$34.06
 12- To 18- Month Price Target: \$33.50
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

Market Data				
Share Price	\$34.06	Net Debt	5,729	
Shares Outstanding	187	Non Control Int.	205	
Market Capitalization	6,367	Preferred Shares	912	
		Enterprise Value	13,213	
Valuations				
P/E	22.5x	20.6x	19.8x	18.8x
EV/EBITDA	12.3x	11.3x	10.6x	9.8x
Pipeline And Utilities Sector Average				
P/E	20.2x	19.3x	18.6x	17.7x
EV/EBITDA	12.4x	11.8x	10.0x	9.5x
Other Data				
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.20
Dividend Yield	3.1%	3.3%	3.4%	3.5%
Payout Ratio	68.7%	67.9%	67.5%	66.5%
Book Value Per Share	\$18.64	\$18.97	\$20.16	\$20.93
Price / Book Value	1.8x	1.8x	1.7x	1.6x
Cash Per Share	\$0.50	\$0.63	\$0.70	\$0.95
Debt / Total Capital	59.8%	57.9%	56.6%	57.4%
Net Debt/EBITDA	5.4x	5.1x	5.0x	4.9x

Income Statement				
FortisBC Energy	117	130	141	155
FortisAlberta	60	68	78	89
FortisBC Electric	37	42	49	52
Newfoundland Power	32	35	33	34
Other Canadian Electric Utilities	17	19	21	21
Regulated Electric Utilities - Caribbean	25	23	25	25
Fortis Generation	16	20	18	20
Fortis Properties	24	26	23	24
Corporate	(72)	(78)	(76)	(79)
Operating Earnings	256	285	312	342
Unusual Items	6	0	0	0
Reported Earnings	262	285	312	342
Operating EPS	\$1.51	\$1.65	\$1.72	\$1.81
Reported EPS	\$1.54	\$1.65	\$1.72	\$1.81
Shares Outstanding	171	174	188	190
EBITDA	1,078	1,170	1,242	1,343

Cash Flow				
Earnings (incl. pref share dividends)	280	323	340	370
Depreciation and Amortization	364	410	413	446
Total Operating Cash Flow	637	732	753	816
Capital Expenditures	940	1,024	1,212	1,162
Dividends	161	230	255	266
Net Long Term Debt Proceeds	557	194	294	481

Balance Sheet				
Cash & Cash Equivalents	85	109	131	181
Utility Capital Assets / Income Properties	8,246	8,762	9,506	10,121
Total Assets	12,160	12,903	13,669	14,334
Current Liabilities	1,594	1,517	1,517	1,517
Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	6,798
Future Income Taxes	5	(3)	0	0
Non Controlling Interests	123	162	153	144
Preferred Shares	667	912	912	912
Shareholders' Equity	3,540	3,897	4,378	4,571
Total Shareholders' Equity And Liabilities	12,160	12,903	13,669	14,334

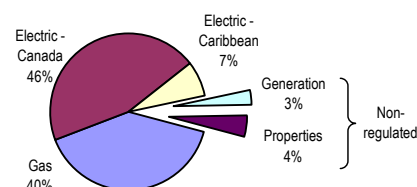
Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

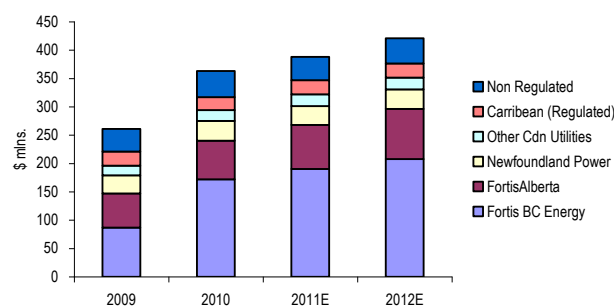
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

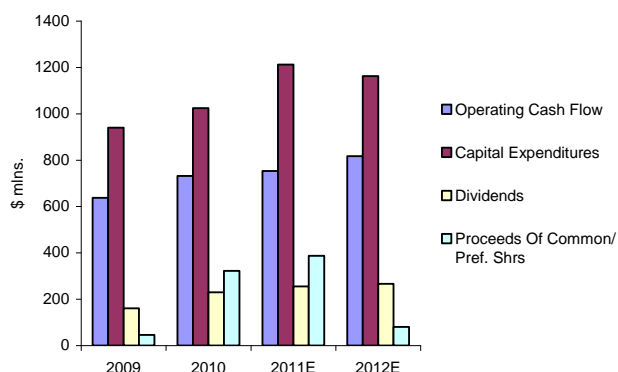
Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc..

In-line Q3

Fortis (FTS-SP) reported adjusted Q3/11 EPS of \$0.25 versus consensus of \$0.23, and our \$0.24 estimate. Total reported EPS of \$0.31 included a US\$19.5 million payment (\$11 million after tax, or \$0.06 EPS) related to the break fee and costs payable to Fortis on termination of the acquisition of Central Vermont Public Service (CVPS) due to a superior offer from Gaz Metro.

Regulated utility results were generally in line with expectations across all segments. Results from non-regulated operations were slightly lower-than-expected due to decreased generation resulting from lower rainfall in Belize (Fortis Generation) and higher administrative expenses (Fortis Properties). This was offset by lower corporate costs due to FX gains. Results declined y/y (\$0.26 in Q3/10) as a result of the issuance of 10.3 million shares in June 2011 associated with the unsuccessful attempt to acquire CVPS. Q3 is Fortis' seasonally weakest quarter, with the majority of earnings growth taking place in Q1 and Q4.

Proposal To Merge FortisBC Gas Utilities

FortisBC has filed an application with the British Columbia Utilities Commission (BCUC) to amalgamate its three natural gas utilities into one legal entity, and implement common rates and services for these customers across the province, starting January 1, 2013. This application is revenue neutral to FortisBC, and is expected to provide lower rates to some customers (specifically Vancouver Island, Sunshine Coast, and Whistler customers), along with greater rate stability, consistency in programs and services, and greater reporting and operating efficiencies.

Currently, FortisBC provides natural gas to customers under three separate legal entities [FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.] with entity-specific rate structures. These separate entities were formed as various natural gas utilities were acquired across the province. Each entity provides different service offerings by region, such as energy efficiency and conservation initiatives or renewable natural gas.

The company's electric operations will remain a separate utility with a separate legal name, Fortis BC Inc., with separate rates and service offerings for electricity customers.

Outlook Unchanged

Fortis' outlook remains unchanged. There have been no significant ROE changes at the various regulated utilities, although Fortis has generally applied for customer rate increases reflecting recent and ongoing investments to grow rate base. The company is still in the early stages of a five-year, \$5.7 billion capital expenditure program (through 2015), expecting to spend \$1.2 billion in 2011 and a comparable amount in 2012. The failed CVPS acquisition leaves Fortis with a strong balance sheet to fund future transactions, with the company continuing to evaluate prospects for acquiring electric and gas utilities in the U.S. and Canada. We are maintaining our Sector Performer rating and \$33.50 price target.

Q3/11 Results

Fortis reported adjusted Q3/11 EPS of \$0.25, versus \$0.26 in Q3/10, and in line with our \$0.24 expectation (consensus \$0.23). Our \$0.25 adjusted EPS figure excludes the \$11 million after-tax fee (\$0.06/share) paid to Fortis in July 2011 from the termination of the merger agreement between Fortis and Central Vermont Public Service (CVPS).

Exhibit 1. Q3/11 Results (\$ mlns., except per share)

Segmented Earnings	Q3/11A	Q3/11E	Q3/10A
Regulated Utilities			
FortisBC Energy	(3)	(4)	(5)
FortisAlberta	19	19	19
FortisBC Electric	10	11	11
Newfoundland Power	8	8	8
Other Canadian Electric Utilities	6	5	5
Regulated Electric Utilities – Caribbean	6	7	8
Total Regulated Utilities	46	46	46
Non-regulated Operations			
Fortis Generation	8	9	9
Fortis Properties	9	10	9
Total Non-regulated Operations	17	19	18
Corporate	(16)	(20)	(19)
Operating Earnings For Common	47	45	45
Unusual Items	11	0	0
Reported Earnings	58	45	45
Weighted Average Shares Outstanding (mlns.)	187	186	173
Operating EPS	0.25	0.24	0.26
Reported EPS	0.31	0.24	0.26
Dividend Per Share	0.29	0.29	0.28
Pay out Ratio	115.1%	120.4%	107.8%

Source: CIBC World Markets Inc.

Regulated Utilities:

- **FortisBC Energy:** FortisBC Energy losses totaled \$3 million in Q3/11, compared to \$5 million in losses in Q3/10 and our estimate of \$4 million in losses. Q3 is FortisBC Energy's seasonally weakest quarter, with most of its earnings coming in Q1 and Q4. The y/y improvement reflects rate base growth and the timing of operating expenses.
- **FortisAlberta:** FortisAlberta contributed \$19 million to earnings in Q3/11, versus \$19 million in Q3/10, and our \$19 million estimate. Y/Y results were flat reflecting rate base growth in 2011 offset by the recording of the cumulative impact of a positive revenue requirement regulatory decision in Q3/10.

- **FortisBC Electric:** FortisBC Electric earnings totaled \$10 million in Q3/11, compared to \$11 million in Q3/10, and our \$11 million estimate. The modest y/y decline reflects higher effective corporate income taxes and lower capitalized allowance for funds used during construction (AFUDC) due to fewer assets under construction in 2011, partially offset by rate base growth.
- **Newfoundland Power:** Newfoundland Power earnings were \$8 million in the quarter, compared to \$8 million in Q3/10 and our \$8 million estimate. Y/Y results were flat as electricity sales growth and lower effective corporate income taxes were offset by lower customer rates due to a lower allowed ROE in 2011.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$6 million in the quarter, up from \$5 million in Q3/10 and above our \$5 million estimate. The modest outperformance reflects a higher allowed ROE at Algoma Power and lower effective corporate income taxes at FortisOntario.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$6 million, versus \$8 million in Q3/10 and our \$7 million estimate. The y/y decline reflects the removal of Belize Electricity from consolidated results (expropriated by the Government of Belize in June 2011) which contributed \$2 million to earnings in Q3/10. An independent valuation is underway in preparation for Fortis to seek compensation from the Government of Belize, and Fortis expects to submit its claim to the government in Q4/11. We do not expect a quick resolution to this situation.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$8 million, from \$9 million in Q3/10 and below our \$9 million estimate. Results were moderately lower-than-expected due to decreased production in Belize resulting from lower rainfall associated with a longer dry season in 2011.
- **Fortis Properties:** Fortis Properties earnings came in at \$9 million in Q3/11, compared to \$9 million in Q3/10 and our \$10 million estimate. Results were slightly below expectations as a result of higher administrative expenses.
- **Corporate:** Corporate expenses totaled \$16 million in the quarter, down from \$19 million in Q3/10 and below our \$20 million estimate, reflecting foreign exchange gains in Q3/11.

EPS Estimates Unchanged

We have made minor modifications to our estimates (modestly lower non-regulated earnings offset by lower corporate expenses) mainly to reflect year-to-date results. Our 2011 and 2012 EPS estimates remain unchanged at \$1.72 and \$1.81, respectively.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2011E			2012E	
	2010A	Previous	Current	Previous	Current
Regulated Utilities					
FortisBC Energy	130	141	141	155	155
FortisAlberta	68	78	78	89	89
FortisBC Electric	42	49	49	52	52
Newfoundland Power	35	33	33	34	34
Other Canadian Electric Utilities	19	21	21	21	21
Regulated Electric Utilities – Caribbean	23	25	25	25	25
Total Regulated Utilities	317	346	347	376	376
Non-regulated Operations					
Fortis Generation	20	20	18	20	20
Fortis Properties	26	25	23	25	24
Total Non-regulated Operations	46	45	41	45	45
Corporate	(78)	(80)	(76)	(80)	(79)
Operating Earnings For Common	285	311	312	341	342
Unusual Items	0	0	0	0	0
Reported Earnings	285	311	312	341	342
Weighted Average Shares Outstanding (mlns.)	173	181	181	188	189
Operating EPS	1.65	1.72	1.72	1.81	1.81
Reported EPS	1.65	1.72	1.72	1.81	1.81
Dividend Per Share	1.12	1.16	1.16	1.20	1.20
Pay out Ratio	67.9%	67.6%	67.5%	66.5%	66.5%

Source: CIBC World Markets Inc.

Price Target Calculation

Our price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.7 billion capital spending program. The price target of \$33.50 equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Prior	\$0.67A	\$0.33A	\$0.24E	\$0.49E	\$1.72E
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.48E	\$1.72E
2012 Prior	--	--	--	--	\$1.81E
2012 Current	--	--	--	--	\$1.81E

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- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
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Stock Prices as of 11/03/2011:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$51.86, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

Stock Prices as of 11/03/2011:

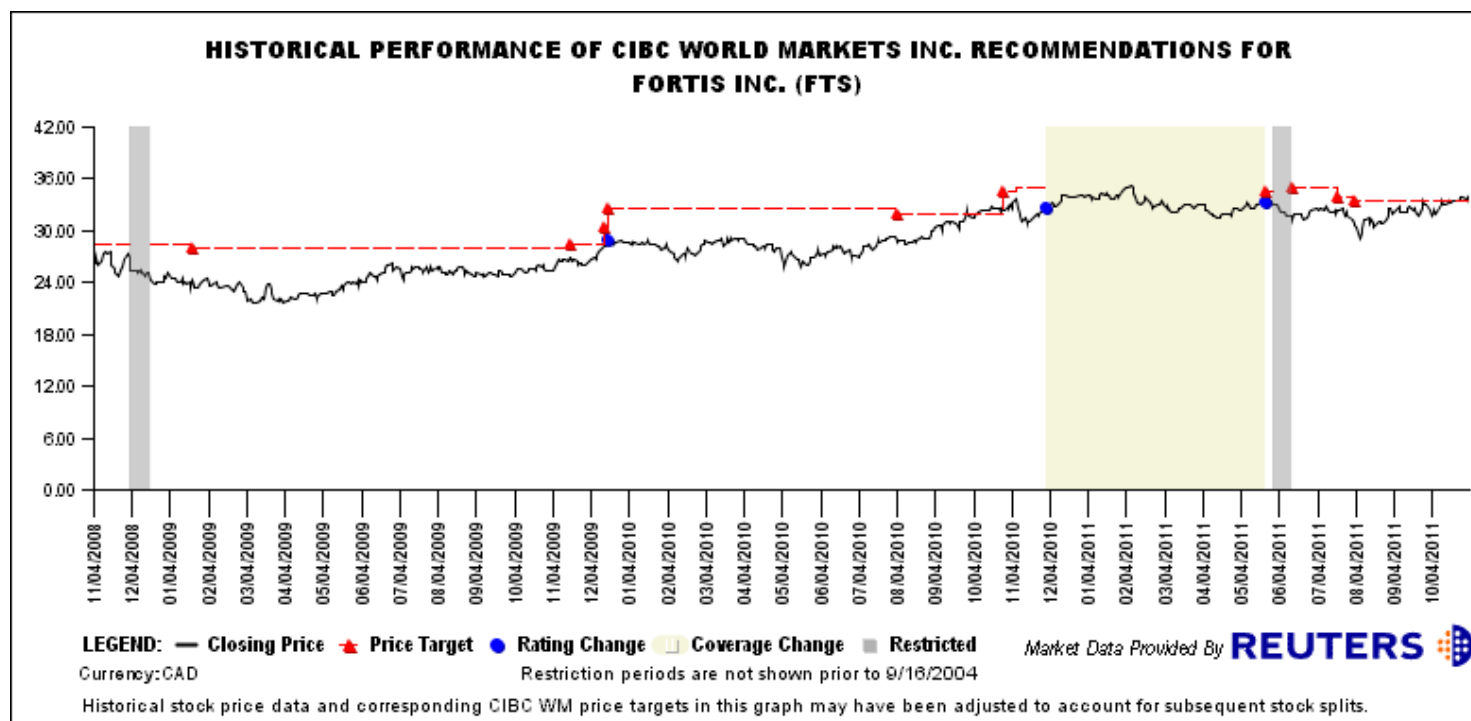
Gaz Métro Limited Partnership (GZM.UN-TSX, \$16.87, Not Rated)

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- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
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- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 03 Nov 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	158	45.3%	Sector Outperformer (Buy)	150	94.9%
Sector Performer (Hold/Neutral)	150	43.0%	Sector Performer (Hold/Neutral)	132	88.0%
Sector Underperformer (Sell)	27	7.7%	Sector Underperformer (Sell)	24	88.9%
Restricted	13	3.7%	Restricted	12	92.3%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 03 Nov 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	1	20.0%	Sector Outperformer (Buy)	1	100.0%
Sector Performer (Hold/Neutral)	3	60.0%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

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Institutional Equity Research Earnings Update

February 9, 2012

Stock Rating: Sector Performer

Sector Weighting: Market Weight

12-18 mo. Price Target \$35.00
FTS-TSX (2/9/12) \$33.79

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$28.24-\$35.21
Shares Outstanding 189.3M
Float 189.3M Shrs
Avg. Daily Trading Vol. 459,853
Market Capitalization \$6,396.4M
Dividend/Div Yield \$1.20 / 3.6%
Fiscal Year Ends December
Book Value \$20.60 per Shr
2012 ROE (E) 8.5%
LT Debt \$5.9B
Preferred \$912.00M
Common Equity \$3.9B
Convertible Available Yes

Earnings Per Share	Prev	Current
2011	\$1.71E	\$1.69A
2012	\$1.80E	\$1.78E
2013		\$1.87E

P/E		
2011	19.8x	20.0x
2012	18.8x	19.0x
2013		18.1x

Dividend Per Share	
2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield	
2011	3.4%
2012	3.6%
2013	3.7%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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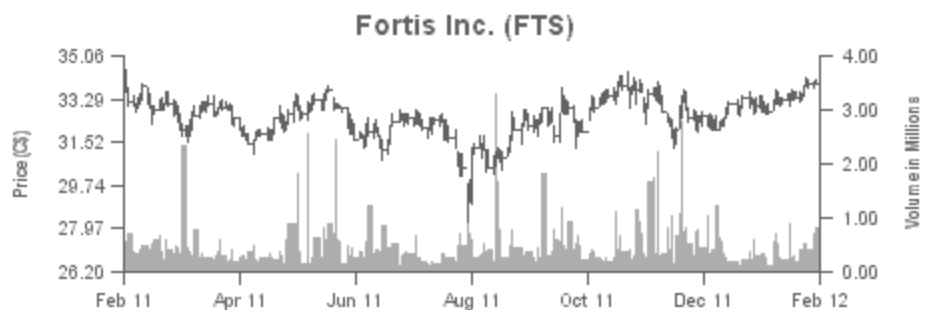
Pipelines, Utilities, & Power

Fortis Inc.

Q4 In Line. 2012: Strong Capex, Potential Pressure On Rates Of Return

- Fortis reported Q4/11 EPS of \$0.46 versus our estimate of \$0.47 (consensus \$0.47). EPS was down Y/Y versus \$0.49, reflecting the issuance of 10.3 mln. shares and the conversion of 1.4 mln. convertible debentures in 2011. Fortis will increase its dividend to \$0.30/share/quarter in Q1/12.
- Key items of note for Q4: increased earnings for FortisBC Energy due to rate base growth; a decrease in allowed ROE for FortisAlberta; lower Caribbean Utility earnings (expropriation of BEL and higher costs in Turks & Caicos); and lower corporate costs (debt refinancing and repayment).
- The company had capital expenditures of \$1.2 billion in 2011, with planned spending of \$1.3 billion in 2012 (\$5.5 billion through 2016), expected to deliver 7% rate base growth in 2012, and 5% CAGR through 2016.
- Fortis provides a stable distribution utility platform with organic growth driven by a significant capex program, but faces pressures on allowed ROE (recently reduced in Alberta, under review in B.C.). We believe the stock is fairly valued, trading at 18.1x 2013 P/E. Maintain SP rating, \$35 PT.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 2/9/12 \$33.79
 12- To 18- Month Price Target: \$35.00
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

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All figures in Canadian millions, except per share data.

Market Data

Share Price	\$33.79	Net Debt	5,855
Shares Outstanding	189	Non Control Int.	208
Market Capitalization	6,396	Preferred Shares	912
		Enterprise Value	13,371

Valuations	2010A	2011A	2012E	2013E
P/E	20.5x	20.0x	19.0x	18.1x
EV/EBITDA	11.4x	10.9x	10.4x	9.8x

Pipeline And Utilities Sector Average

P/E	19.3x	19.2x	18.4x	17.7x
EV/EBITDA	12.7x	10.8x	10.0x	9.3x

Other Data	2010A	2011A	2012E	2013E
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24
Dividend Yield	3.3%	3.4%	3.6%	3.7%
Payout Ratio	67.9%	68.6%	67.6%	66.4%
Book Value Per Share	\$18.97	\$20.48	\$21.22	\$21.99
Price / Book Value	1.8x	1.6x	1.6x	1.5x
Cash Per Share	\$0.63	\$0.47	\$0.28	\$0.70
Debt / Total Capital	57.9%	54.3%	55.6%	56.2%
Net Debt/EBITDA	5.1x	4.8x	5.0x	4.9x

Income Statement	2010A	2011A	2012E	2013E
FortisBC Energy	130	139	148	156
FortisAlberta	68	75	86	95
FortisBC Electric	42	48	49	52
Newfoundland Power	35	34	35	36
Other Canadian Electric Utilities	19	22	22	23
Regulated Electric Utilities - Caribbean	23	20	21	21
Fortis Generation	20	18	20	20
Fortis Properties	26	23	24	24
Corporate	(78)	(72)	(68)	(68)

Operating Earnings	285	307	338	360
Unusual Items	0	11	0	0

Reported Earnings	285	318	338	360
Operating EPS	\$1.65	\$1.69	\$1.78	\$1.87
Reported EPS	\$1.65	\$1.75	\$1.78	\$1.87
Shares Outstanding	174	189	192	194
EBITDA	1,170	1,228	1,281	1,365

Cash Flow	2010A	2011A	2012E	2013E
Earnings (incl. pref share dividends)	323	357	367	389
Depreciation and Amortization	410	419	426	458
Total Operating Cash Flow	732	905	794	847
Capital Expenditures	1,024	1,116	1,291	1,053
Dividends	230	205	268	278
Net Long Term Debt Proceeds	194	307	550	386

Balance Sheet	2010A	2011A	2012E	2013E
Cash & Cash Equivalents	109	89	54	135
Utility Capital Assets / Income Properties	8,762	9,281	10,046	10,540
Total Assets	12,903	13,562	14,291	14,868
Current Liabilities	1,517	1,320	1,320	1,320
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	6,880
Future Income Taxes	(3)	4	0	0
Non Controlling Interests	162	208	199	190
Preferred Shares	912	912	912	912
Shareholders' Equity	3,897	4,469	4,657	4,857
Total Shareholders' Equity And Liabilities	12,903	12,903	14,291	14,868

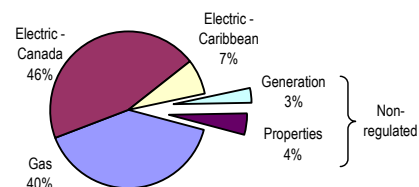
Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

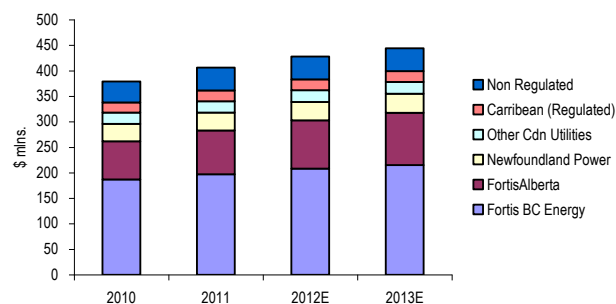
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

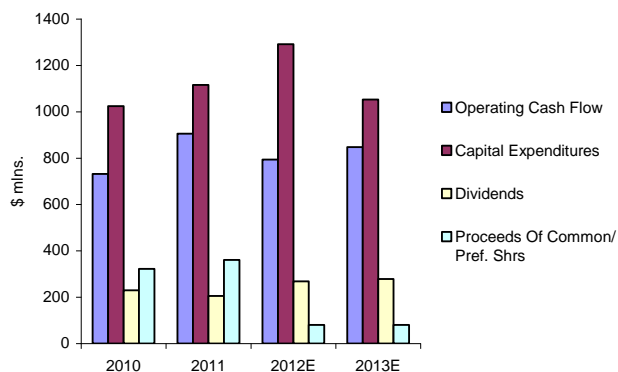
Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc..

In-line Q4

Fortis (FTS-SP) reported Q4/11 EPS of \$0.46, roughly in line with our \$0.47 estimate (consensus \$0.47). Net income of \$86 million was up modestly (1%) compared to \$85 million in Q4/10; however, EPS declined Y/Y versus \$0.49, reflecting the dilution from issuance of 10.3 million shares (gross proceeds of \$341 million) in June and July 2011, and the conversion of 1.4 million convertible debentures into common shares in November 2011.

Q4/11 results generally reflected growth in Fortis' western Canadian operations driven by strong customer and rate base growth in the region. FortisAlberta earnings in Q4 were flat Y/Y as the company recorded a \$2 million rate revenue reduction as a result of the Q4/11 ruling (retroactive for the full-year 2011) of a reduction in allowed ROE from 9.00% to 8.75%.

The company's Caribbean operations reported weaker results both for the quarter (earnings of \$3 million versus \$4 million Y/Y) and the year (\$20 million versus \$23 million) given the mid-year 2011 expropriation of Belize Electricity by the government, and due to higher costs at Fortis Turks and Caicos. The non-regulated Fortis Properties' earnings were down Y/Y due to a benefit in 2010 on the future income tax liability from the reduction in corporate taxes. Corporate and other costs were lower than expected, reflecting lower finance charges due to refinancing maturing debt at lower rates, and the repayment of credit facility borrowings during Q3/11.

2012: Strong Rate Base Growth, Some Risk To Rates Of Return

Fortis invested \$1.2 billion in capital spending in 2011, with plans for investing \$1.3 billion in 2012. The largest capital projects planned for 2012 include: the ongoing construction of the \$900 million Waneta Expansion Project (\$254 million in 2012); a 12-storey office building in St. John's, Newfoundland (\$32 million); and ongoing replacement of utility poles in Alberta (\$27 million). The remainder of the investment is directed to a large number of sustaining capital or smaller growth capital projects. This capex is expected to drive total rate base by 7% in 2012, and an average of 5% CAGR through to 2016.

A potential offset to this is downward pressure on regulated rates of return. In December 2011, the Alberta Utilities Commission (AUC) reduced FortisAlberta's allowed ROE for 2011 from 9.00% to 8.75% (applied retroactively for the year). In B.C., Fortis' gas and electric utilities are both starting a regulator-initiated cost of capital review, with decisions expected by October 2012. The B.C. utilities are currently at higher allowed ROEs than Alberta – 9.90% for FortisBC Electric, 9.50% for FortisBC Energy – suggesting that there exists downside risk. We are reducing our ROE assumptions for both B.C. utilities by 50 bps for 2012 onward. We note that the B.C. utilities collectively account for forecast 2012 rate base of \$4.7 billion – over half of the company's total forecast rate base of \$8.7 billion – and thus have a meaningful impact on overall company results.

On a positive note, Newfoundland Power has received regulatory approval to suspend use of the automatic ROE adjustment formula which has resulted in ever lower allowed ROEs as interest rates decline (2011 ROE was 8.38%; 2012 was calculated at 7.85% under the formula). We view the 2011 allowed ROE of 8.38% as a floor, and even see the potential for modest upward movement in this rate.

Solid Business, But Fully Valued

Fortis is a well-managed utility, with solid mid-single-digit organic growth driven by a sizable capital spending program. Possible downward revisions in allowed ROE for the B.C. utilities represent a modest short-term headwind. The company continues to evaluate acquisition opportunities which could provide upside mid- to longer term. The company announced in December that it will increase its quarterly dividend to \$0.30/share (up from \$0.29/share), effective for Q1/2012.

Nevertheless, with the stock trading at 18.1x our estimated 2013 earnings, we believe that Fortis' outlook is already fairly reflected in its valuation, and we are maintaining our Sector Performer rating and \$35 price target.

Q4/11 Results

Fortis reported adjusted Q4/11 EPS of \$0.46, versus \$0.49 in Q4/10, and basically in line with our \$0.47 expectation (consensus \$0.47). The Y/Y decline reflects the impact of the issuance of 10.3 million shares in June and July 2011 and the conversion of 1.4 million convertible debentures to common shares in November 2011. The main differences versus our expectations were from modestly lower FortisBC Energy earnings (highly seasonal business which is difficult to accurately pinpoint on a quarterly basis), lower Caribbean Utilities earnings (higher operating costs and amortization than expected in Turks and Caicos), partially offset by lower corporate and other costs (lower finance charges).

In December, Fortis announced that it is increasing its dividend from \$1.16/share annually (\$0.29/share quarterly) to \$1.20/share annually (\$0.30/share quarterly) beginning with the Q1/12 dividend payable on March 1, 2012.

Exhibit 1. Q4/11 Results (\$ mlns., except per share)

Segmented Earnings	Q4/11A	Q4/11E	Q4/10A
Regulated Utilities			
FortisBC Energy	51	53	45
FortisAlberta	17	17	17
FortisBC Electric	11	11	10
Newfoundland Power	8	7	9
Other Canadian Electric Utilities	4	3	5
Regulated Electric Utilities – Caribbean	3	8	5
Total Regulated Utilities	94	99	91
Non-regulated Operations			
Fortis Generation	5	5	5
Fortis Properties	5	6	7
Total Non-regulated Operations	10	11	12
Corporate	(18)	(22)	(18)
Operating Earnings For Common	86	88	85
Unusual Items	0	0	0
Reported Earnings	86	88	85
Weighted Average Shares Outstanding (mlns.)	188	187	174
Operating EPS	0.46	0.47	0.49
Reported EPS	0.46	0.47	0.49
Dividend Per Share	0.29	0.29	0.28
Pay out Ratio	63.4%	61.6%	57.3%

Source: CIBC World Markets Inc.

Regulated Utilities:

- **FortisBC Energy:** FortisBC Energy earnings totaled \$51 million in Q4/11, up from \$45 million in Q4/10, but slightly below our estimate of \$53 million. The Y/Y increase reflects rate base growth due to continued investment in energy infrastructure.
- **FortisAlberta:** FortisAlberta contributed \$17 million to earnings in Q4/11, versus \$17 million in Q4/10, and our \$17 million estimate. Rate base growth was offset by the cumulative impact of the AUC's December 2011 decision to set the allowed ROE at 8.75% (versus 9.00% assumed previously) realized in Q4/11.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$11 million in Q4/11, compared to \$10 million in Q4/10, and our \$11 million estimate. Growth in the rate base was partially offset in the quarter by higher-than-expected operating expenses and lower electricity sales due to warmer-than-normal weather.
- **Newfoundland Power:** Newfoundland Power earnings were \$8 million in the quarter, compared to \$9 million in Q4/10 and our \$7 million estimate. The Y/Y decline reflects lower allowed ROE in 2011 and higher operating expenses in Q4/11, partially offset by a reduction in energy supply costs associated with its hydroelectric generating facilities.

- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$4 million in the quarter, versus \$5 million in Q4/10 and our \$3 million estimate. The Y/Y decline reflects lower electricity sales at FortisOntario, a negative rate of return adjustment at Maritime Electric and higher operating expenses.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$3 million, versus \$5 million in Q4/10 and our \$8 million estimate. Lower-than-expected earnings reflect higher amortization and operating expenses at Fortis Turks and Caicos.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million, compared to \$5 million in Q4/10 and our \$5 million estimate. Increased production in Belize was offset by lower average energy sale prices in Upper New York State and higher business development costs in Ontario.
- **Fortis Properties:** Fortis Properties earnings came in at \$5 million in Q4/11, compared to \$7 million in Q4/10 and our \$6 million estimate. The Y/Y decline reflects higher corporate income taxes relative to Q4/10, as lower statutory tax rates reduced future income tax liability balances in Q4/10, which in turn, reduced corporate income taxes in Q4/10.
- **Corporate:** Corporate costs totaled \$18 million, unchanged from \$18 million in Q4/10, and below our \$22 million estimate, as a result of refinancing maturing debt at lower interest rates, and the repayment of credit facility borrowings during Q3/11.

Revising Estimates

We have made the following changes to our forecasts:

- **FortisBC Energy:** We are reducing our allowed ROE assumption for FortisBC Energy Inc. from 9.50% to 9.00% for 2012 and beyond as we anticipate that the cost of capital hearings in B.C. will result in lower allowed ROEs. We are maintaining the 50 bps spread between FortisBC Energy Inc. and the other FortisBC Energy utilities [FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc., and FortisBC Energy (Fort Nelson) Inc.], implying a reduction in the allowed ROEs for these entities from 10.00% to 9.50%. As a result, our 2012 and 2013 FortisBC earnings estimates decline from \$155 million and \$164 million to \$148 million and \$156 million, respectively.
- **FortisBC Electric:** We are reducing our allowed ROE assumption for FortisBC Electric Inc. from 9.90% to 9.40% for 2012 and beyond, resulting in a decline in our FortisBC Electric earnings estimates for 2012 and 2013 from \$52 million and \$55 million to \$49 million and \$52 million, respectively.
- **Caribbean Utilities:** We are reducing our Caribbean Utilities forecasts from \$25 million to \$21 million for 2012 and 2013, reflecting more modest growth expectations from the segment.
- **Corporate:** We are reducing our 2012 and 2013 corporate costs estimates from \$79 million to \$68 million, reflecting lower financing charges due to the refinancing of debt at lower interest rates, and lower debt levels due to the repayment of credit facility borrowings during Q3/11.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2012E		2013E		
	2011A	Previous	Current	Previous	Current
Regulated Utilities					
FortisBC Energy	139	155	148	164	156
FortisAlberta	75	87	86	96	95
FortisBC Electric	48	52	49	55	52
New foundland Power	34	34	35	35	36
Other Canadian Electric Utilities	22	21	22	22	23
Regulated Electric Utilities – Caribbean	20	25	21	25	21
Total Regulated Utilities	338	374	362	396	383
Non-regulated Operations					
Fortis Generation	18	20	20	20	20
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	45	45	45	45
Corporate	(72)	(79)	(68)	(79)	(68)
Operating Earnings For Common	307	340	338	362	360
Unusual Items	11	0	0	0	0
Reported Earnings	318	340	338	362	360
Weighted Average Shares Outstanding (mlns.)	182	189	190	191	193
Operating EPS	1.69	1.80	1.78	1.89	1.87
Reported EPS	1.75	1.80	1.78	1.89	1.87
Div idend Per Share	1.16	1.20	1.20	1.23	1.21
Pay out Ratio	68.6%	66.7%	67.6%	65.0%	65.0%

Source: CIBC World Markets Inc.

Price Target Calculation

We are maintaining our \$35 price target, which is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. The price target of \$35 equates to a P/E multiple of 18.7x our 2013 estimate (versus 18.5x previously), a modest premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Prior	\$0.67A	\$0.33A	\$0.25A	\$0.47E	\$1.71E
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	--	--	--	--	\$1.80E
2012 Current	\$0.66E	\$0.34E	\$0.26E	\$0.51E	\$1.78E
2013 Current	--	--	--	--	\$1.87E

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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

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Stock Prices as of 02/09/2012:

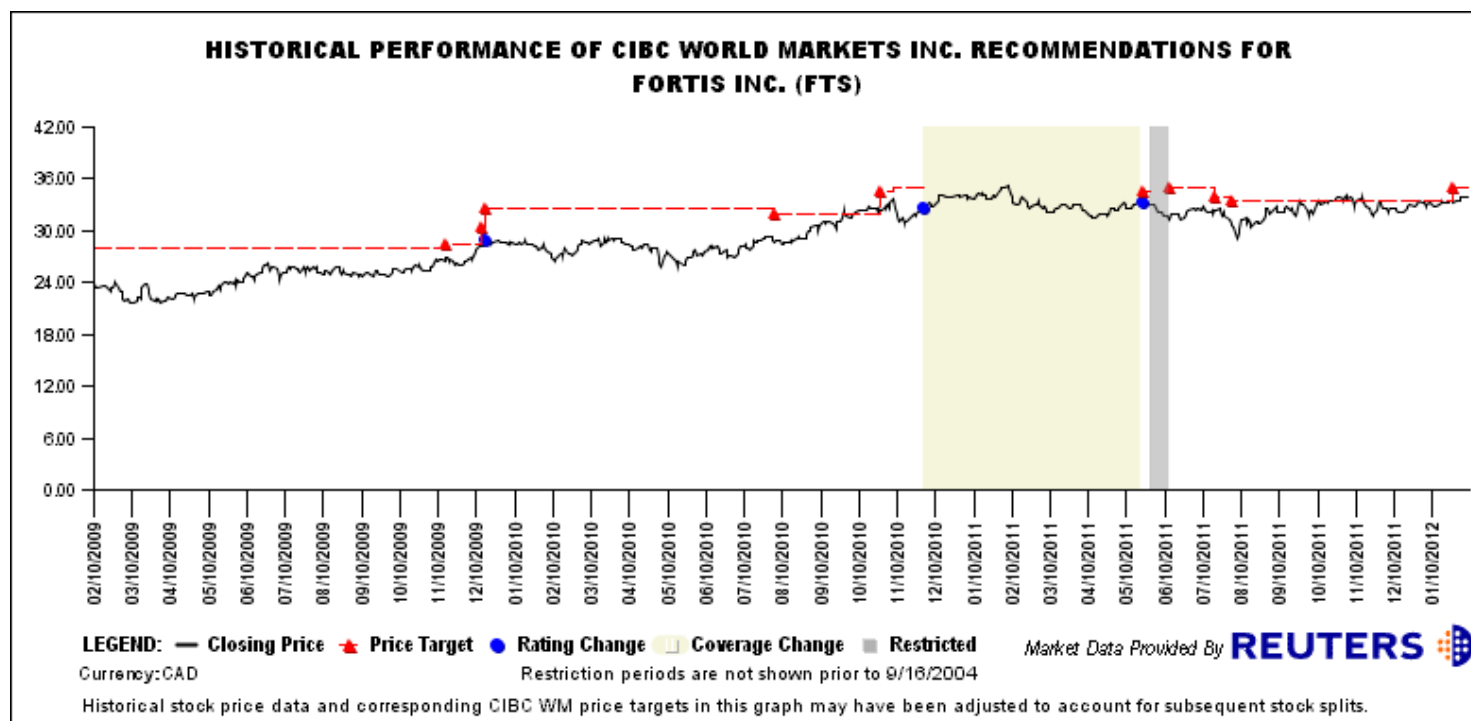
SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$53.55, Sector Outperformer)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

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- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 09 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	160	44.2%	Sector Outperformer (Buy)	159	99.4%
Sector Performer (Hold/Neutral)	163	45.0%	Sector Performer (Hold/Neutral)	159	97.5%
Sector Underperformer (Sell)	26	7.2%	Sector Underperformer (Sell)	25	96.2%
Restricted	12	3.3%	Restricted	11	91.7%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 09 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

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Institutional Equity Research Earnings Update

February 21, 2012

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$35.50
FTS-TSX (2/21/12) \$32.50

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$28.24-\$34.39
Shares Outstanding	189.3M
Float	189.3M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,152.3M
Dividend/Div Yield	\$1.20 / 3.7%
Fiscal Year Ends	December
Book Value	\$20.60 per Shr
2012 ROE (E)	8.5%
LT Debt	\$5.9B
Preferred	\$912.00M
Common Equity	\$3.9B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012		\$1.78E
2013	\$1.87E	\$1.89E

P/E	
2011	19.2x
2012	18.3x
2013	17.4x

Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield

2011	3.6%
2012	3.7%
2013	3.8%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

www.fortisinc.com

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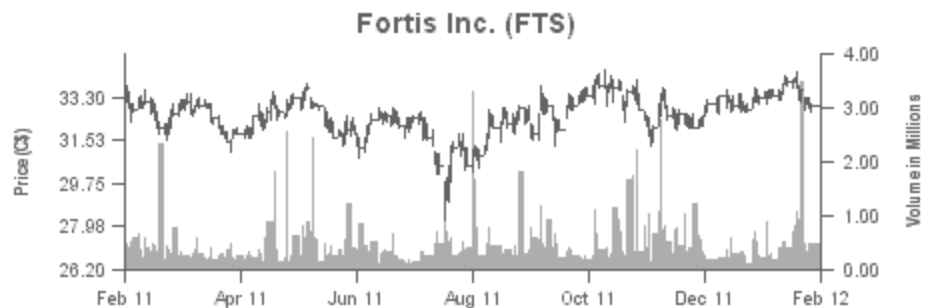
Pipelines, Utilities, & Power

Fortis Inc.

Announces Agreement To Acquire CH Energy Group

- Fortis announced an agreement to acquire CH Energy Group for ~US\$1.5 billion. CH Energy is the parent of Central Hudson Gas & Electric Corp., a regulated transmission and distribution utility serving 300,000 electric and 75,000 gas customers in New York State's Mid-Hudson River Valley.
- Fortis is purchasing CH Energy for US\$65/share, a 10.5% premium over the prior day's close. The purchase price includes the assumption of US\$500 million in debt, and implies an EV/rate base of 1.5x. The valuation equates to 2011 EPS and EBITDA multiples of 20.6x/10.4x vs. FTS at 19.2x/10.7x.
- Fortis intends to finance the transaction through its lines of credit, and will look to issue permanent financing (equity) once the deal closes (expected in Q1/13). While this acquisition is fully priced, Fortis expects it to be immediately accretive, driven by 6%-7% rate base growth.
- We are assuming the acquisition will be completed at US\$65/share and that Fortis will issue \$400 million in common equity (in Q1/13). While Fortis paid full value for this acquisition, we view it as a positive given CH Energy's significant growth profile. Our PT goes from \$35 to \$35.50. Maintain SP.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.


Fortis Inc.

FTS - TSX **2/21/12** **\$32.50**
12- To 18- Month Price Target: **\$35.50**
Pipelines, Utilities & Power
Sector Weighting: **Market Weight**

Sector Performer

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Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

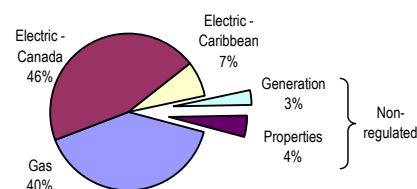
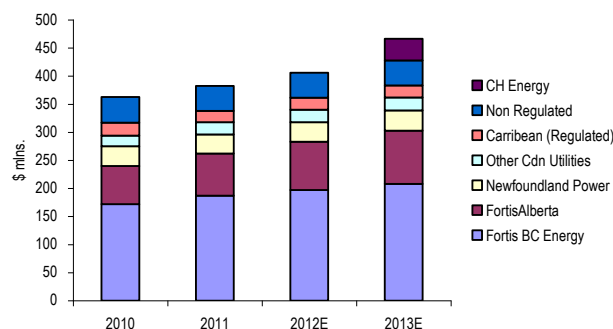
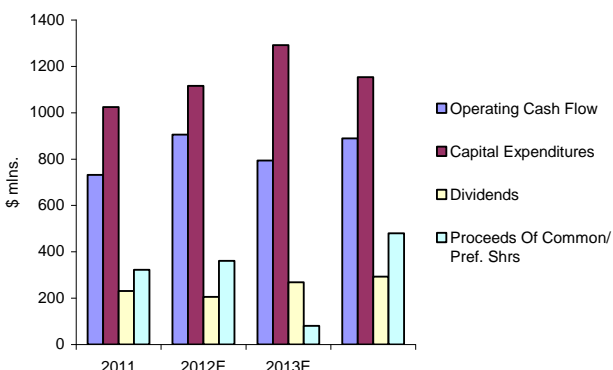
Market Data				
Share Price	\$32.50	Net Debt	5,855	
Shares Outstanding	189	Non Control Int.	208	
Market Capitalization	6,152	Preferred Shares	912	
		Enterprise Value	13,127	
Valuations				
P/E	19.7x	2010A	2011A	2012E
EV/EBITDA	11.2x	19.2x	18.3x	17.2x
		10.7x	10.2x	9.0x
Pipeline And Utilities Sector Average				
P/E	19.7x	19.4x	18.7x	17.8x
EV/EBITDA	12.8x	10.7x	9.9x	9.3x
Other Data				
Dividend Per Share	\$1.12	2010A	2011A	2012E
Dividend Yield	3.4%	\$1.16	\$1.20	\$1.24
Payout Ratio	67.9%	3.6%	3.7%	3.8%
Book Value Per Share	\$18.97	68.6%	67.6%	65.7%
Price / Book Value	1.7x	\$20.48	\$21.23	\$22.78
Cash Per Share	\$0.63	1.6x	1.5x	1.4x
Debt / Total Capital	57.9%	\$0.47	\$0.28	\$0.31
Net Debt/EBITDA	5.1x	54.3%	55.6%	58.0%
		5.0x	5.4x	
Income Statement				
FortisBC Energy	130	2010A	2011A	2012E
FortisAlberta	68	139	148	156
FortisBC Electric	42	75	86	95
Newfoundland Power	35	48	49	52
Other Canadian Electric Utilities	19	34	35	36
CH Energy	0	22	22	23
Regulated Electric Utilities - Caribbean	23	20	21	21
Fortis Generation	20	18	20	20
Fortis Properties	26	23	24	24
Corporate	(78)	(72)	(68)	(86)
Operating Earnings	285	307	338	381
Unusual Items	0	11	0	0
Reported Earnings	285	318	338	381
Operating EPS	\$1.65	\$1.69	\$1.78	\$1.89
Reported EPS	\$1.65	\$1.75	\$1.78	\$1.89
Shares Outstanding	174	189	192	205
EBITDA	1,170	1,228	1,281	1,467
Cash Flow				
Earnings (incl. pref share dividends)	323	2010A	2011A	2012E
Depreciation and Amortization	410	357	367	410
Total Operating Cash Flow	732	419	426	480
Capital Expenditures	1,024	905	794	889
Dividends	231	1,116	1,291	1,153
Net Long Term Debt Proceeds	194	205	268	292
		307	550	1,486
Balance Sheet				
Cash & Cash Equivalents	109	2010A	2011A	2012E
Utility Capital Assets / Income Properties	8,762	89	54	64
Total Assets	12,903	9,281	10,046	12,119
Current Liabilities	1,517	13,562	14,291	16,375
Debt (incl. Current and Short Term Borrowings)	6,023	1,320	1,320	1,320
Future Income Taxes	(3)	5,944	6,494	7,980
Non Controlling Interests	162	4	0	0
Preferred Shares	912	208	199	190
Shareholders' Equity	3,897	912	912	912
Total Shareholders' Equity And Liabilities	12,903	4,469	4,657	5,264
		13,562	14,291	16,375

Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

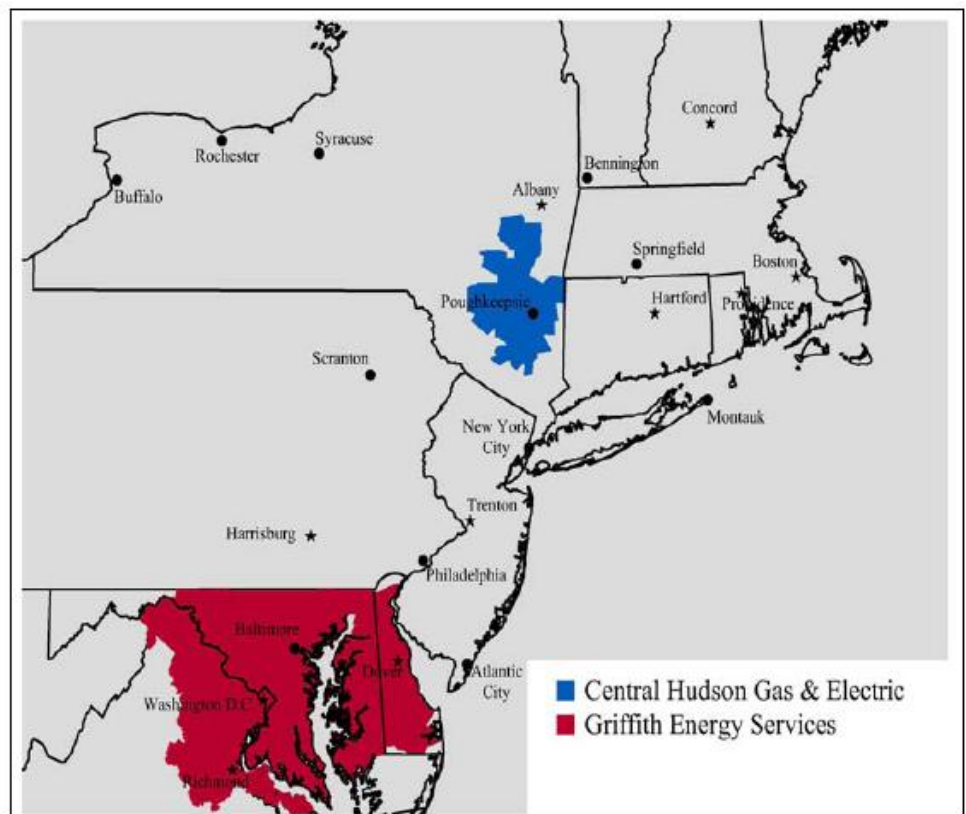
Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)

Segmented Earnings (Exc. Corporate)

Major Sources, Uses Of Cash


Source: Company reports and CIBC World Markets Inc..

Announces Agreement To Acquire CH Energy Group

Fortis (FTS-SP) announced an agreement to acquire CH Energy Group (CHG-NYSE) for approximately US\$1.5 billion. CH Energy is the parent of Central Hudson Gas & Electric Corp. (Central Hudson), a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 gas customers in eight counties of New York State's Mid-Hudson River Valley (service region from suburbs of metropolitan New York City to Albany). CH Energy Group also owns Central Hudson Enterprises Corp. (CHEC), a non-regulated subsidiary comprised primarily of a fuel delivery business (Griffith Energy Services) serving approximately 56,000 customers in the Mid-Atlantic region. CHEC is a much smaller contributor to earnings relative to the utility, with Central Hudson accounting for approximately 97% of net income in 2011.

Exhibit 1. CH Energy Service Areas



Source: Company reports.

Transaction Details

Fortis is purchasing CH Energy for US\$65/share, a 10.5% premium to the closing price on February 17, the last business day before the transaction was announced. The total purchase price of US\$1.5 billion includes the assumption of approximately US\$500 million of debt, and implies a 1.5x EV/rate base multiple (estimated rate base of ~US\$1 billion at closing). The valuation equates to 20.6x 2011 EPS and 10.4x 2011 EV/EBITDA versus 19.2x and 10.7x for Fortis, respectively. The valuation appears 'fully priced', but Fortis expects the deal to

be immediately accretive (we estimate full-year accretion of \$0.03-\$0.05/share, representing ~2% accretion on 2011 EPS totaled \$1.69) once it closes (expected in Q1/13). The accretion mainly reflects strong expected growth over the coming years with Central Hudson expected to invest an average of over US\$100 million in capital expenditures annually through 2016.

Fortis intends to finance the transaction through its lines of credit, with \$1.9 billion of a total of \$2.2 billion currently available. Fortis will look to issue permanent financing (i.e. equity) once the deal is closed, expected within 12 months, pending approvals. CH Energy shareholder vote is expected in June 2012, with FERC and New York State Public Service Commission (PSC) decisions expected to follow in Q3/12 and Q1/13, respectively. As part of the PSC review, Fortis must show how this transaction is a net benefit to customers in the service territory. Fortis will look to maintain its capital structure at ~35% common equity, the remainder debt/preferred shares. Recall that Fortis issued ~\$341 million in equity in mid-2011 to finance the Central Vermont Public Service (CVPS) acquisition which ultimately fell through, so the equity requirement for this acquisition might be partially met through that financing.

CH Energy is up 21% over the past year, as the company has sold off its renewables assets in order to focus on its core transmission and distribution utilities business. Fortis has been looking to expand into the U.S., but has failed to date as it has been outbid. Other companies with utility companies in the region include Consolidated Edison (ED-NYSE), National Grid (NGG-NYSE), and Iberdrola (IBE-MC). While this transaction comes at a steep price, we do not completely rule out the potential for other bidders to join the fray given the other large companies that operate in the region, and Fortis' experience with CVPS. The break fee associated with this transaction is set at US\$19.7 million.

Acquisition Is A Modest Positive To Outlook

While Fortis paid full value for this acquisition, we view it as a positive to the extent that there is significant growth expected at Central Hudson over the next several years (rate base growth of 6%-7% annually), and the allowed ROE and equity thickness (10% ROE and 48% common equity) are strong relative to the rest of its Canadian portfolio of utilities (allowed ROEs of ~9% and equity thickness of ~40%). We are assuming that Fortis completes this acquisition (at US\$65/share) in Q1/13. We are increasing our price target from \$35 to \$35.50, and maintaining our Sector Performer rating.

Revising Estimates

We have built in the CH Energy acquisition, and assumed a closing date at the end of Q1/13. In conjunction with the acquisition, we assume that: a) Fortis issues \$500 million of debt at the corporate level, and b) Fortis issues \$400 million in common equity at the end of Q1/13. As a result of these changes, our 2013 EPS estimate increases from \$1.87 to \$1.89. For 2014, we assume a full-year's contribution from CH Energy, combined with additional rate base growth, resulting in a \$0.04 increase in EPS.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2012E			2013E	
	2011A	Previous	Current	Previous	Current
Regulated Utilities					
FortisBC Energy	139	148	148	156	156
FortisAlberta	75	86	86	95	95
FortisBC Electric	48	49	49	52	52
Newfoundland Power	34	35	35	36	36
Other Canadian Electric Utilities	22	22	22	23	23
CH Energy			0		39
Regulated Electric Utilities – Caribbean	20	21	21	21	21
Total Regulated Utilities	338	362	362	383	422
Non-regulated Operations					
Fortis Generation	18	20	20	20	20
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	45	45	45	45
Corporate	(72)	(68)	(68)	(68)	(86)
Operating Earnings For Common	307	338	338	360	381
Unusual Items	11	0	0	0	0
Reported Earnings	318	338	338	360	381
Weighted Average Shares Outstanding (mlns.)	182	190	190	193	202
Operating EPS	1.69	1.78	1.78	1.87	1.89
Reported EPS	1.75	1.78	1.78	1.87	1.89
Dividend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	67.6%	67.6%	66.4%	65.7%

Source: CIBC World Markets Inc.

Price Target Calculation

We are raising our price target from \$35 to \$35.50. Our price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 18.8x our 2013 estimate, a modest premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), and operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Current	\$0.66E	\$0.34E	\$0.26E	\$0.51E	\$1.78E
2013 Prior	--	--	--	--	\$1.87E
2013 Current	--	--	--	--	\$1.89E

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Stock Prices as of 02/21/2012:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$49.58, Sector Outperformer)

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Consolidated Edison (ED-NYSE, US\$57.86, Not Rated)

Iberdrola (IBE-MC, €4.60, Not Rated)

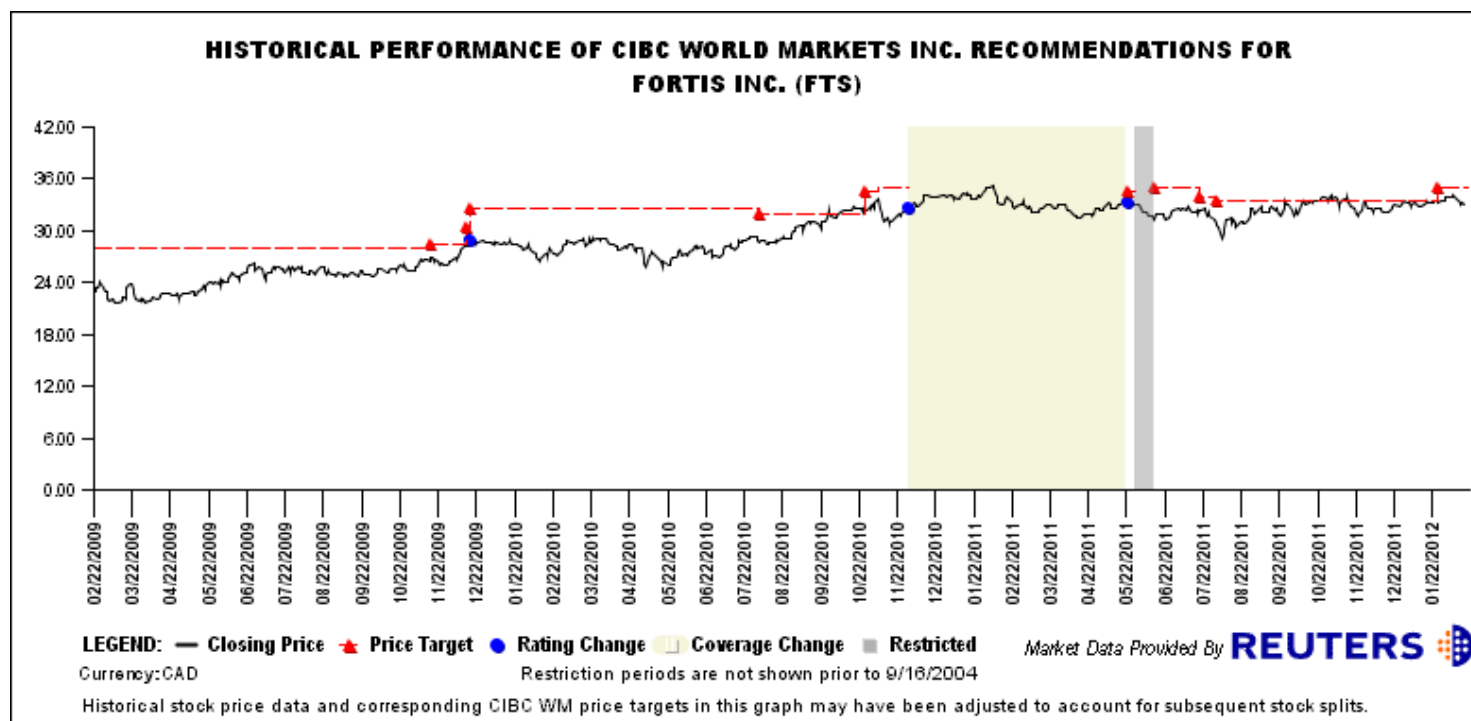
National Grid TransCo (NGG-NYSE, US\$50.85, Not Rated)

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- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 21 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	158	43.8%	Sector Outperformer (Buy)	157	99.4%
Sector Performer (Hold/Neutral)	162	44.9%	Sector Performer (Hold/Neutral)	158	97.5%
Sector Underperformer (Sell)	28	7.8%	Sector Underperformer (Sell)	27	96.4%
Restricted	12	3.3%	Restricted	11	91.7%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 21 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

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Institutional Equity Research Earnings Update

May 2, 2012

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$35.50
FTS-TSX (5/2/12) \$34.37

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$28.24-\$34.39
Shares Outstanding	189.3M
Float	189.3M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,505.3M
Dividend/Div Yield	\$1.20 / 3.5%
Fiscal Year Ends	December
Book Value	\$20.61 per Shr
2012 ROE (E)	8.6%
LT Debt	\$6.3B
Preferred	\$912.00M
Common Equity	\$3.9B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.78E	\$1.78E
2013	\$1.89E	\$1.87E

P/E		
2011		20.3x
2012	19.3x	19.3x
2013	18.2x	18.4x

Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield

2011	3.4%
2012	3.5%
2013	3.6%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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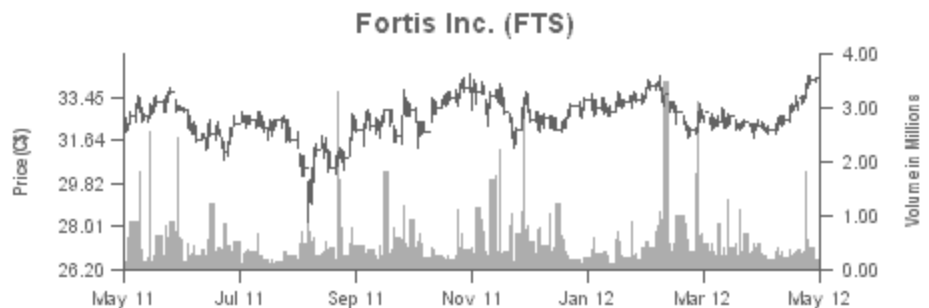
Pipelines, Utilities, & Power

Fortis Inc.

Q1 In Line, Ex-Acquisition Charges

- Fortis reported Q1/12 adjusted EPS of \$0.66 versus our estimate of \$0.66 (consensus \$0.67). Our adjusted EPS excludes ~\$4 million in one-time costs related to the pending CH Energy acquisition which impacted earnings by \$0.02/share.
- Operationally, the quarter benefited from ongoing strong rate base growth in its western Canadian utilities, offset by: warmer than normal weather, a lower allowed ROE for FortisAlberta, and the discontinuance of the PBR mechanism for FortisBC Electric.
- Looking forward, we see the benefits of ongoing rate base growth in the western Canadian utilities and (in 2013) the expected inclusion of the CH Energy acquisition. However, we also see modest downside risk to allowed ROEs in the B.C. utilities.
- We have updated our earnings outlook to reflect these factors, with modest changes to our ROE assumptions resulting in no change to our 2012 forecast and a minor (\$0.02) annual EPS impact thereafter. We maintain our SP rating and \$35.50 price target.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 5/2/12 \$34.37
 12- To 18- Month Price Target: \$35.50
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

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All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$34.37	Net Debt	6,186		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	189	Non Control Int.	246						
Market Capitalization	6,506	Preferred Shares	912						
		Enterprise Value	13,850						
Valuations					Investment Thesis				
P/E	20.9x	20.3x	19.3x	18.4x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	11.8x	11.3x	10.7x	9.4x					
Pipeline And Utilities Sector Average									
P/E	19.7x	17.4x	18.8x	18.1x					
EV/EBITDA	13.6x	12.0x	10.2x	9.3x					
Other Data					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24					
Dividend Yield	3.3%	3.4%	3.5%	3.6%					
Payout Ratio	67.9%	68.6%	67.3%	66.5%					
Book Value Per Share	\$18.97	\$20.48	\$21.18	\$22.72					
Price / Book Value	1.8x	1.7x	1.6x	1.5x					
Cash Per Share	\$0.63	\$0.47	\$0.23	\$0.29					
Debt / Total Capital	57.9%	54.3%	55.7%	58.1%					
Net Debt/EBITDA	5.1x	4.8x	5.0x	5.4x					
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	130	139	153	156					
FortisAlberta	68	75	86	95					
FortisBC Electric	42	48	47	47					
Newfoundland Power	35	34	35	36					
Other Canadian Electric Utilities	19	22	22	23					
CH Energy	0	0	0	39					
Regulated Electric Utilities - Caribbean	23	20	20	21					
Fortis Generation	20	18	20	20					
Fortis Properties	26	23	24	24					
Corporate	(78)	(72)	(68)	(86)					
Operating Earnings	285	307	339	375					
Unusual Items	0	11	(4)	0					
Reported Earnings	285	318	335	375					
Operating EPS	\$1.65	\$1.69	\$1.78	\$1.87					
Reported EPS	\$1.65	\$1.75	\$1.76	\$1.87					
Shares Outstanding	174	189	191	204					
EBITDA	1,170	1,228	1,296	1,474					
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	323	357	364	404					
Depreciation and Amortization	410	419	437	490					
Total Operating Cash Flow	732	905	800	894					
Capital Expenditures	1,024	1,116	1,291	1,153					
Dividends	231	205	267	292					
Net Long Term Debt Proceeds	194	307	550	1,486					
Balance Sheet									
Cash & Cash Equivalents	109	89	43	59					
Utility Capital Assets / Income Properties	8,762	9,281	10,035	12,098					
Total Assets	12,903	13,562	14,271	16,349					
Current Liabilities	1,517	1,320	1,320	1,320					
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	7,980					
Future Income Taxes	(3)	4	0	0					
Non Controlling Interests	162	208	199	190					
Preferred Shares	912	912	912	912					
Shareholders' Equity	3,897	4,469	4,637	5,238					
Total Shareholders' Equity And Liabilities	12,903	13,562	14,271	16,349					

Source: Company reports and CIBC World Markets Inc.

Q1 In Line, Ex-Acquisition Charges

Fortis (FTS-SP) reported adjusted Q1/12 EPS of \$0.66 versus our estimate of \$0.66 (consensus \$0.67). Our adjusted EPS excludes the impact of one-time expenses of ~\$4 million (a \$0.02 EPS impact) related to the pending acquisition of CH Energy Group, Inc. (CHG-NYSE). EPS was also down versus \$0.67 (CGAAP) last Q1, reflecting the dilutive impact from the issuance of 10.34 million shares in mid-2011.

Operationally, the quarter was roughly in line with expectations. While ongoing rate base and customer growth (especially at FortisAlberta) benefited results, there were a number of minor headwinds in the quarter, including: (1) the impact of a warmer-than-normal winter on energy consumption; (2) a lower allowed ROE at FortisAlberta, stemming from a late 2011 regulatory decision; (3) the discontinuance as of the end of 2011 of the performance-based rate-setting (PBR) mechanism at FortisBC Electric, which allowed for sharing of cost savings between the utility and its rate payers.

No Material Change To Outlook

We continue to view the key drivers to Fortis' outlook as follows:

- **Rate base/customer growth:** Fortis' western Canadian regulated utilities continue to experience strong rate base growth, driven by customer additions and ongoing capex (i.e., forecast 2012 capex of \$774 million for FortisBC Energy, FortisBC Electric and FortisAlberta – roughly 60% of total forecast 2012 capex of \$1.29 billion). This investment contributes to forecast mid-year rate base growth of: ~10% for FortisBC Energy, ~7% for FortisBC Electric, and ~15% for FortisAlberta.
- **Regulatory proceedings:** Partially offsetting this rate base growth, Fortis is seeing modest downward pressure on its allowed ROEs. FortisAlberta received a decision in late 2011 to lower its 2011 and 2012 allowed ROE from 9.00% to 8.75%; FortisBC Energy will face a Generic Cost of Capital proceeding in 2012 to determine an appropriate allowed ROE, and we see downside risk in 2013 to the current 9.50% (10.00% for Vancouver Island/Whistler/Fort Nelson) rates; FortisBC Electric is maintaining a 9.90% allowed ROE in 2012, but the PBR mechanism – which helped generate an overall achieved ROE of ~11.20% for 2011 – has been discontinued for 2012.
- **Acquisitions:** Fortis announced an agreement to acquire CH Energy Group on February 21. Numerous approvals are required, including shareholders, regulators and others. In April, applications were filed with the New York State Public Service Commission (NYPSC) and the U.S. Federal Energy Regulatory Commission (FERC), and the CH Energy shareholder vote is expected in June. If all required approvals are received, closing is expected by the end of Q1/2013.

Overall, we see no material change to our outlook, with adjustments to our ROE assumptions having no impact to our 2012 EPS forecast, and a modest (\$0.02) impact on 2013 and beyond (although we have not built in any potential positives, like the potential reinstatement of a PBR mechanism in B.C.). Accordingly, we maintain our Sector Performer rating and \$35.50 price target.

Q1/12 Results

Fortis reported adjusted Q1/12 EPS of \$0.66, versus \$0.67 (CGAAP) in Q1/11, and our \$0.66 expectation (consensus \$0.67). Results were in-line with expectations across most segments, with modestly lower-than-expected FortisBC Electric earnings offset by slightly stronger results in FortisBC Energy and Fortis Generation. The \$0.66 in adjusted EPS excludes \$4 million (\$0.02 in EPS) in one-time acquisition-related expenses associated with the CH Energy transaction. The Y/Y decline reflects the impact of the issuance of 10.34 million shares in June and July 2011.

Exhibit 1. Q1/12 Results (\$ mlns., except per share)

Segmented Earnings	Q1/12A	Q1/12E	Q1/11A
Regulated Utilities			
FortisBC Energy	82	80	76
FortisAlberta	21	22	21
FortisBC Electric	16	20	19
Newfoundland Power	7	7	7
Other Canadian Electric Utilities	7	6	6
Regulated Electric Utilities – Caribbean	3	4	4
Total Regulated Utilities	136	139	133
Non-regulated Operations			
Fortis Generation	5	3	3
Fortis Properties	1	2	1
Total Non-regulated Operations	6	5	4
Corporate	(17)	(18)	(20)
Operating Earnings For Common	125	126	117
Unusual Items	(4)	0	0
Reported Earnings	121	126	117
Weighted Average Shares Outstanding (mlns.)	189	190	175
Operating EPS	0.66	0.66	0.67
Reported EPS	0.64	0.66	0.67
Dividend Per Share	0.30	0.30	0.29
Payout Ratio	45.4%	45.3%	43.4%

Source: CIBC World Markets Inc.

Regulated Utilities:

- FortisBC Energy:** FortisBC Energy earnings totaled \$82 million in Q1/12, compared to \$76 million (CGAAP) in Q1/11 and our estimate of \$80 million. The strong performance reflects the seasonality of gas consumption and the timing of certain expenses (revenue recognized on consumption while certain expenses are incurred evenly throughout the year), rate base growth due to continued investment, and higher gas transportation volumes to the forestry and mining sector.

- **FortisAlberta:** FortisAlberta contributed \$21 million to earnings in Q1/12, versus \$21 million (CGAAP) in Q1/11, and our \$22 million estimate. Results were flat Y/Y reflecting rate base growth offset by a \$1 million gain on sale of property during Q1/11, lower-than-expected number of customers and lower energy consumption by residential customers in Q1/12, and a lower allowed ROE (8.75% in Q1/12 versus 9.00% in Q1/11).
- **FortisBC Electric:** FortisBC Electric earnings totaled \$16 million in Q1/12, compared to \$19 million (CGAAP) in Q1/11, and our \$20 million estimate. The underperformance reflects the discontinuance of the performance-based rate-setting (PBR) mechanism (the benefit of lower-than-expected costs were shared equally between FortisBC Electric and customers under PBR in Q1/11), and increased operating expenses in Q1/12.
- **Newfoundland Power:** Newfoundland Power earnings were \$7 million in the quarter, compared to \$7 million (CGAAP) in Q1/11 and our \$7 million estimate. Lower corporate income taxes in the quarter (due to a lower statutory rate), were offset by lower revenue associated with the joint-use poles with Bell Aliant (BA-SP) that were sold in October 2011.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$7 million in the quarter, versus \$6 million (CGAAP) in Q1/11 and our \$6 million estimate. Higher earnings reflected lower corporate income taxes and increased electricity sales at Maritime Electric.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$3 million, versus \$4 million (CGAAP) in Q1/11 and our \$4 million estimate. Lower earnings reflected higher depreciation and finance charges due to increased investments in capital assets, and increased operating expenses associated with insurance and employee-related costs.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million, compared to \$3 million (CGAAP) in Q1/11 and our \$3 million estimate. Stronger-than expected results reflect increased production in Belize due to higher rainfall.
- **Fortis Properties:** Fortis Properties earnings came in at \$1 million in Q1/12, compared to \$1 million (CGAAP) in Q1/11 and our \$2 million estimate. The contribution from a Winnipeg hotel acquired in October 2011 was offset by the gain on sale of the Viking Mall during Q1/11.
- **Corporate:** Corporate costs totaled \$17 million (excluding \$4 million of one-time acquisition related expenses) in Q1/12, down from \$20 million (CGAAP) in Q1/11, as a result of lower finance charges due to higher capitalized interest (financing Waneta Expansion), and lower borrowings.

Revising Estimates

For 2012, we have increased our allowed ROE assumptions back to the 2011 levels for FortisBC Energy and FortisBC Electric, as the results of cost of capital hearings in the province will impact allowed ROEs beginning in 2013.

- **FortisBC Energy:** The 2012 allowed ROE for FortisBC Energy Inc. is 9.50%, versus our previous assumption of 9.00%, and 10.00% for the other FortisBC Energy utilities (Vancouver Island, Whistler, and Fort Nelson), versus our previous assumption of 9.50%. For 2013, we maintain our 50 bps decline assumption for all of the FortisBC Energy utilities (9.00% for FortisBC Energy Inc., and 9.50% for the other FortisBC Energy utilities).

- FortisBC Electric:** The 2012 allowed ROE for FortisBC Electric is 9.90%, versus our previous assumption of 9.40%. With the discontinuation of the performance-based rate (PBR) mechanism, we expect achieved ROE in 2012 (and beyond) to decline. For 2013, we maintain our 50 bps decline assumption for FortisBC Electric to 9.40%.

In 2012, the impact of higher assumed allowed ROEs in B.C. offsets the discontinuation of the PBR at FortisBC Electric, and as result, our 2012 EPS estimate of \$1.78 remains unchanged. For 2013, we have maintained our assumption of a 50 bps decline in allowed ROEs for Fortis B.C. utilities, and combined with the impact of the PBR discontinuation, results in our 2013 EPS estimate declining from \$1.89 to \$1.87.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2011A	2012E		2013E	
		Previous	Current	Previous	Current
Regulated Utilities					
FortisBC Energy	139	148	153	156	156
FortisAlberta	75	86	86	95	95
FortisBC Electric	48	49	47	52	47
New foundland Power	34	35	35	36	36
Other Canadian Electric Utilities	22	22	22	23	23
CH Energy		0	0	39	39
Regulated Electric Utilities – Caribbean	20	21	20	21	21
Total Regulated Utilities	338	362	363	422	417
Non-regulated Operations					
Fortis Generation	18	20	20	20	20
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	45	44	45	44
Corporate	(72)	(68)	(68)	(86)	(86)
Operating Earnings For Common	307	338	339	381	375
Unusual Items	11	0	(4)	0	0
Reported Earnings	318	338	335	381	375
Weighted Average Shares Outstanding (mlns.)	182	190	190	202	201
Operating EPS	1.69	1.78	1.78	1.89	1.87
Reported EPS	1.75	1.78	1.76	1.89	1.87
Div idend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	67.6%	67.3%	65.7%	66.5%

Source: CIBC World Markets Inc.

Price Target Calculation

Our \$35.50 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 19.0x our 2013 estimate, a modest premium to the group average (18.4x) given, in our view, Fortis' solid, low-risk, growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66E	\$0.34E	\$0.26E	\$0.51E	\$1.78E
2012 Current	\$0.66A	\$0.34E	\$0.26E	\$0.53E	\$1.78E
2013 Prior	--	--	--	--	\$1.89E
2013 Current	--	--	--	--	\$1.87E

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Bell Aliant Inc. (2a, 2c, 2e, 2g) (BA-TSX, \$26.42, Sector Performer)

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$38.17, Sector Outperformer)

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Stock Prices as of 05/02/2012:

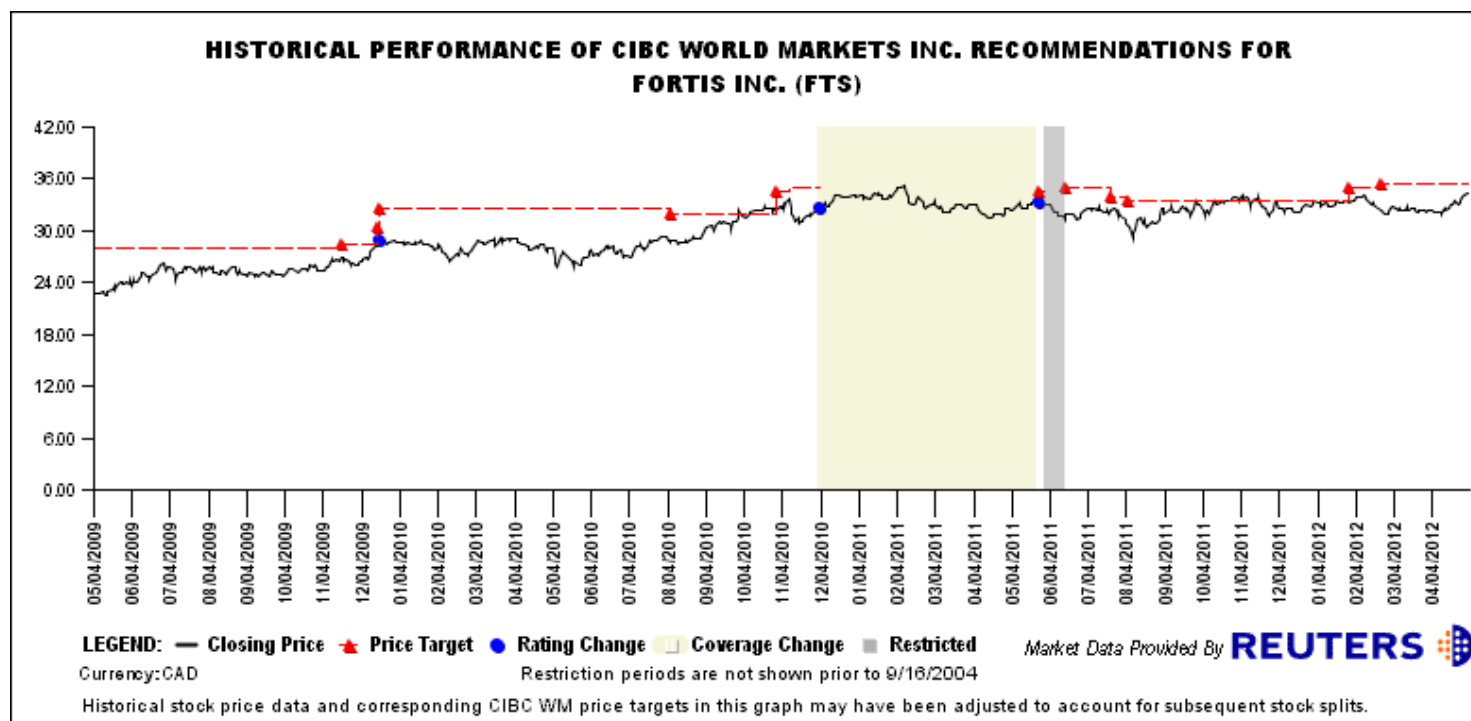
CH Energy Group (CHG-NYSE, US\$65.56, Not Rated)

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- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 02 May 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	153	42.1%	Sector Outperformer (Buy)	151	98.7%
Sector Performer (Hold/Neutral)	166	45.7%	Sector Performer (Hold/Neutral)	164	98.8%
Sector Underperformer (Sell)	25	6.9%	Sector Underperformer (Sell)	23	92.0%
Restricted	18	5.0%	Restricted	17	94.4%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 02 May 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	28.6%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

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Institutional Equity Research Earnings Update

June 28, 2012

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target \$34.50
FTS-TSX (6/28/12) \$32.06

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$28.24-\$34.98
Shares Outstanding 207.8M
Float 207.8M Shrs
Avg. Daily Trading Vol. 459,853
Market Capitalization \$6,662.1M
Dividend/Div Yield \$1.20 / 3.7%
Fiscal Year Ends December
Book Value \$21.66 per Shr
2012 ROE (E) 8.0%
LT Debt \$6.3B
Preferred \$912.00M
Common Equity \$4.5B
Convertible Available Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.78E	\$1.71E
2013	\$1.87E	\$1.82E

P/E		
2011		19.0x
2012	18.0x	18.7x
2013	17.1x	17.6x

Dividend Per Share	
2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield	
2011	3.6%
2012	3.7%
2013	3.9%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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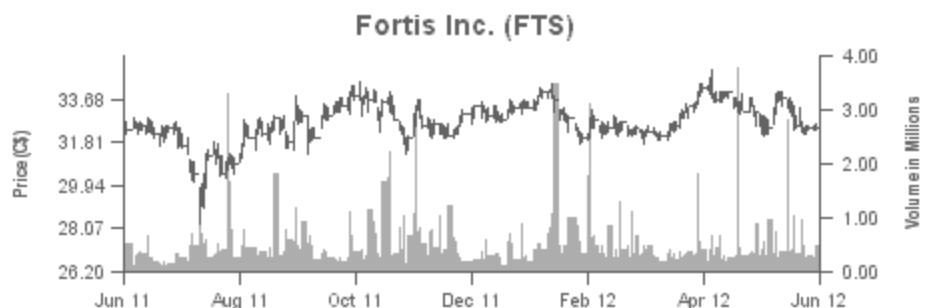
Pipelines, Utilities, & Power

Fortis Inc.

CH Energy Shareholder Approval; Closes \$601 Million In Subscription Receipts

- On June 27 Fortis announced the completion of its bought deal for 18.5 million subscription receipts at a purchase price of \$32.50 per subscription receipt. The gross proceeds of \$601 million will be held in an escrow pending the closing of the CH Energy acquisition.
- On June 19 Fortis announced that CH Energy shareholders approved the merger agreement whereby Fortis will acquire CH Energy for an aggregate purchase price of approximately US\$1.5 billion, including the assumption of approximately US\$500 million in debt.
- We had previously assumed that Fortis would issue \$400 million in common equity in conjunction with the closing of the transaction, expected in Q1/13. The larger and earlier equity issue results in our 2012E and 2013E EPS declining from \$1.78 and \$1.87 to \$1.71 and \$1.82, respectively.
- The larger-than-expected equity issue also brings the expected accretion from this transaction in the first full year (2014) to the lower end of our original estimate of \$0.03-\$0.05. We are reducing our price target from \$35.50 to \$34.50. We maintain our SP rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 6/28/12 \$32.06
 12- To 18- Month Price Target: \$34.50
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

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 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$32.06	Net Debt	6,186		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	208	Non Control Int.	246						
Market Capitalization	6,662	Preferred Shares	912						
		Enterprise Value	14,006						
Valuations					Investment Thesis				
P/E	19.4x	2010A	2011A	2012E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	12.0x	19.0x	18.8x	17.6x					
		12.0x	11.4x	10.8x					
Pipeline And Utilities Sector Average					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
P/E	18.8x	18.0x	18.1x	17.7x					
EV/EBITDA	13.8x	12.3x	10.5x	9.7x					
Other Data					Segmented Earnings (Exc. Corporate)				
Dividend Per Share	\$1.12	2010A	2011A	2012E					
Dividend Yield	3.5%	\$1.16	\$1.20	\$1.24					
Payout Ratio	67.9%	3.6%	3.7%	3.9%					
Book Value Per Share	\$18.97	68.6%	70.4%	68.1%					
Price / Book Value	1.7x	20.48	\$21.93	\$22.64					
Cash Per Share	\$0.63	1.6x	1.5x	1.4x					
Debt / Total Capital	57.9%	\$0.47	\$2.78	\$0.45					
Net Debt/EBITDA	5.1x	54.3%	53.3%	57.3%					
	4.8x	4.6x	5.3x						
Income Statement					Major Sources, Uses Of Cash				
FortisBC Energy	130	2010A	2011A	2012E					
FortisAlberta	68	139	153	156					
FortisBC Electric	42	48	47	47					
Newfoundland Power	35	34	36	37					
Other Canadian Electric Utilities	19	22	22	23					
CH Energy	0	0	0	39					
Regulated Electric Utilities - Caribbean	23	20	20	21					
Fortis Generation	20	18	20	20					
Fortis Properties	26	23	24	24					
Corporate	(78)	(72)	(68)	(80)					
Operating Earnings	285	307	340	382					
Unusual Items	0	11	(4)	0					
Reported Earnings	285	318	336	382					
Operating EPS	\$1.65	\$1.69	\$1.71	\$1.82					
Reported EPS	\$1.65	\$1.75	\$1.69	\$1.82					
Shares Outstanding	174	189	209	211					
EBITDA	1,170	1,228	1,298	1,476					
Cash Flow									
Earnings (incl. pref share dividends)	323	357	365	411					
Depreciation and Amortization	410	419	437	490					
Total Operating Cash Flow	732	905	802	902					
Capital Expenditures	1,024	1,116	1,291	1,153					
Dividends	231	205	289	300					
Net Long Term Debt Proceeds	194	307	550	1,386					
Balance Sheet									
Cash & Cash Equivalents	109	89	580	95					
Utility Capital Assets / Income Properties	8,762	9,281	10,035	12,098					
Total Assets	12,903	13,562	14,807	16,385					
Current Liabilities	1,517	1,320	1,320	1,320					
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	7,880					
Future Income Taxes	(3)	4	0	0					
Non Controlling Interests	162	208	199	190					
Preferred Shares	912	912	912	912					
Shareholders' Equity	3,897	4,469	5,173	5,374					
Total Shareholders' Equity And Liabilities	12,903	13,562	14,807	16,385					

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

We are reducing our price target from \$35.50 to \$34.50, based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' (FTS-SP) five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 19.0x our 2013 estimate, a premium to the group average (17.7x) given, in our view, Fortis' solid, low-risk, growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin Group (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66A	\$0.34E	\$0.26E	\$0.53E	\$1.78E
2012 Current	\$0.66A	\$0.33E	\$0.24E	\$0.49E	\$1.71E
2013 Prior	--	--	--	--	\$1.87E
2013 Current	--	--	--	--	\$1.82E

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- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

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Stock Prices as of 06/28/2012:

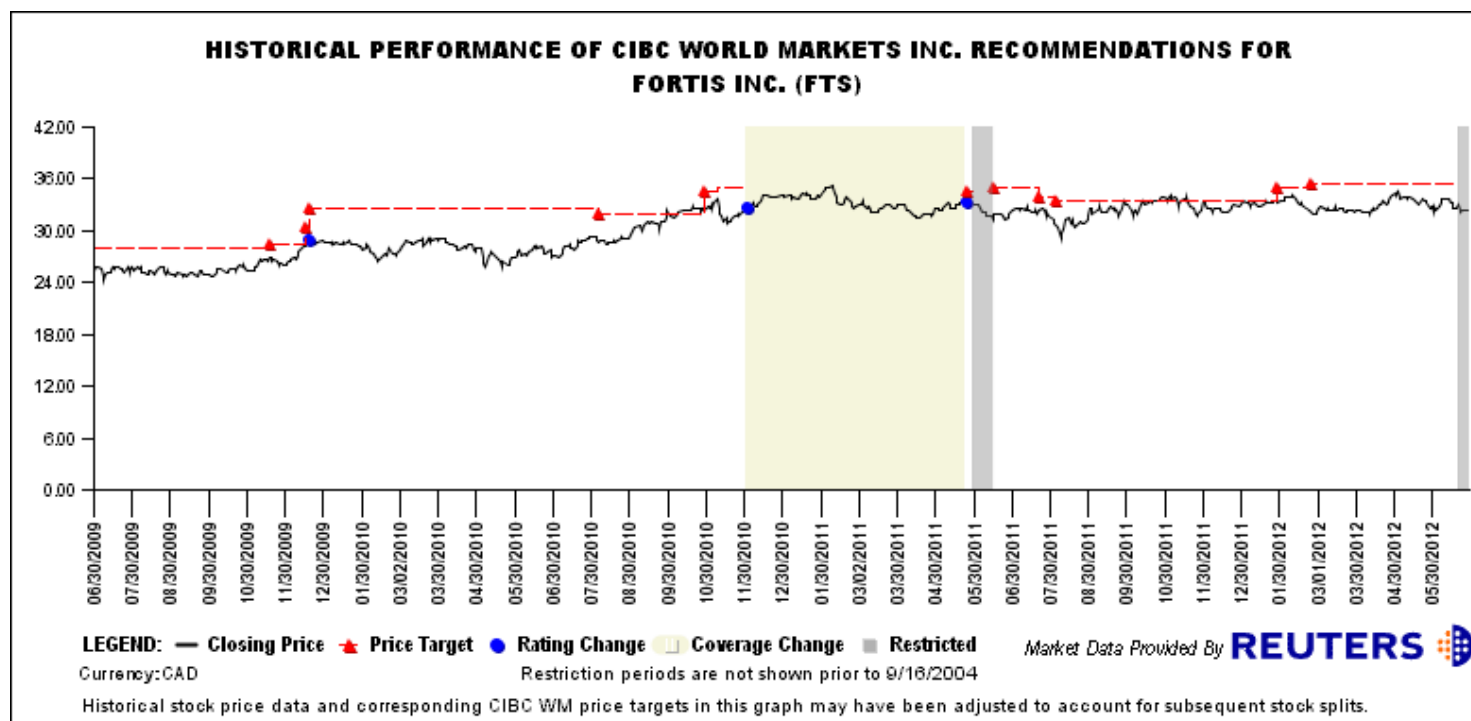
SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$37.44, Sector Outperformer)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

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- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
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- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	■	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 28 Jun 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	157	42.1%	Sector Outperformer (Buy)	153	97.5%
Sector Performer (Hold/Neutral)	170	45.6%	Sector Performer (Hold/Neutral)	168	98.8%
Sector Underperformer (Sell)	28	7.5%	Sector Underperformer (Sell)	26	92.9%
Restricted	17	4.6%	Restricted	16	94.1%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 28 Jun 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	28.6%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	14.3%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

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Institutional Equity Research Earnings Update

July 31, 2012

Stock Rating:

Sector Performer

Sector Weighting:

Market Weight

12-18 mo. Price Target \$34.50
FTS-TSX (7/31/12) \$33.54

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$28.24-\$34.98
Shares Outstanding 190.0M
Float 190.0M Shrs
Avg. Daily Trading Vol. 459,853
Market Capitalization \$6,371.5M
Dividend/Div Yield \$1.20 / 3.6%
Fiscal Year Ends December
Book Value \$20.68 per Shr
2012 ROE (E) 8.5%
LT Debt \$6.4B
Preferred \$912.00M
Common Equity \$3.9B
Convertible Available Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.71E	\$1.76E
2013	\$1.82E	\$1.85E

P/E		
2011		19.8x
2012	19.6x	19.1x
2013	18.4x	18.1x

Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield

2011	3.5%
2012	3.6%
2013	3.7%

Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

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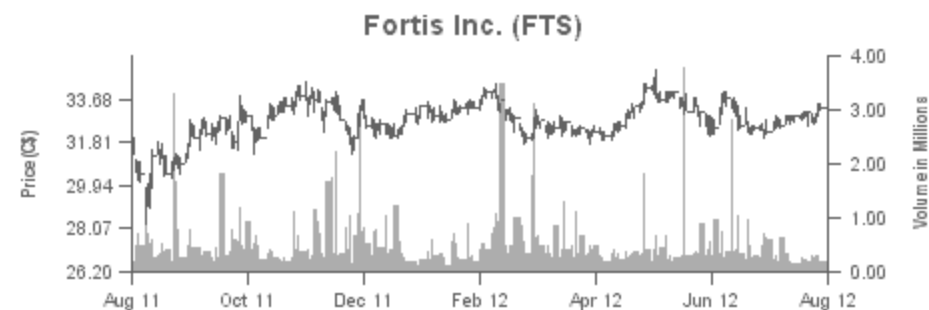
Pipelines, Utilities, & Power

Fortis Inc.

Solid Q2 Benefits From Ongoing Growth At FortisAlberta

- Fortis reported headline EPS of \$0.33. Excluding costs related to the pending CH Energy acquisition, EPS were \$0.34 versus our estimate (and consensus) of \$0.33. The company incurred a further \$3 million in one-time costs related to CH Energy (on top of \$4 million in Q1).
- Operationally, Q2 benefited from strength at FortisAlberta (earnings up 37% y/y), driven by ongoing customer additions and rate base growth, and further helped by ~\$4 million (~\$0.02 EPS) in additional revenues/reduced costs related to Q1, but recognized in Q2 due to recent regulatory decisions.
- Fortis continues to work towards closing the US\$1.5 billion CH Energy acquisition by the end of Q1/13. Fortis received CH Energy shareholder approval in June and U.S. FERC/CFIUS regulatory approvals in July. NY State Public Service Commission approvals remain outstanding.
- In Q1/13, we expect the close of the CH Energy acquisition and key regulatory decisions in Alberta and B.C. However, we see little change to the outlook for the balance of 2012 and maintain our Sector Performer rating and \$34.50 price target.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.



Fortis Inc.

FTS - TSX 7/31/12 \$33.54
 12- To 18- Month Price Target: \$34.50
 Pipelines, Utilities & Power
 Sector Weighting: Market Weight

Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data				
Share Price	\$33.54	Net Debt	6,186	
Shares Outstanding	189	Non Control Int.	246	
Market Capitalization	6,348	Preferred Shares	912	
		Enterprise Value	13,692	
Valuations	2010A	2011A	2012E	2013E
P/E	20.3x	19.8x	19.0x	18.1x
EV/EBITDA	11.7x	11.1x	10.6x	9.3x
Pipeline And Utilities Sector Average				
P/E	19.5x	19.4x	19.2x	18.6x
EV/EBITDA	14.2x	14.2x	12.2x	10.9x
Other Data	2010A	2011A	2012E	2013E
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24
Dividend Yield	3.3%	3.5%	3.6%	3.7%
Payout Ratio	67.9%	68.6%	68.1%	67.1%
Book Value Per Share	\$18.97	\$20.48	\$20.98	\$22.77
Price / Book Value	1.8x	1.6x	1.6x	1.5x
Cash Per Share	\$0.63	\$0.47	\$0.04	\$0.47
Debt / Total Capital	57.9%	54.3%	55.9%	57.2%
Net Debt/EBITDA	5.1x	4.8x	5.0x	5.3x
Income Statement				
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Corporate	(78)	(72)	(72)	(84)
Operating Earnings	285	307	334	380
Unusual Items	0	11	(7)	0
Reported Earnings	285	318	327	380
Operating EPS	\$1.65	\$1.69	\$1.76	\$1.85
Reported EPS	\$1.65	\$1.75	\$1.72	\$1.85
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Capital Expenditures	1,024	1,116	1,291	1,153
Dividends	231	205	267	299
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Cash & Cash Equivalents	109	89	8	98
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Total Assets	12,903	13,562	14,235	16,388
Current Liabilities	1,517	1,320	1,320	1,320
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	7,880
Future Income Taxes	(3)	4	0	0
Non Controlling Interests	162	208	199	190
Preferred Shares	912	912	912	912
Shareholders' Equity	3,897	4,469	4,601	5,377
Total Shareholders' Equity And Liabilities	12,903	13,562	14,235	16,388

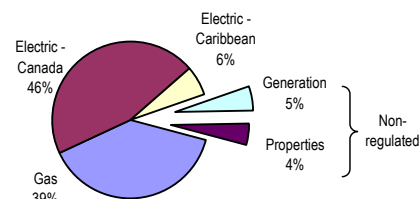
Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

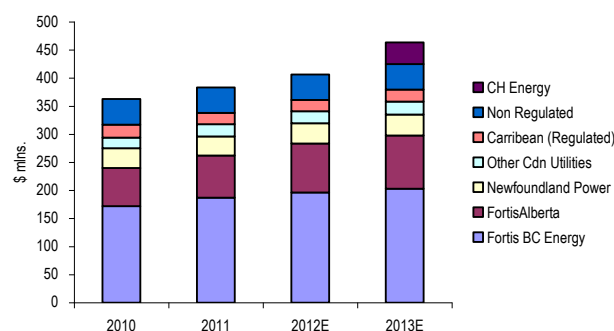
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

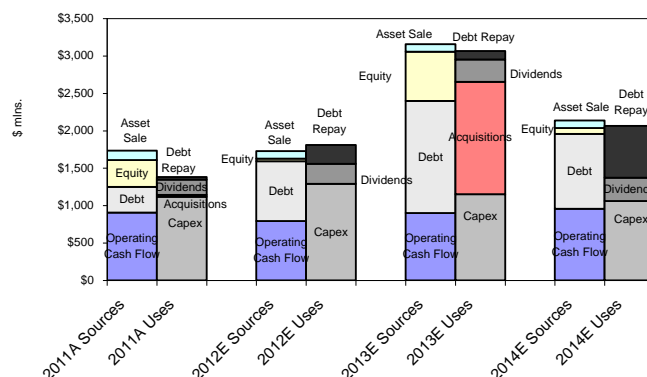
Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

Solid Q2 Benefits From Ongoing Growth At FortisAlberta

Fortis (FTS-SP) reported Q2/12 EPS of \$0.33, in line with CIBC and consensus estimates of \$0.33. Excluding one-time costs related to the pending acquisition of CH Energy, Fortis recorded adjusted EPS of \$0.34, although one-time benefits in the quarter at FortisAlberta from recent regulatory decisions are the main contributor to this upside versus consensus.

Operationally, FortisAlberta remains the key growth driver, with customer growth continuing at ~2%/year and annual capex (budget of \$419 million in 2012) roughly one-third of the company total (of \$1.29 billion). In Q2/12, earnings of \$26 million were up 37% y/y versus \$19 million. We note that this growth is overstated versus a normalized level, as FortisAlberta benefited from recent regulatory rulings which increased quarterly revenues by ~\$1 million and reduced depreciation expense by ~\$3 million; both these amounts were recorded in Q2/12 but were applied retroactively and were related to Q1/12.

Other segments were roughly in line with expectations, with a couple of exceptions: FortisBC Energy (earnings of \$13 million) was below our expectations (\$17 million) and down y/y (versus \$15 million) in a seasonally slow quarter of the year (gas demand peaks in the winter months); and, Newfoundland Power (earnings of \$12 million) modestly beat our estimate (\$11 million) and increased y/y (versus \$10 million) due to the cumulative year to date benefit (recognized in Q2/12) of a higher allowed ROE (8.80% for 2012 versus 8.38% in 2011).

Investment Summary

Looking forward, we expect little change for the balance of 2012. The company continues to progress on its \$1.3 billion capital program, with no material changes to overall schedule or budget including the major Waneta Expansion.

The company is working towards closing the US\$1.5 billion CH Energy (CHG-NYSE) acquisition, a regulated gas and electric utility serving 375,000 customers in New York State. Fortis received CH Energy shareholder approval for the transaction in June, and U.S. Federal Energy Regulatory Commission (FERC) and Committee on Foreign Investment in the United States (CFIUS) approvals in July. The company also closed a \$601 million equity offering (subscription receipts) on June 27 to finance the transaction. The key (although not the only) outstanding regulatory hurdle is receiving New York State Public Service Commission approval. We expect Fortis to receive all required approvals. Fortis continues to expect the transaction to close by the end of Q1/13, and for the acquisition to be immediately accretive to EPS, excluding acquisition-related expenses.

Also by Q1/13 Fortis expects to receive a couple of regulatory decisions. In Alberta the Alberta Utilities Commission (AUC) intends to introduce a performance-based regulation (PBR) formula for 2013 which provides an incentive mechanism for utilities to introduce cost savings and share resulting increased profits with rate payers. Fortis has submitted its comments as to how it would like PBR to be implemented. A decision from the AUC is expected in late 2012 to be introduced for Q1/13. Fortis sees the potential for PBR to increase returns by up to 100 basis points above the current allowed rate of return (8.75% ROE). In BC, FortisBC Energy is involved in a generic cost of capital proceeding to determine an appropriate rate of return for 2013. The BC Utilities Commission (BCUC) is undertaking a more widespread process to determine an

appropriate rate of return benchmark; up to this point, FortisBC Energy has been the benchmark utility and expects to remain so. Fortis sees the potential for some downside risk to the current 9.50% to 10.00% ROE received at FortisBC Energy (the higher level for Whistler and Vancouver Island), although is seeking to maintain the current levels.

Overall, we see little risk to the short-term outlook. Upside in 2013 is expected to be driven by the CH Energy acquisition, although we expect accretion from the transaction initially to be quite modest given the sizable equity offering (\$601 million) to finance the acquisition and a transaction multiple roughly in line with that of Fortis (~1.5x rate base). The company also continues to execute its five year, \$5.5 billion capex program (to which CH Energy is expected to add a further \$0.5 billion). Overall, we are forecasting mid-single digit EPS growth. With Fortis trading at 19.1x 2012E EPS and 18.1x 2013, we see only modest upside at present, and maintain our Sector Performer rating and \$34.50 price target.

Q2/12 Results

Fortis reported Q2/12 adjusted EPS (excluding CH Energy acquisition costs) of \$0.34, versus \$0.33 (Canadian GAAP) in Q2/11, and our \$0.33 expectation (consensus \$0.33). Slightly higher-than-expected earnings were due to strong results at FortisAlberta and in non-regulated operations partially offset by lower-than-expected results in FortisBC Energy.

FortisAlberta reported earnings of \$26 million, up 37% y/y as it benefited from \$1 million in additional net transmission revenues and \$3 million in reduced depreciation expense related to Q1/12 but included in Q2/12 due to recent regulatory decisions. We estimate these amounts generated ~\$0.02 EPS in Q2.

Exhibit 1. Q2/12 Results (\$ mlns., except per share)

Segmented Earnings	Q2/12A (USGAAP)	Q2/12E (USGAAP)	Q2/11A (CGAAP)
Regulated Utilities			
FortisBC Energy	13	17	15
FortisAlberta	26	22	19
FortisBC Electric	9	9	9
Newfoundland Power	12	11	11
Other Canadian Electric Utilities	5	6	6
Regulated Electric Utilities – Caribbean	6	6	7
Total Regulated Utilities	71	71	67
Non-regulated Operations			
Fortis Generation	5	3	2
Fortis Properties	8	7	7
Total Non-regulated Operations	13	10	9
Corporate	(19)	(17)	(18)
Operating Earnings For Common	65	64	58
Unusual Items	(3)	0	0
Reported Earnings	62	64	58
Weighted Average Shares Outstanding (mlns.)	190	191	177
Operating EPS	0.34	0.33	0.33
Reported EPS	0.33	0.33	0.33
Dividend Per Share	0.30	0.30	0.29
Pay out Ratio	87.5%	90.0%	88.6%

Source: CIBC World Markets Inc.

Regulated Utilities:

- **FortisBC Energy:** FortisBC Energy earnings totaled \$13 million in Q2/12, compared to \$15 million in Q2/11 (CGAAP) and our estimate of \$17 million. The decline in earnings was mainly due to lower-than-expected customer additions and lower capitalized AFUDC due to a lower asset base under construction in 2012.
- **FortisAlberta:** FortisAlberta contributed \$26 million to earnings in Q2/12, versus \$19 million in Q2/11 (CGAAP), and our \$22 million estimate. Stronger-than-expected earnings reflected the cumulative impact of the Alberta Utilities Commission's (AUC) April 2012 distribution revenue requirements decision, which added \$3 million to net transmission revenue (\$1 million related to Q1/12) and reduced depreciation expense (\$3 million related to Q1/12), as well as rate base growth.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$9 million in Q2/12, compared to \$9 million in Q2/11 (CGAAP), and our \$9 million estimate. The impact of rate base growth was offset by lower capitalized AFUDC in 2012, and the discontinuance of the performance-based rate-setting (PBR) mechanism (the benefit of lower-than-expected costs were shared equally between FortisBC Electric and customers under PBR in Q2/11).

- **Newfoundland Power:** Newfoundland Power earnings were \$12 million in the quarter, compared to \$11 million in Q2/11 (CGAAP) and our \$11 million estimate. Increased earnings reflect the cumulative impact of a higher 2012 allowed ROE (8.80% versus 8.38% previously) which was recognized in Q2/12.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$5 million in the quarter, versus \$6 million in Q2/11 (CGAAP) and our \$6 million estimate. Slightly lower-than-expected earnings reflects higher operating costs at FortisOntario due to an increase in employee related costs and the timing of expenses.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$6 million, versus \$7 million in Q2/11 (CGAAP) and our \$6 million estimate. Lower energy supply costs and higher electricity sales at Fortis Turks and Caicos, were offset by higher depreciation and finance charges (due to increased investment in utility assets) and decreased electricity sales at Caribbean Utilities.

Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million, compared to \$2 million in Q2/11 (CGAAP) and our \$3 million estimate. Stronger-than-expected results reflect increased production in Belize due to higher rainfall, as well as insurance proceeds related to the loss of earnings during the quarter from repairs to a facility in Upstate New York which sustained electrical damage in May 2011.
- **Fortis Properties:** Fortis Properties earnings came in at \$8 million in Q2/12, compared to \$7 million in Q2/11 (CGAAP) and our \$7 million estimate. The y/y increase reflects the contribution of a Winnipeg hotel acquired in October 2011.
- **Corporate:** Corporate costs totaled \$17 million (excluding \$4 million of one-time acquisition related expenses) in Q1/12, down from \$20 million (CGAAP) in Q1/11, as a result of lower finance charges due to higher capitalized interest (financing Waneta Expansion), and lower borrowings.

Revising Estimates

We have revised our estimates mainly to reflect Q2 results, as well as accounting for the impact to outstanding shares from Fortis' \$601 million issuance of subscription receipts at the end of Q1/13 (when the CH Energy acquisition is expected to close) as opposed to when the subscription receipts were issued (in June 2012), in line with how the company is treating the issuance. As a result of these changes, our 2012 EPS estimate increases from \$1.71 to \$1.76 and our 2013 EPS estimate increases from \$1.82 to \$1.85.

Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2012E			2013E	
	2011A (CGAAP)	Previous (USGAAP)	Current (USGAAP)	Previous (USGAAP)	Current (USGAAP)
Regulated Utilities					
FortisBC Energy	139	153	150	156	156
FortisAlberta	75	86	87	95	95
FortisBC Electric	48	47	47	47	47
Newfoundland Power	34	36	36	37	37
Other Canadian Electric Utilities	22	22	21	23	23
CH Energy		0	0	39	39
Regulated Electric Utilities – Caribbean	20	20	20	21	21
Total Regulated Utilities	338	364	361	418	418
Non-regulated Operations					
Fortis Generation	18	20	21	20	21
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	44	45	44	45
Corporate	(72)	(68)	(72)	(80)	(84)
Operating Earnings For Common	307	340	334	382	380
Unusual Items	11	(4)	(7)	0	0
Reported Earnings	318	336	327	382	380
Weighted Average Shares Outstanding (mlns.)	182	199	190	210	205
Operating EPS	1.69	1.71	1.76	1.82	1.85
Reported EPS	1.75	1.69	1.72	1.82	1.85
Dividend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	70.4%	68.1%	68.1%	67.1%

Source: CIBC World Markets Inc.

Price Target Calculation

We are maintaining our \$34.50 price target, based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 18.6x our 2013 estimate, in line with the group average (18.5x) given Fortis' modest low-risk growth outlook.

Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66A	\$0.33E	\$0.24E	\$0.49E	\$1.71E
2012 Current	\$0.66A	\$0.34A	\$0.26E	\$0.50E	\$1.76E
2013 Prior	--	--	--	--	\$1.82E
2013 Current	--	--	--	--	\$1.85E

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Stock Prices as of 07/31/2012:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$39.56, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

Stock Prices as of 07/31/2012:

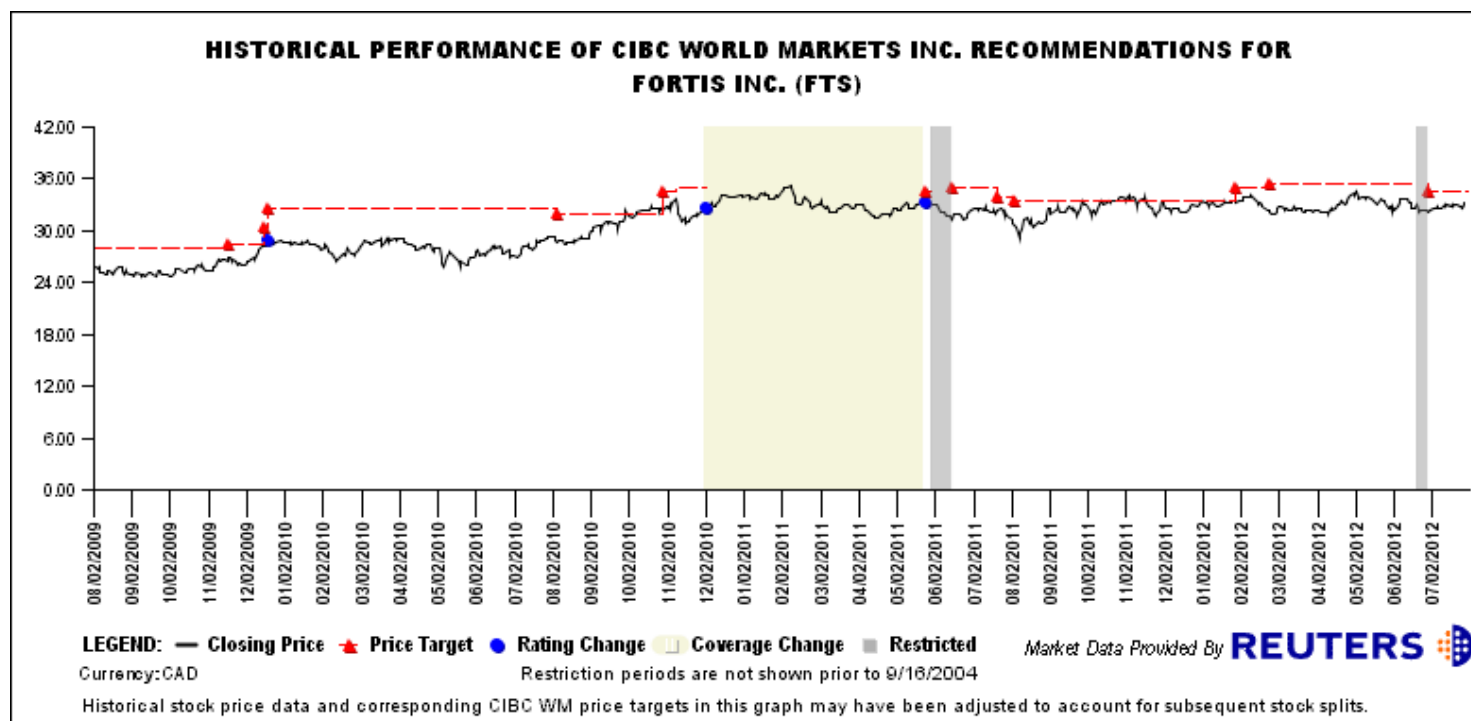
CH Energy Group (CHG-NYSE, US\$65.03, Not Rated)

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CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

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(as of 31 Jul 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	145	41.2%	Sector Outperformer (Buy)	143	98.6%
Sector Performer (Hold/Neutral)	162	46.0%	Sector Performer (Hold/Neutral)	160	98.8%
Sector Underperformer (Sell)	28	8.0%	Sector Underperformer (Sell)	26	92.9%
Restricted	16	4.5%	Restricted	15	93.8%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 31 Jul 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	28.6%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	14.3%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

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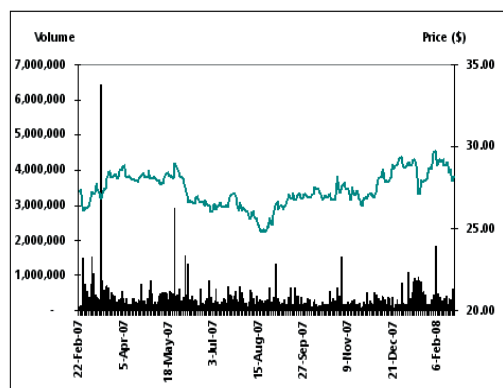
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Fortis Inc.
(FTS - \$28.20)
Initiating Coverage
Outperform
Target Price: \$33.00


Market Capitalization (\$ million)	4,386
Outstanding Number of Shares (million)	156
Dividend Yield (%)	3.55

(\$ million except per share data)	2007	2008E	2009E
Revenues	2,718	3,733	3,957
EBITDA	814	1,116	1,204
EPS	1.40	1.58	1.89

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

February 25, 2008
Highlights

At this time in the economic cycle, investors are looking for a safe haven in defensive stocks. Fortis is one of them.

The management team of Fortis has a proven track record in growing the Company. Terasen acquisition completed in May 2007 was the major factor to almost double the Company's assets in a year.

The company is tapping into the economic growth in Western Canada and the Caribbean especially in recent years. Important additions to the Company's asset size include FortisAlberta and FortisBC in 2004, Caribbean expansion and acquisition of hospitality operations in 2006 & 2007 and finally the Terasen acquisition in 2007.

As the largest investor-owned distribution utility in Canada, Fortis serves almost two million gas and electricity customers. In addition to its regulated holdings, which include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries, Fortis also owns non-regulated generation assets (primarily hyrdoelectric) across Canada, in Belize and in upper New York State. Additional diversification to Fortis' portfolio comes with hotels and commercial real estate.

Growth in asset size is combined with a commitment to shareholders. Dividends of Fortis have been increasing for the last 35 years consecutively.

As a blue-chip, dividend-paying company in a defensive industry with a good valuation, Fortis is one of our top picks this year. We are initiating coverage on Fortis with \$33.00 target price and "Outperform" recommendation.

Executive Summary

At this time in the economic cycle, investors are looking for a safe haven in defensive stocks. Fortis Inc. is one of them. The utility business is a highly regulated, capital-intensive and stable-growth industry. As the largest investor-owned distribution utility in Canada, Fortis is strategically positioned in this sector. Recent acquisitions and investments in Western Canada and the Caribbean have helped to solidify this strategic positioning even further.

Today Fortis serves almost two million gas and electricity customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Fortis also owns non-regulated generation assets (primarily hydroelectric) across Canada, in Belize and in upper New York State. Hotels and commercial real estate help to diversify the company's portfolio.

The management team of Fortis has a proven track record in growing the company by ensuring compliance with existing regulations and keeping their eyes on emerging ones. With their strategy of keeping the profitability and risk of the business at comparable level with the Company's peers while growing it at above average rate, the Company has almost doubled in asset size in a year and is now seven times larger than it was in 2000 and 10 times larger than a decade ago.

This growth is both organic and also fueled by strategic acquisitions. Especially in recent years, the Company has started to tap into the economic boom in Western Canada and the Caribbean. Significant additions include FortisAlberta and FortisBC in 2004, a Caribbean expansion and acquisition of hospitality operations in 2006 & 2007, and the Terasen Gas acquisition in 2007. Terasen acquisition was the biggest acquisition in the Company's history.

Growth in asset size is one strength; commitment to shareholders is another. Fortis' Dividends have been increasing consecutively for the last 35 years. Although past performance does not guarantee future results, it is a strong indication of management's growth strategy.

As a blue-chip, dividend-paying company in a defensive industry with a good valuation, Fortis is one of our top picks this year. However, while evaluating investment alternatives, investors should be aware of certain risks. The Company's operations, for one, are dependent on regulations. Also, the Company has been using debt as a preferred financing source. And Fortis has international exposure. Therefore, any adverse changes in the regulatory arena, interest rates, currency fluctuations, or natural disasters may affect its performance negatively.

We are initiating coverage on Fortis with \$33.00 target price and our recommendation is "Outperform".

Fortis

Fortis is a diversified, international utility holding company that owns subsidiaries principally engaged in the regulated distribution of electricity and gas. Regulated utility assets comprise approximately 92 per cent of the Corporation's total assets with the balance comprised primarily of non-regulated generation operations and commercial real estate and hotel investments owned and operated through its non-utility subsidiary. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets.

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Explanations of Regulatory Terms

Cost of Service - Rate orders issued by the regulatory authority establish the Company's revenue requirements. That revenue is required to recover approved costs with the distribution business and also provide a rate of return on a deemed capital structure applied to rate-based assets. It is not possible to recover the variance if it occurs. But certain prescribed costs are eligible for deferral account treatment.

Performance-Based Rate (PBR) Setting (for Fortis BC) - The PBR framework allows for the equal sharing between customers and the Company of variances above or below the allowed return on equity (ROE) within a prescribed band.

PBR (TGV) - 100 per cent retention of earnings from lower-than-forecasted operating and maintenance costs but no relief from increased operating and maintenance costs

Terasen Gas Companies

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Gas and propane distribution and transmission
Location	Populous lower mainland, Vancouver Island and the interior of British Columbia.
Regulations	<p>Cost of Service/Return on Equity</p> <p>Terasen Gas Inc (TGI) and Terasen Gas Vancouver Island (TGVI) operate under cost-of-service regulation and performance-based rate setting methodologies as described by BCUC. ROE automatic-adjustment formula tied to long-term Canada bond yields</p> <p>For TGI:</p> <p>2006 allowed ROE: 8.80%</p> <p>2007 allowed ROE: 8.37%</p> <p>2008 allowed ROE: 8.62%</p> <p>For TGVI:</p> <p>2006 allowed ROE: 9.50%</p> <p>2007 allowed ROE: 9.07%</p> <p>2008 allowed ROE: 9.32%</p> <p>Allowed Common Equity: 35% and 40% for TGI and TGVI, respectively.</p> <p>Regulatory Commission: British Columbia Utilities Commission (BCUC)</p>
Capacity/Service	Terasen Gas serves over 918,000 customers or 96% of natural gas users in British Columbia.

As the latest acquisition of Fortis Inc., Terasen is comprised of three wholly owned subsidiaries (TGI, TGVI and Terasen Gas Whistler Inc (TGWI)). TGI provides gas distribution services to an area that extends from Vancouver to the Fraser Valley and the interior of British Columbia. TGVI owns a combined gas distribution and transmission system servicing customers along the Sunshine Coast and in various communities from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia. TGWI provides propane distribution services to approximately 2,400 customers in the Whistler area.

On June 19, 2007, Standard & Poor's raised Terasen's unsolicited long-term corporate credit and senior unsecured debt credit ratings on TGI to "A" from "BBB." This upgrade brought S&P back in line with the solicited credit ratings of Terasen by DBRS and Moody's Investors Service.

FortisAlberta

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Distribution of electricity
Location	Southern and Central Alberta
Regulations	<p>Cost of Service/Return on Equity -ROE automatic-adjustment formula tied to long-term Canada bond yields</p> <p>2006 allowed ROE: 8.93%</p> <p>2007 allowed ROE: 8.51%</p> <p>2008 allowed ROE: 8.75%</p> <p>Allowed Common Equity: 37%</p> <p>Regulatory Commission: Alberta Utilities Commission (AUC)</p>
Capacity/Service	FortisAlberta distributes electricity to over 448,000 customers.

FortisAlberta's business is the ownership and operation of regulated facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in generation, transmission or the direct sale of electricity.

FortisAlberta is one of the companies that Fortis acquired from Aquila, Inc., along with FortisBC, for \$1.5 billion in May 2004.

FortisBC

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Integrated electric utility operation
Location	Southern interior of British Columbia
Regulations	<p>Cost of Service/Return on Equity</p> <p>Both cost-of-service and performance-based rating regulation. PBR mechanism through 2008, with option to continue in 2009 -50/50 sharing of earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE.</p>

FortisBC (Cont'd)

Regulations (cont'd)	<p>ROE automatic-adjustment formula tied to long-term Canada bond yields</p> <p>2006 allowed ROE: 9.20%</p> <p>2007 allowed ROE: 8.77%</p> <p>2008 allowed ROE: 9.02%</p> <p>Allowed Common Equity: 40%</p> <p>Regulatory Commission: British Columbia Utilities Commission (BCUC)</p>
Capacity/Service	<p>The Company serves approximately 154,000 customers directly and indirectly in the southern interior of British Columbia. FortisBC owns four regulated hydroelectric generating plants with a combined capacity of 223 MW. During 2007, energy output was increased by 11,000 MW hours as a result of negotiated adjustments to the Canal Plant Agreement with BC Hydro.</p>

FortisBC also operates the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd.; the 149-MW Brilliant hydroelectric plant; the 185-MW Arrow Lakes hydroelectric plant owned by Columbia Power Corporation and the Columbia Basin Trust; and the distribution system owned by the City of Kelowna. The former Princeton Light and Power Company, Limited was purchased in 2005 and wound up by FortisBC on January 1, 2007. Princeton's assets and liabilities were assumed by FortisBC then.

The transmission and distribution assets consist of approximately 6,900 kilometers of transmission and distribution power lines and 64 distribution substations.

FortisBC intends to file its 2009 and 2010 Capital Plan and 2009 revenue requirements with BCUC in the third quarter of 2008.

Newfoundland Power

Fortis Inc. Ownership (%)	100% of common shares
Segment	Regulated Utilities - Canadian
Operation	Integrated electric generation, transmission and distribution
Location	Newfoundland
Regulations	Cost of Service/Return on Equity -ROE automatic-adjustment formula tied to long-term Canada bond yields

Newfoundland Power (Cont'd)

Regulations (cont'd)	2006 allowed ROE: 9.24% +/- 50bps 2007 allowed ROE: 8.60% +/- 50bps 2008 allowed ROE: 8.95% +/- 50bps Allowed Common Equity: 45% Regulatory Commission: Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB)
Capacity/Service	As the principal distributor of electricity in Newfoundland, the company serves approximately 232,000 customers in the Province, and has an installed generating capacity of 139 MW, of which 96 megawatts is hydroelectric generation.

Newfoundland Power is the principal distributor of electricity on the island portion of Newfoundland and Labrador. It owns and operates 29 small generating stations and approximately 11,000 kilometers of transmission and distribution lines. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro, a provincial Crown Corporation. The remainder of its energy requirements is generated by the Company itself.

Newfoundland Power received approval of a Negotiated Settlement Agreement (NSA) by the PUB in December 2007 for its 2008 rates. The 2.8% rate increase is largely driven by higher amortization costs.

Maritime Electric

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Integrated electric generation, transmission and distribution
Location	Prince Edward Island
Regulations	Cost of Service/Return on Equity 2006 allowed ROE: 10.25% 2007 allowed ROE: 10.25% 2008 allowed ROE: 10.00% Allowed Common Equity: 40%

Maritime Electric (Cont'd)

Regulations (cont'd)	Regulatory Commission: Island Regulatory and Appeals Commission (IRAC)
Capacity/Service	Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 72,000 customers. The Company also maintains on-Island generating facilities with a combined capacity of 150MW.

Maritime Electric purchases most of its energy from New Brunswick Power, a provincial Crown corporation. Maritime Electric's system is connected to the mainland power grid via two submarine cables under the Northumberland Strait, which are leased from the provincial government.

The PEI government expects to see an increased reliance by Maritime Electric on renewable energy sources, such as wind-powered energy, located on the Island. By 2010, Maritime Electric will be required to obtain at least 15 per cent of its annual energy requirements from renewable sources.

FortisOntario

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Integrated electric generation, transmission and distribution (Canadian Niagara Power, including the operations of Port Colborne Hydro and Cornwall Electric.)
Location	Ontario
Regulations	<p>Canadian Niagara Power – Cost of Service/ROE Cornwall Electric – Price cap with commodity cost flow-through</p> <p>2006 allowed ROE: 9.00% 2007 allowed ROE: 9.00% 2008 allowed ROE: 9.00%</p> <p>Allowed Common Equity: 50%</p> <p>Regulatory Commission: Ontario Energy Board (OEB) for Canadian Niagara Power. The Company has a franchise agreement for Cornwall Electric.</p>

FortisOntario (Cont'd)

Capacity/Service	In total, FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Port Colborne, Cornwall, and Gananoque areas of Ontario. Canadian Niagara Power owns international transmission facilities at Fort Erie as well as a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, two regional electric-distribution companies that together serve over 27,000 customers.
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Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from the Independent Electricity System operator in Ontario. In Gananoque, Canadian Niagara Power's distribution system is embedded within Hydro One Networks. Approximately 83 per cent of energy requirements for Gananoque are met through monthly energy purchases from Hydro One Networks and the remaining 17 per cent is purchased from six hydroelectric generating plants owned by Fortis Properties.

Cornwall Electric purchases 98 per cent of its power requirements from Hydro-Québec Energy Marketing Inc. under two fixed-term contracts. The first contract, which represents approximately 37 per cent of the power supply, expires in 2019. The second contract, which supplies the remainder of the power from Hydro-Québec Energy Marketing, is a 24-month rolling contract expiring in 2008. FortisOntario's 5-MW gas-fired cogeneration plant generates the remaining two per cent of the power requirement in Cornwall.

Cornwall Electric is subject to a 35-year franchise agreement with the City of Cornwall, dated July 31, 1998. Rates under the agreement are subject to a price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth. In November 2004, the OEB granted Cornwall Electric a distribution licence valid until December 2019. The licence acknowledges the existing service territory and franchise agreements. Prior to this date, Cornwall Electric had been granted an interim distribution licence.

Belize Electricity

Fortis Inc. Ownership (%)	70.1%
Segment	Regulated Electric Utilities - Caribbean
Operation	Generation, transmission and distribution of electricity
Location	Belize, Central America
Regulations	<p>Four-year cost-of-service/return-on-assets agreements with market-based returns</p> <p>2006 allowed ROA: 10.00 - 15.00%</p> <p>2007 allowed ROA: 10.00 - 15.00%</p> <p>2008 allowed ROA: 10.00 - 15.00%</p> <p>Regulatory Commission: Public Utilities Commission (PUC).</p>
Capacity/Service	Belize Electricity is the principal distributor of electricity in Belize serving approximately 73,000 customers. The Company has an installed generating capacity of 36 MW.

Belize Electricity meets its energy demand from multiple sources, which include power purchases from:

- (i) CFE, the Mexican state-owned power company;
- (ii) the Mollejon and Chalillo hydroelectric facilities owned and operated by BECOL;
- (iii) Its own diesel-fired and gas turbine generation.

All major load centers are connected to Belize's national electricity system, which is connected to the Mexican electricity system, allowing Belize Electricity to optimize its power-supply options.

Fortis Turks & Caicos

Fortis Inc. Ownership (%)	100%
Segment	Regulated Electric Utilities - Caribbean
Operation	Generation, transmission and distribution of electricity
Location	Turks and Caicos Islands
Regulations	<p>Cost of Service/Return on Assets</p> <p>2006 allowed ROA: 17.50%</p> <p>2007 allowed ROA: 17.50%</p> <p>2008 allowed ROA: 17.50%</p> <p>Regulatory Authority: Energy Commission</p>

Fortis Turks & Caicos (Cont'd)

Capacity/Service	The Company is the principal distributor of electricity on the Turks and Caicos islands, serving more than 8,700 customers. The company has a combined diesel-fired generating capacity of 48 MW.
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Caribbean Utilities

Fortis Inc. Ownership (%)	54%
Segment	Regulated Electric Utilities - Caribbean
Operation	Generation, transmission and distribution of electricity
Location	Grand Cayman, Cayman Islands
Regulations	<p>Cost of Service/Return on Assets</p> <p>Price-cap adjustment mechanism tied to consumer price indices (effective 2008 under proposed new licence)</p> <p>2006 allowed ROA: 15.00%</p> <p>2007 allowed ROA: 15.00%</p> <p>2008 allowed ROA: 9.00 - 11.00% (proposed)</p> <p>Regulatory Commission: Electricity Regulatory Authority (effective 2008 under proposed new licence)</p>
Capacity/Service	Caribbean Utilities is the sole provider of electricity on Grand Cayman serving more than 23,000 customers. The company has installed generating capacity of 137 MW.

On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of this company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX: CUP.U) and has an April 30th fiscal year end.

Non-Regulated - Fortis Generation

Location	Plants	Fuel	Capacity (MW)
Ontario	8	Hydro, thermal	88
Belize	2	Hydro	32
Central Newfoundland	2	Hydro	36
Upper New York State	4	Hydro	23
British Columbia	1	Hydro	16
Total	17		195

Annual energy sales from non-regulated generation assets decreased to 1,122 GWh in 2007 from 1,203 GWh in 2006.

Non-regulated generation operations in Ontario include those of FortisOntario and the former FortisOntario Generation. On December 14, 2005, FortisOntario Generation was transferred from FortisOntario to Fortis Properties and was amalgamated with CNE Energy on January 1, 2006. One year later, CNE Energy amalgamated with Fortis Properties. FortisOntario includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement and the operation of a 5-MW gas-fired cogeneration plant in Cornwall. Fortis Properties' generating operations in Ontario consist of six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

During 2005, the assets related to the 75 MW of water-right entitlement were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Non-regulated generation operations in Belize consist of the operations of BECOL. BECOL operates both the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility and sells the entire output to Belize Electricity under a 50-year power purchase agreement and a franchise agreement.

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership, a venture with Abitibi-Consolidated that constructed, installed and now operates additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric generating plant at Bishop Falls.

The Exploits Partnership project was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy, approximately 140 GWh, produced from the new facilities is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement, which is exempt from regulation and expires in 2033.

Non-regulated generation operations in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013. Generation operations in British Columbia were acquired as part of FortisBC in May 2004.

Non-regulated generation operations in Upper New York State include four hydroelectric generating stations with a combined generating capacity of 23 MW under licenses from FERC. These generating stations operate as FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005, by way of a transfer from its subsidiary Maritime Electric. Effective January 1, 2007, two of the power purchase agreements were renewed and all four plants are now selling energy to National Grid at market rates.

Non-regulated - Fortis Properties

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

In 2007, Fortis Properties derived approximately 31% of its revenue from real estate operations and 69% of its revenue from hotel operations.

Strategy and Outlook

The Corporation's principal business – regulated utilities – is capital intensive, and Fortis expects that most of its capital expenditures for the next five years will relate primarily to Terasen, FortisAlberta and FortisBC. Consolidated utility capital expenditures for this period are expected to be over \$4 billion.

Fortis also expects to focus its capital on funding further acquisitions of utility assets. The Corporation will continue to pursue acquisition opportunities both in and outside of Canada.

As well, Fortis will pursue growth in its non-regulated businesses including hydroelectric generation, hotels, and real estate. Fortis will maintain approximately 15-20% of its assets in non-utility businesses since these businesses are providing flexibility in financing and tax planning.

The primary objectives of the Company are that:

- Earnings should continue at a rate commensurate with that of a well-run North American utility
- Risks should not be substantially greater than associated with the operations of a similar-size North American utility
- Growth in assets and market cap should be greater than the average of other North American public gas and electric corporations of similar size.

Management

The management team at Fortis is lean but has a very successful track record: it has grown significantly in a highly regulated industry through strategic acquisitions and very skillful digestion of these acquisitions. Shareholders have benefited as a result.

H. Stanley Marshall – President, Chief Executive Officer. Mr. Marshall joined Newfoundland Power Inc. in 1979 and was appointed President and Chief Executive Officer of Fortis Inc. in 1996. A native of Carbonear, Newfoundland, Mr. Marshall earned a Bachelor of Applied Science Degree in Chemical Engineering from the University of Waterloo and Bachelor of Laws at Dalhousie University. He is a member of the Law Society of Newfoundland and Labrador and a registered professional Engineer. Mr. Marshall serves on the Boards of all Fortis utilities in Western Canada and the Caribbean and the Board of Fortis Properties Corporation and is a Director of Toromont Industries Ltd.

Barry V. Perry – Vice President, Chief Financial Officer. Most recently, Mr. Perry held the position of Vice President, Finance and Chief Financial Officer of Newfoundland Power. Previously he held the position of Vice President Treasurer with a global forest products company and Corporate Controller with a large crude oil refinery.

Active in the business community, Mr. Perry is a member of the Finance and Taxation Committee of the Canadian Electrical Association and a member of the By-laws Advisory Committee for the Institute of Chartered Accountants of Newfoundland.

Ronald W. McCabe - General Counsel and Corporate Secretary and Donna G. Hynes - Assistant Secretary and Manager, Investor and Public Relations.

Industry

Domestic Energy Production by Energy Source (petajoules)					
	2002	2003	2004	2005	2006*
Petroleum (Crude Oil and gas plant NG liquids)	6,049	6,365	6,517	6,404	6,739
Natural Gas	6,660	6,462	6,524	6,373	6,588
Hydroelectricity	1,245	1,198	1,207	1,289	1,271
Nuclear	824	817	986	1,009	1,090
Coal	1,430	1,326	1,476	1,494	1,554
Renewable and Other	631	633	657	681	707
Total	16,839	16,801	17,367	17,250	17,949

*estimates

Source: Statistics Canada, National Energy Board

Canada is not only self sufficient in terms of electricity generation and distribution, it is a net exporter thanks to the abundance of natural resources such as water and coal. However, there is always a need for sustainability of supply in the long term. Following is a list of factors affecting the supply-demand balance of Canada's electricity market across provinces:

Sources of generation – In 2006, hydro generation accounted for 59% of electric power in Canada while nuclear energy provided about 16% of the country's total electricity production.

Depending on proximity to natural sources of generation, some provinces such as Quebec, Manitoba, British Columbia, and Newfoundland and Labrador, are known as hydro-based provinces. On the other hand, thermal-based jurisdictions such as Nova Scotia, Saskatchewan and Alberta rely primarily on coal while other provinces like New Brunswick and PEI use mostly oil. In Ontario, nuclear power accounts for more than half of total electricity generation (and New Brunswick has also nuclear power plants). Cost is the differentiating factor. Changes in the price of oil, coal and natural gas price, especially for thermal resources, create significant volatility with respect to the cost of electricity. Provinces are looking for ways to keep costs down. Recent increases in the price of fossil fuels, for example, have adversely affected the cost structure of electricity generation. In 2006, the proportion of electricity generated in Canada using fossil fuels declined by 7.0%.

Aging infrastructure – Although hydro generation seems less affected by volatility in commodity markets, their aging transmission and distribution lines are a significant issue. In addition, the cost of building new generation facilities is an important factor in determining where new sources of generation will be located. Currently most alternative and renewable energy sources are more costly than thermal-based generation. The good news is that technological advances are helping to reduce the cost for many alternative and renewable resources. The bad news is that combined generation from wind, solar and tidal sources in 2006 represented less than 0.5% of total generation.

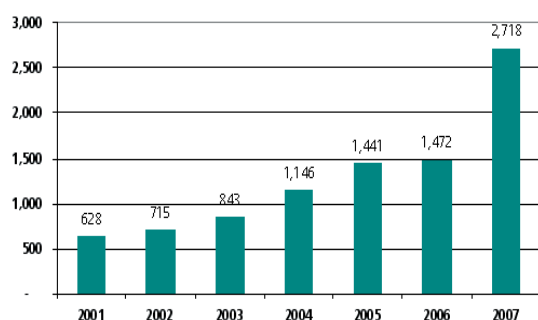
But there is hope for renewable energy sources. Wind generation has been growing significantly in Canada according to the Statistics Canada. Wind generation capacity in Canada more than doubled in 2006 and continued to grow in 2007. The largest increase was posted in Ontario. According to the Canadian Wind Energy Association, Canada's current installed capacity is 1,856 MW – enough to power 560,000 Canadian homes or the equivalent of 0.8 % of the total electricity demand. There are provincial wind policies in place, mostly setting targets for generation coming from renewable energy sources. Although these targets are not necessarily mandatory, factoring the volatile energy prices into the picture, there is good business sense in reaching them. The estimated total economic impact of the wind industry in Canada was approximately \$1.5 billion in 2006.

Market structures – Canada is a net electricity exporter. The trade between certain Canadian provinces and the U.S. (north-south grid) is better than inter-provincial trade among Canadian provinces (east-west grid) because, historically, inter-provincial trade was not considered economically attractive. Hydro-based provinces, in particular, prefer to export some of their production. The revenue generated by this export trade returns to taxpayers in the form of lower prices or as a contribution to government revenues.

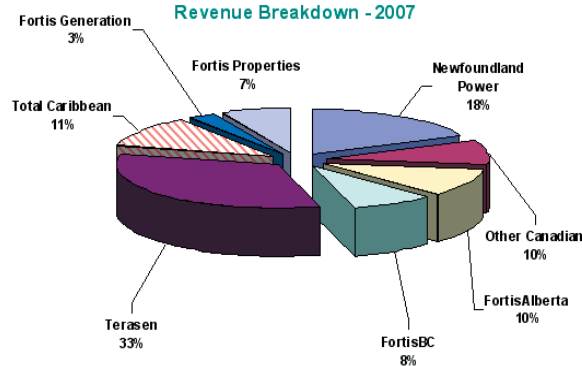
Regulatory environment – A traditional vertically integrated market structure has been abandoned in many provinces. Alberta and Ontario opened their markets to wholesale and retail competition; other provinces partially restructured their markets or have maintained existing models. British Columbia, Saskatchewan, Québec, and New Brunswick have wholesale access and retail access to large industrial users while Manitoba allows wholesale access only. Although the objective is to encourage competition and, thereby obtain efficiencies, in many provinces, there is a debate over the success of restructuring in terms of reaching intended objectives. Except for Alberta and Ontario, pricing structure is a regulated cost-of-service rate.

Financial Analysis

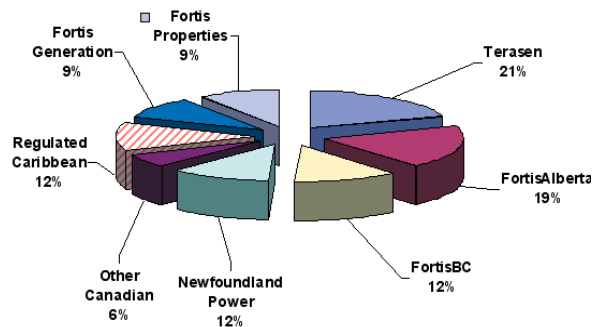
Revenues (million \$)



Revenue Breakdown - 2007



Segmented Net Earnings - 2007*

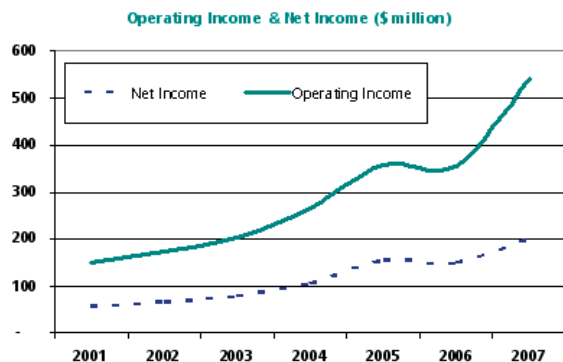


* Before corporate and other net expenses

The five-year average revenue growth of Fortis is approximately 33% (CAGR is 173%), which is significantly above the industry average. Most of this growth is generated by acquisitions. The Company's revenues were considerably boosted by the acquisition of FortisAlberta and FortisBC in 2004 and Terasen in 2007. Recently announced year-end results have shown that Fortis increased its revenues by 85% in 2007, thanks primarily to the acquisition of Terasen, which is responsible for 62% of the growth over three quarters. According to our calculations, acquisition of Fortis Turks and Caicos in August 2006 and inclusion of its full-year financials in the consolidated revenues of 2007 as well as that of the Caribbean Utilities had an impact of approximately 15 -25% in overall revenue growth. Therefore, we have determined that the organic growth rate of the Company was approximately 5% for the year 2007.

In 2007, 79% of the Company's total revenue was derived from the Canadian regulated segment — including Terasen (34%). The largest share in the regulated electricity group belongs to Newfoundland Power, which contributed 18% of the total revenue of Fortis Inc. Fortis Properties revenue contributed 7% and the Caribbean 11%.

During 2007, FortisAlberta added 18,000 customers bringing the total number of customers to over 448,000. An increase in the number of customers, an increase in the distribution rates, franchise fee revenue, net transmission revenue, and other increases resulted in an almost 8% growth in this subsidiary's revenue. Although the operating expenses were higher in 2007, FortisAlberta managed to boost its earnings by 14%.



In 2007, Fortis BC's electricity sales were negatively affected by warmer temperatures and reduced industrial loads associated with plant optimization by a significant industrial customer. Yet this subsidiary achieved sales and revenue growth during the year. Higher electricity rates, lower energy supply costs and corporate taxes helped FortisBC increase its earnings for the year by 15%.

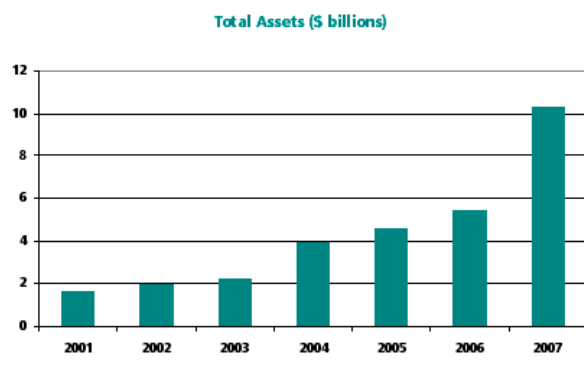
Fortis' flagship company, Newfoundland Power, had a mediocre year in 2007 with 16% revenue growth due to flow-through of high energy supply costs and no earnings growth. Although Newfoundland Power had increased electricity sales, this was partially offset by a decrease in electricity rates due to a lower allowed ROE.

Higher average consumption due to cooler-than-normal weather conditions experienced on PEI and Ontario resulted in higher electricity sales for Maritime Electric and FortisOntario. However, in Ontario, the subsidiary lost a major industrial customer and another industrial customer temporarily shut down its operations. Therefore, this segment's revenues grew a modest 4% in 2007. Thanks to the one-time gain at FortisOntario and increased electricity sales and rates, this segment increased its earnings by 14%.

There are a few changes on the Caribbean operations of Fortis. In November 2006, Fortis acquired an additional 16% interest in Caribbean Utilities, bringing its total interest to 54%. Also, Fortis acquired two companies in the Turks and Caicos, and 2007 was the first year of ownership of Fortis Turks & Caicos and therefore a full year of consolidation of its financial results in the Company's 2007 year-end statements. The impacts of consolidating aside, higher electricity sales and lower finance charges at Belize Electricity were partially offset by the impact of stronger Canadian dollar and lower earnings in Caribbean Utilities.

On the generation front, revenues were lower due to decreased production (lower rainfall), partially offset by higher average wholesale energy prices in Ontario and the flow-through of increased energy supply-related costs in central Newfoundland. Earnings were lower primarily due to lower production.

Fortis Properties, on the other hand, had a very good year with 17% revenue growth and 26% earnings growth. The growth of the Company's hospitality operations in western Canada and favorable corporate tax adjustment contributed to the bright performance of this subsidiary.



Constituents of "the Corporation and Other" segment have changed this year. On top of the usual expense and revenue items not specifically related to any other reportable segment, interest on debt incurred directly by Terasen Inc. and the financial results of CWLP are also added. CWLP is a non-regulated shared-service business in which Terasen holds a 30% interest. Although the revenues for this group increased by 144%, it posted a loss of \$61 million mainly due to \$70 million in finance charges for the year.

Although the Company's EBITDA margin declined to 30% in 2007, its five-year average of this ratio (33%) is still comparable with its peers. Operating income in 2007 grew 52%, of which Terasen's growth accounted for 39%. This is an important ratio considering that one of Terasen's most profitable quarters (the first quarter) is not included in this figure. Seasonality is a factor in Terasen's earnings since the first and fourth quarters are the company's best quarters in terms of profitability.

In terms of its asset size, Fortis has almost doubled in the last years. Today the Company is seven times bigger than it was in 2000 and ten times bigger than it was a decade ago. Important additions to the Company's asset size include the Terasen acquisition in 2007, FortisAlberta and FortisBC in 2004, Caribbean expansion and acquisition of hospitality operations in 2006, and an hotel acquisition in 2007. Regulated assets constitute the majority of the Company's total assets.

In addition to strategic acquisitions, Fortis continuously invests in subsidiaries. The Company's capex budget averaged approximately 30% of its sales in the last five years. As the Company's strategy suggests, Fortis will continue to grow its principal business: ownership and operation of regulated utilities. The Company also keeps 15% - 25% of its assets in non-utility businesses. These businesses not only support its utility enterprises but also provide the Company flexibility in financial and tax planning that is not generally possible for utilities because of regulatory and public policy constraints.

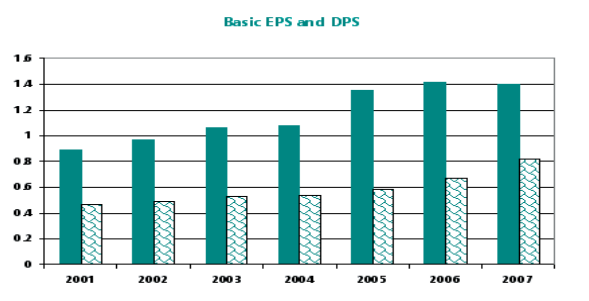
As the Company forecasted in its 2008 capex budget, \$890 million will be spent for the subsidiaries as shown in the table below. Fortis expects to use approximately 50% of this budget for growth and 35% for ensuring continued and enhanced performance, reliability and safety of generation and transmission/distribution assets. The remaining 15% will be spent on the facilities and for equipment, vehicles, information systems, and other assets.

Gross Capex - 2007 and 2008 (Forecasted)								
(\$ million)	Terasen	FortisAlberta	FortisBC	NF Power	Other Reg (Canadian)	Regulated Caribbean	Non-Regulated	Total
2007	120	285	147	72	38	106	22	790
2008	250	264	136	53	38	101	48	890

Among the significant capital projects planned, TGI's liquefied natural gas (LNG) storage facility on Vancouver Island is expected to be completed by 2011 at a cost of \$175 - \$200 million. It will allow more efficient use of TGI's existing pipeline system and result in improved reliability and security of supply during system interruptions or in times of high demand. Construction is expected to begin in April 2008 based on conditional approval from BCUC in November 2007. Additionally, FortisAlberta, FortisBC and Fortis Generation have ongoing capital projects that are expected to be completed between 2009 and 2011.

Debt has always been a preferred form of financing for the Company, and accounts for almost 54% of total assets (preference shares excluded). The Company borrowed \$603 million under committed credit facilities and issued \$797 million of long-term debt in 2007. Fortis also assumed Terasen's consolidated debt, \$2.4 billion, as part of the acquisition. The debt-to-equity ratio has increased steadily to 2.03 from 1.59 over the last five years mainly due to the Company's financing strategy. Along with the increasing indebtedness, the interest coverage ratio of Fortis has been declining (1.81 for 2007), though it is still within an acceptable range.

Well-recognized debt rating agencies also agree on the Company's financial strength. DBRS rated Fortis at BBB (high) and S&P Rating Services confirmed it with A- (raised after the acquisition of Terasen).



The Company has a reputation for increasing dividends, which it has done for 35 consecutive years. The payout ratio for 2007 was 58.6%, which is above its peers. The average payout ratio for the last five years is 50%. In 2007, the Company issued 44.3 million common shares for gross proceeds of \$1.15 billion to finance part of the acquisition of Terasen. With this dilution, the EPS of the Company declined although the net income rose 31%.

Valuation

We have used three methods to value Fortis. The first is the Discounted Cash Flow (DCF) method. In order to estimate and discount the future cash flows of the Company, certain assumptions had to be made:

- 2008 will be another year of high growth for Fortis mainly due to the full-year consideration of Terasen's financials. Considering that one of Terasen's best quarters was not accounted for in the Fortis 2007 financials, most of the new growth will come from Terasen. Keeping other segments relatively conservative, we assumed that FortisAlberta and FortisBC would continue to take advantage of the economic growth and investments made previously. The Caribbean will be another growing segment of the Company. Overall, we assumed that total revenue will grow approximately 37% in 2008. From 2008 on, we assumed that the Company would grow by 6% over the long term. The loss of revenue from Ontario generation in 2009 is the only expected hiccup in the Company's estimated revenue stream, which is not expected to have a significant affect. This loss (of revenue and earnings) is expected to be partially offset by Vaca Hydroelectric generating facility being online in late 2009.
- We assumed that the operating margin of Fortis would gradually increase over the next five years. For 2008, our estimate is 21%.
- Our DCF scenario is based on the current status of the Company with an assumption of "no acquisition." Although this is highly unlikely, with no specific data on prospective acquisitions, this is the most conservative scenario.
- Our capex assumption is based on the Company's plan of \$4 billion in five years. Also, Fortis forecasts a budget of \$890 million for 2008 capital expenditures. We assume that Fortis would finance this budget 60% by debt.
- We calculated the weighted average cost of capital as 7% for the Company using its current borrowing rate and cost of equity derived from the CAPM run for Fortis.

We also used a Dividend Discount Model to determine a target value for Fortis. In this method, we used the same cost of equity that we derived for the DCF method. We assumed that the Company would keep its payout ratio unchanged for the next five years and after five years, the stable growth rate would settle at 3%.

The last method that we applied for the Company's valuation is Market Multiples. Selected multiples are P/E, P/S, P/BV and EBITDA Margin. The peer group consists of Canadian Utilities, Atco Ltd, Emera Inc., Epcor Power, Algonquin Power, Northland Power, and Transalta Corporation.

According to weighted average of these methods, we reached a target price of \$33.00.

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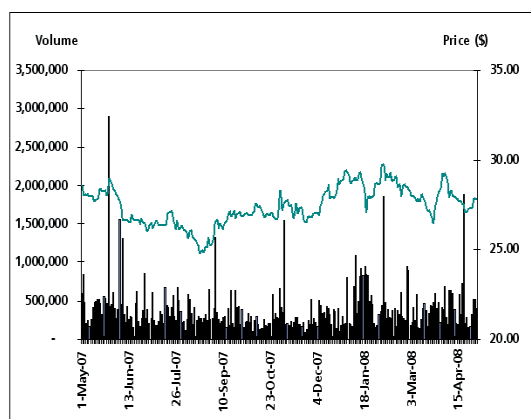
RATING

Citadel Securities Inc. utilizes a three-tiered rating system to identify the total expected return of a stock over the next 12 months.

Outperform: 15% or more

Market Perform: Between 15% and -15%

Underperform: -15% or less

Fortis Inc.
(FTS - \$27.26)
Earnings Update
Outperform
Target Price: \$33.00


Market Capitalization (\$ million)	4,279
Outstanding Number of Shares (million)	156
Dividend Yield (%)	3.66

(\$ million except per share data)	2007	2008E	2009E
Revenues	2,718	3,733	3,957
EBITDA	814	1,116	1,204
EPS	1.40	1.58	1.89

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

May 2, 2008
Good quarter boosted by Terasen

Fortis announced its Q1 financials for 2008. Revenue growth (y-o-y) was 137% mainly due to the contribution from Terasen (Terasen Gas Companies). The organic revenue growth was approximately 5% thanks to Fortis Alberta and Newfoundland Power.

Operating income of the Company increased 118% overall and 4% excluding the contribution of Terasen. Due to the nature of its business, Terasen's annual earnings is virtually created in the fourth and first quarter of the year. Fortis Alberta and Caribbean Utilities enjoyed growth in their earnings y-o-y. Due to quarterly shift in the distribution of annual purchased power expense, earnings of Newfoundland Power will be lower in the first and fourth quarters and higher in the second and third quarters of 2008 as compared to the same periods in 2007. Annual earnings of Newfoundland Power will not be affected from this shift.

The table below presents the quarterly highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	Q1/2008	Q1/2007	Q1/2008	Q1/2007
Terasen	635	na	113	na
Fortis Alberta	73	64	20	17
Fortis BC	66	64	20	20
NF Power	164	154	18	24
Other Canadian	70	70	10	11
Electric Caribbean	75	77	17	9
Fortis Generation	19	21	11	12
Fortis Properties	45	40	10	9
Corporate & Other	7	3	1	-
Intersegment Elimination	(8)	(10)	(4)	(3)
Consolidated	1,146	483	216	99

Announced Q1 EPS of \$0.58 is in line with our annual estimates. Our target price for the Company is \$33.00 (unchanged) and recommendation is "Outperform" (unchanged).

Terasen

As the largest investor-owned distribution utility in Canada, Fortis has been increasing its presence and its revenue by mostly acquisitions. The Company acquired Terasen Gas Companies (Terasen) for \$3.7 million on May 17, 2007. The acquisition has been accretive to the Company as expected. Due to the nature of its business, Terasen's earnings are created in the fourth and first quarters of the year. Therefore Q1/2008 was a supergrowth quarter for the overall financials of Fortis.

Recent Developments

As for the 2008 allowed rates of return on common shareholders' equity for Terasen, Fortis Alberta, Fortis BC and Newfoundland Power, they have been set at 8.62 per cent, 8.75 per cent, 9.02 per cent and 8.95 per cent, respectively. Also in February 2008, Fortis Alberta received regulatory approval of a Negotiated Settlement Agreement for its 2008 and 2009 electricity rates. Caribbean Utilities was granted a new exclusive 20-year transmission and distribution licence and a new non-exclusive 21.5 year generation licence by the Government of Cayman Islands in April 2008.

Cash Flow and capex

The Company's operating cash flow was also more than doubled by the increase in its earnings. Fortis is planning to spend \$4 billion for capital expenditures in five years including 2008. Also, Fortis forecasts a budget of \$890 million for 2008 capital expenditures. The Company spent \$162 million for utility capital expenditures in Q1/2008.

Segments

Fortis Alberta continued to be one of the high performers in this quarter. Energy deliveries increased by 4.9% q-o-q and the company enjoyed both customer growth and increase in distribution rate. Although these are offset by lower tax recoveries (driven by a decline in deductions taken for a tax purposes compared to accounting purposes), higher labour and employee benefit costs and increased amortization costs, Fortis Alberta managed to increase its operating earnings while having slightly less net earnings.

Newfoundland Power also enjoyed the increase in electricity sales as well as the average increase in customer rates. However, due to the quarterly shift in distribution, the company's earnings were lower. Under the regulated rate structure, annual purchased power expense per kilowatt hour is higher in the winter months and lower in the summer months. Although annual earnings will not be impacted by this shift, Newfoundland Power will post lower earnings in the first and fourth quarters and higher in the second and third quarters of 2008 as compared to the same period in 2007.

Other Canadian Electric Utilities, which include Maritime Electric and FortisOntario, had lower revenues mainly due to the lower average consumption as a result of warmer-than-normal weather conditions in Ontario. The comparison also shows the impacts of the loss of a major industrial customer and a temporary shutdown of operations of another industrial customer in Ontario.

Caribbean Utilities had 7.1% increase in electricity sales; however, the revenues were affected by foreign exchange associated with the translation of foreign-currency dominated revenue - by \$12 million. Excluding this unfavorable impact, revenues increased by \$10 million quarter over quarter. Caribbean Utilities also enjoyed higher earnings partially offset by increased finance charges, amortization costs and unfavorable foreign exchange impact.

Fortis Generation experienced a decline in its revenues and earnings mainly due to the lower production, reduced average wholesale energy prices per MWh in Ontario and unfavorable impact of foreign exchange. On the other hand, Fortis Properties had a good quarter with increased revenues and earnings boosted by the acquisition of Delta Regina.

Valuation

We have initiated coverage on Fortis on Feb 25, 2008. Here are the assumptions we presented in our initial report:

2008 will be another year of high growth for Fortis mainly due to the full-year consideration of Terasen's financials. Considering that one of Terasen's best quarters was not accounted for in the Fortis 2007 financials, most of the new growth will come from Terasen. Keeping other segments relatively conservative, we assumed that FortisAlberta and FortisBC would continue to take advantage of the economic growth and investments made previously. The Caribbean will be another growing segment of the Company. Overall, we assumed that total revenue will grow approximately 37% in 2008. From 2008 on, we assumed that the Company would grow by 6% over the long term. The loss of revenue from Ontario generation in 2009 is the only expected hiccup in the Company's estimated revenue stream, which is not expected to have a significant affect. This loss (of revenue and earnings) is expected to be partially offset by Vaca Hydroelectric generating facility being online in late 2009.

- We assumed that the operating margin of Fortis would gradually increase over the next five years. For 2008, our estimate is 21%.
- Our DCF scenario is based on the current status of the Company with an assumption of "no acquisition." Although this is highly unlikely, with no specific data on prospective acquisitions, this is the most conservative scenario.
- Our capex assumption is based on the Company's plan of \$4 billion in five years. Also, Fortis forecasts a budget of \$890 million for 2008 capital expenditures. We assume that Fortis would finance this budget 60% by debt.
- We calculated the weighted average cost of capital as 7% for the Company using its current borrowing rate and cost of equity derived from the CAPM run for Fortis.

We do not see any reasons to change our assumptions that provided the base for our DCF valuation. We also used a Dividend Discount Model to determine the target value of Fortis. In this method, we used the same cost of equity that we derived for the DCF method. We assumed that the Company would keep its payout ratio unchanged for the next five years and after five years, the stable growth rate would settle at 3%.

The last method that we applied for the Company's valuation is Market Multiples. Selected multiples are P/E, P/S, P/BV and EBITDA Margin. The peer group consists of Canadian Utilities, Atco Ltd, Emera Inc., Epcor Power, Algonquin Power, Northland Power, and Transalta Corporation.

According to weighted average of these methods, we keep our target price of \$33.00 for the Company. We think that Fortis is a well-managed, dynamic utility company with significant upside growth potential as well as attractive income-portfolio staple with its increased dividends.

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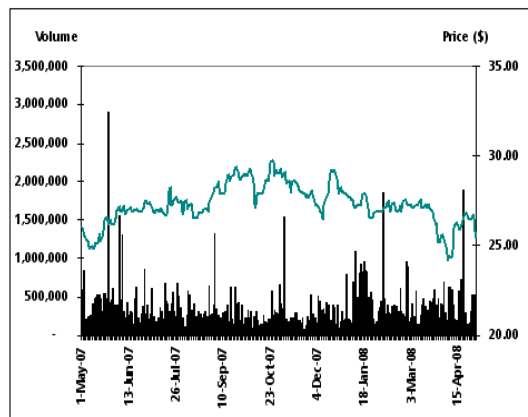
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Market Perform: Between 15% and -15%

Underperform: -15% or less

Fortis Inc.
(FTS - \$25.43)
Earnings Update
Outperform
Target Price: \$33.00


Market Capitalization (\$ million)	3,994
Outstanding Number of Shares (million)	157
Dividend Yield (%)	3.93

(\$ million except per share data)	2007	2008E	2009E
Revenues	2,718	3,733	3,957
EBITDA	814	1,116	1,204
EPS	1.40	1.58	1.89

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

August 12, 2008
Solid and growing

Fortis announced its 1H financials for 2008. Revenue growth (y-o-y) was 90% mainly due to the contribution from Terasen (Terasen Gas Companies). Since the acquisition of Terasen was completed on May 17, 2007, its revenues are only partially included in the half year financials of 2007. Like in the first quarter, revenue growth excluding Terasen was 5% for the first half of this year.

Operating Income of the Company increased 19% q-o-q and 63% y-o-y. EPS for the first half is \$0.77 as compared to \$0.69 of the same period last year. This result includes \$13 million (\$0.08 per common share) charge for the 70% share of the previously incurred fuel and purchase power costs being disallowed at Belize Electricity and a one-time charge of approximately \$2 million at FortisOntario associated with the repayment of interconnection agreement amounts received in the fourth quarter of 2007.

The table below presents the quarterly highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	Q2/2008	Q2/2007	Q2/2008	Q2/2007
Terasen*	1,025	130	160	17
Fortis Alberta	148	132	42	36
Fortis BC	119	115	36	33
NF Power	284	269	43	43
Other Canadian	131	135	19	22
Electric Caribbean	153	151	11	24
Fortis Generation	41	39	24	22
Fortis Properties	99	87	26	24
Corporate & Other	12	8	2	3
Intersegment Elimination	(18)	(17)	(6)	(5)
Consolidated	1,994	1,049	357	219

* The Terasen Gas companies were acquired on May 17, 2007.

Announced 1H EPS of \$0.77 is in line with our annual estimates. Our target price for the Company and recommendation remain same as previous.

Recent Developments

The Public Utilities Commission (PUC) of Belize denied any average rate increase and ordered a BZ36 million retroactive adjustment associated with the disallowance of previously incurred fuel and purchased power costs. The PUC also reduced Belize Electricity's target allowed ROA to 10% from 12%. As a result of the Final Decision, Belize Electricity recorded an \$18 million charge (\$13 million of which is the share of Fortis) to energy supply costs during the Q2/2008. Belize Electricity filed an application for judicial review and appeal of the Final Decision with the Supreme Court of Belize on July 25, 2008.

In May, the Company completed a public offering of 8,000,000 Series G First Preference Shares at a price of \$25.00 per share for gross proceeds of \$200 million. The Company will use this funds to repay \$170 million of debt, which was incurred to fund a portion of the acquisition of Terasen and the acquisition of the Delta Regina Hotel in 2007.

Segments

Fortis Alberta continued to be one of the high performers in this quarter as well. Energy deliveries increased by 4.1% y-o-y and the company enjoyed increased energy demand attributable to customer growth. However this revenue growth was offset by lower tax recoveries, higher labour and employee benefit costs and increased amortization costs. Therefore earnings were \$9 million lower ytd compared to the same period last year.

Newfoundland Power also enjoyed the increase in electricity sales as well as the average increase in customer rates. However, due to the quarterly shift in distribution, the company's earnings were \$3 million lower ytd compared to the same period last year. Excluding this impact, the earnings of Newfoundland Power is slightly higher comparatively to 1H/2007

The revenues were lower in Other Canadian Electric Utilities, which include Maritime Electric and FortisOntario mainly due to the lower average consumption as a result of warmer-than-normal weather conditions in Ontario and an unscheduled maintenance outage by a large customer at Maritime Electric.

Fortis Generation experienced an increase in its revenues by 5% and earnings by 8% mainly due to the higher production in central Newfoundland during the second quarter of 2008 as a result of higher rainfall.

Fortis Properties increased its revenues by 14% ytd comparatively to 1H/2007 both through the acquisitions of 2007 and growth in rates and business. Revenue per available room for Q2/2008 was \$87.54 compared to \$82.11 for Q2/2007.

Valuation and Recommendation

Fortis remains to be a one of our picks due to its strategy and its execution. In addition to the fact that Fortis operates in a defensive industry, it also positions itself for more growth through possible acquisitions and organically to increase the shareholder value. The announced results are in line with our annual estimates. Therefore we keep our target price and recommendation unchanged.

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RATING

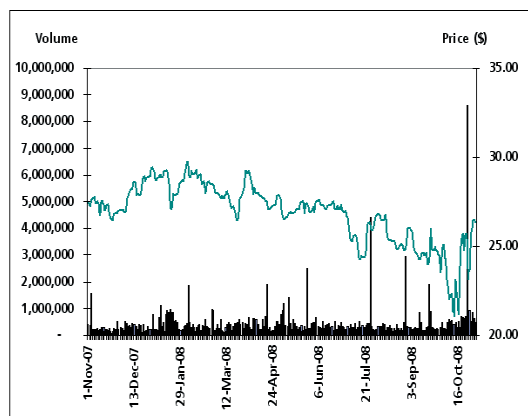
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Outperform: 15% or more

Market Perform: Between 15% and -15%

Underperform: -15% or less

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Fortis Inc.
(FTS - \$26.34)
Earnings Update
Outperform
Target Price: \$33.00


Market Capitalization (\$ million)	4,137
Outstanding Number of Shares (million)	157
Dividend Yield (%)	3.80

(\$ million except per share data)	2007	2008E	2009E
Revenues	2,718	3,733	3,957
EBITDA	814	1,116	1,204
EPS	1.40	1.58	1.89

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

November 3, 2008
Q3 Earnings Update

Fortis announced its Q3 financials for 2008. Revenue growth (y-o-y) was 60% partially due to the contribution from Terasen (Terasen Gas Companies). Quarter-over-quarter increase in revenue for the third quarter was 12% as compared to Q3 2007. Highest percentage revenue increase in the group belonged to Fortis Generation (24%). Caribbean segment followed it with 21% and Terasen's increase was right behind them as 19%.

Operating Income of the Company increased 44% y-o-y and 12% y-o-y. EPS for the first three quarters is \$1.08 as compared to \$0.86 of the same period last year. These results include a tax reduction of approximately \$7.5 million associated with the settlement of historical tax matters at Terasen. This effect added \$0.05 to the Basic EPS of the Company.

The table below presents the highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	YTD Q3/08	YTD Q3/07	YTD Q3/08	YTD Q3/07
Terasen*	1,296	357	191	47
Fortis Alberta	222	202	63	56
Fortis BC	171	167	52	47
NF Power	378	359	64	56
Other Canadian	197	198	30	33
Electric Caribbean	249	231	27	44
Fortis Generation	62	56	37	31
Fortis Properties	155	141	45	42
Corporate & Other	19	16	5	4
Intersegment Elimination	(28)	(27)	(10)	(9)
Consolidated	2,721	1,700	504	351

* The Terasen Gas companies were acquired on May 17, 2007.

Announced Q3 EPS of \$1.08 is in line with our annual estimates. Our target price for the Company and recommendation remain same as previous.

Recent Developments

In early September, Hurricane Ike struck the Turks and Caicos Islands. Although the Company's distribution system was damaged, there was not a significant damage to the utility's generating facilities. The hurricane's damage caused a reduction of \$1 million in the Q3 earnings due to a loss of revenue at Fortis Turks and Caicos. Since the large portion of the costs associated with re-connecting customers and restoring electricity service were capital in nature, these did not affect earnings. The company has business interruption insurance with a 30-day deductible period and is in the preliminary stage of determining its business interruption insurance claim.

The British Columbia Utilities Commission (BCUC) approved FortisBC's Okanagan Transmission Reinforcement project application in early October. FortisBC anticipates that construction activity for the \$141 million project will begin in the spring of 2009 and anticipates project completion in 2011. With this project, the company plans to upgrade the existing overhead transmission lines from 161kV to 230kV from Vaseux Lake south to Oliver, and Vaseux Lake north to Penticton, and the addition of a 230kV from Vaseux Lake north to Penticton. The plan also includes the construction of a new electrical substation in Oliver east of the current station, and modifications to the current Oliver substation as well as the Vaseux and RG Anderson substations.

Segments

Terasen, contributing the highest share (48%) in the revenues of Fortis, increased its revenues by 19% q-o-q mainly due to increased consumption, higher gas commodity costs charged to customers and increase in gas distribution rates. On the earnings side, the settlement between Terasen and Revenu Quebec and Canada Revenue Agency was reached. As a result, Terasen Gas Companies recorded an approximate \$5.5 million tax reduction in the third quarter of 2008. Excluding the tax reduction, the Terasen Gas Companies incurred a loss of approximately \$4.5 million in the third quarter, as a normal course of its seasonal business.

FortisAlberta increased its revenues by 6% mainly due to a 6.8% increase in customer distribution rates. Bottomline earnings of the company is lower due to lower future income tax recoveries, higher operating expenses and increased amortization costs and finance charges - stemming from the company's significant capital expenditure program and related borrowing facilities.

FortisBC's revenues slightly declined by a percentage point due to the impact of reduced industrial customer loads. This was partially offset by residential, general service and wholesale customer growth primarily in the Okanagan region. The company enjoyed lower energy supply costs although this was partially offset by higher amortization resulting from the company's capital expenditure program.

Newfoundland Power and Other Canadian Electric Utilities had also enjoyed moderate growths in their revenues, 6% and 5% respectively. although it was tempered by the loss of electricity sales at Fortis Turks and Caicos as a result of Hurricane Ike in early September, Caribbean segment recorded 21% growth in its revenue for the quarter. The increases were mainly due to customer growth, higher average usage associated with increased air conditioning load, and the impact of general economic growth.

Due to the higher production, increased average wholesale energy prices per MWh in Ontario and in upper New York State, Fortis Generation increased its revenues by 24% as compared to the same period in 2007. Fortis Properties enjoyed a slight revenue growth (4%) reflecting revenue contribution from the Delta Regina, acquired on August 1, 2007 and improved performance at Fortis Properties' hospitality operations in Atlantic Canada.

Valuation and Recommendation

Fortis remains to be a one of our picks due to its strategy and its execution. In addition to the fact that Fortis operates in a defensive industry, it also positions itself for more growth through possible acquisitions and organically to increase the shareholder value. The announced results are in line with our annual estimates. Therefore we keep our target price and recommendation unchanged.

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RATING

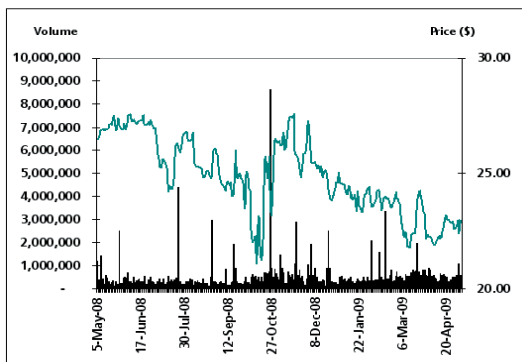
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Outperform: 15% or more

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Underperform: -15% or less

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Fortis Inc.
(FTS - \$22.85)
Earnings Update
Outperform
Target Price: \$28.00


Market Capitalization (\$ million)	3,879
Outstanding Number of Shares (million)	169.8
Dividend Yield (%)	4.55

(\$ million except per share data)	2008	2009E	2010E
Revenues	3,903	4,010	4,130
EBITDA	1,048	1,155	1,216
EPS	1.56	1.55	1.65

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

May 5, 2009
2009 Q1 Earnings Update

Fortis announced its first quarter financials for 2009. Revenue growth (q-o-q) was 4.8%. Highest percentage revenue increase in the group belonged to the Caribbean segment (11%) followed by Fortis BC (9%) and Fortis Alberta (8%). Favorable result in the Caribbean segment is mainly due to the foreign exchange impact (of the strengthening US dollar against the Canadian dollar) and the one-time recording of \$1 million of favorable appeal judgment at Fortis Turks and Caicos related to a customer rate classification matter. The revenue increase in Fortis BC was driven by the increase in electricity sales and electricity sales growth. Fortis Alberta also benefited from the customer distribution rates and the favorable impact of load and customer growth.

Operating Income of the Company declined 2.3% q-o-q. EPS for the quarter is \$0.54 as compared to \$0.58 of the same quarter of 2008.

The table below presents the highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	Q1/2009	Q1/2008	Q1/2009	Q1/2008
Terasen	669	635	109	113
Fortis Alberta	79	73	23	20
Fortis BC	72	66	23	20
NF Power	169	164	17	18
Other Canadian	70	70	12	10
Electric Caribbean	83	75	12	17
Fortis Generation	16	19	9	11
Fortis Properties	47	45	9	10
Corporate & Other	7	7	2	1
Intersegment Elimination	(11)	(8)	(5)	(4)
Consolidated	1,201	1,146	211	216

We kept our target price (\$28.00) and our recommendation unchanged.

Recent Developments

In December 2008, Fortis issued 11,700,000 Common Shares at a price of \$25.65 per share for gross proceeds to the Corporation of \$300,105,000. The net proceeds of the offering is used mainly to repay \$200 million of debt of Terasen and for general corporate purposes.

In April 2009, Fortis Properties acquired a hotel in Ontario. Fortis paid \$7 million for the 214-room Holiday Inn Select in Windsor. With that acquisition, Fortis Properties owns 21 hotels with more than 4,000 rooms in eight Canadian provinces in addition to approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Segments

Terasen, contributing the highest share (56%) in the revenues of Fortis in the first quarter of 2009, increased its revenues by 5% q-o-q mainly due to increased residential consumption and higher basic customer delivery rates compared to the same quarter in 2008. Earnings of Terasen were comparable q-o-q.

FortisAlberta increased its revenues by 8% q-o-q mainly due to an 8.6% increase in customer distribution rates, effective January 1, 2009, and the impact of customer and load growth. The earnings of Fortis Alberta were slightly higher q-o-q due to the increase in customer distribution rates and load and customer growth, although these were partially offset by the increased operating expenses, amortization costs and finance charges.

FortisBC's revenues increased by 9% q-o-q. The increase was driven by a 4.6% increase in electricity rates, effective January 1, 2009, and the electricity sales growth. The Company's earnings were \$2 million higher q-o-q due to the impact of the increase in electricity rates and customer growth. These, however, were partially offset by higher energy supply costs, operating expenses and amortization costs.

Newfoundland Power's revenues were 3% higher q-o-q driven by electricity sales growth. The Company's earnings were comparable q-o-q. The impact of electricity sales growth was offset largely by the impact of higher demand charges from Newfoundland and Labrador Hydro Corporation, associated with meeting peak load requirements during the winter season, and increased amortization costs associated with continued capital investment in capital assets.

Although the highest percentage revenue growth in the group came from the Caribbean Utilities, it was mainly the favorable impact of the foreign exchange and one-time recording of a rate classification matter. Otherwise, the electricity sales declined due to cooler-than-normal weather conditions combined with the unfavorable impacts of global economic conditions in tourism, oil, construction and related industries.

Fortis Generation's revenue for the quarter declined by 16% q-o-q. This is mainly due to the inclusion of energy sales associated with the generation operations in Central Newfoundland for only 1 1/2 months as compared to a full quarter in 2008. The Company changed to the equity method of accounting for these operations in February 2009. This decision was as a result of the expropriation of Newfoundland base assets of AbitibiBowater Inc. by the government of Newfoundland and Labrador.

Valuation and Recommendation

Fortis remains to be a one of our picks due to its strategy and its execution. In addition to the fact that Fortis operates in a defensive industry, it also positions itself for more growth through possible acquisitions and organically to increase the shareholder value. The announced results are in line with our annual estimates. Our recommendation and target price remain unchanged.

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RATING

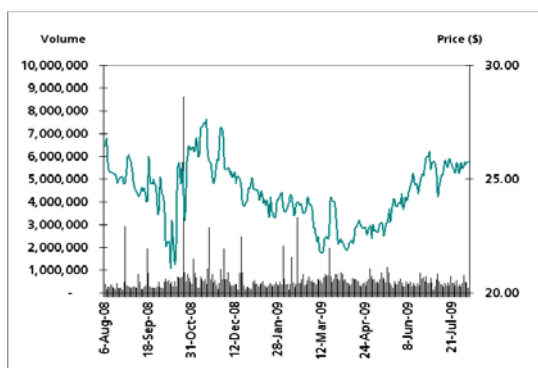
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Outperform: 15% or more

Market Perform: Between 15% and -15%

Underperform: -15% or less

Citadel Securities Inc. are members of the IIROC, CIPF and TSX Venture Exchange

Fortis Inc.
(FTS - \$25.75)
Earnings Update
Outperform
Target Price: \$30.00


Market Capitalization (\$ million)	4,385
Outstanding Number of Shares (million)	170.3
Dividend Yield (%)	4.04

(\$ million except per share data)	2008	2009E	2010E
Revenues	3,903	4,010	4,130
EBITDA	1,048	1,155	1,216
EPS	1.56	1.55	1.65

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

August 7, 2009
2009 Q2 Earnings Update

Fortis announced its second quarter financials for 2009. Revenues declined 11% as compared to Q2/2008. Being the largest contributor to the Company's total revenues, Terasen recorded \$101 million lower revenue than Q2/2008. The decline was driven by lower gas volume consumption and lower commodity costs charged to customers. In addition, Fortis Generation experienced a decline in revenues of approximately \$13 million as compared to the same period last year. This is mainly due to the expiry of the power-for-water exchange agreement related to the Rankine hydroelectric generating facility in Ontario and a change in the accounting method for central Newfoundland operations in 2009.

Despite the decline in revenues, the Company managed to increase its Net income from \$29 million (Q2/2008) to \$53 million in Q2/2009. The EPS of the Company for the quarter is recorded as \$0.31 per share as compared to \$0.19 of the same period last year. The improvement has also reflected on the year-to-date EPS of \$0.85 (\$0.77 in the first half of 2008) This improvement in the earnings is mainly due to the lower corporate taxes and financing charges in the Company's various subsidiaries.

The table below presents the highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	Q2/2009	Q2/2008	Q2/2009	Q2/2008
Terasen	289	390	45	47
Fortis Alberta	81	75	27	21
Fortis BC	55	53	16	16
NF Power	119	120	25	25
Other Canadian	63	61	11	9
Electric Caribbean	82	78	14	(6)
Fortis Generation	9	22	5	13
Fortis Properties	58	54	16	16
Corporate & Other	7	5	-	1
Intersegment Elimination	(9)	(10)	(3)	(2)
Consolidated	754	848	156	141

We increased our target price from \$28.00 to \$30.00 and kept our recommendation unchanged.

Recent Developments

In December 2008, Fortis issued 11,700,000 Common Shares at a price of \$25.65 per share for gross proceeds to the Corporation of \$300,105,000. The net proceeds of the offering is used mainly to repay \$200 million of debt of Terasen and for general corporate purposes.

In April 2009, Fortis Properties acquired a hotel in Ontario. Fortis paid \$7 million for the 214-room Holiday Inn Select in Windsor. With that acquisition, Fortis Properties owns 21 hotels with more than 4,000 rooms in eight Canadian provinces in addition to approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

In June 2009, FortisOntario acquired a 10% interest in Grimsby Power Inc. (Grimsby) for approximately \$1 million. Grimsby is an electric distribution utility serving approximately 10,000 customers in a service territory in close proximity to FortisOntario's operations in Fort Eerie. Also in June 2009, FortisOntario entered into an agreement to acquire Great Lakes Power Distribution Inc., an electric distribution utility serving approximately 12,000 customers in the district of Algoma in northern Ontario, for approximately \$68 million, subject to adjustment and customary regulatory approvals.

Segments

Terasen, contributing the highest share (38%) in the revenues of Fortis in the first quarter of 2009, had a decline in its revenues by 26% y-o-y mainly due to lower gas volumes sold and lower commodity costs charged. Earnings of Terasen, on the other hand, were \$2 million higher y-o-y due to a lower effective corporate income tax rate, lower finance charges related to decreased borrowing and higher basic customer delivery rates, partially offset by increased amortization costs associated with continued investment in capital assets. In February 2009, Terasen issued 30-year \$100 million 6.55% unsecured debentures.

FortisAlberta increased its revenues by 8% y-o-y mainly due to an 8.6% increase in customer distribution rates, effective January 1, 2009, and the impact of customer and load growth. The earnings of Fortis Alberta were \$10 million higher y-o-y due to lower corporate income taxes and the impact of the increase in customer distribution rates and load and customer growth, although these were partially offset by the increased operating expenses, amortization costs and finance charges. In February 2009, FortisAlberta issued 30-year \$100 million 7.06% unsecured debentures.

FortisBC's revenues increased by 4% as compared to the same quarter in 2008. The increase was driven by a 4.6% increase in electricity rates, effective January 1, 2009, and the electricity sales growth. The Company's earnings were comparable with Q2/2008. In June 2009, FortisBC issued 30-year \$105 million 6.10% unsecured debentures, under a short-form base shelf prospectus filed in May 2009 for the issuance of up to \$300 million in debentures from time to time during the 25-month life of the shelf prospectus.

Newfoundland Power's revenues were \$1 million lower y-o-y driven by lower average consumption in the quarter and lower amortization to revenue of certain regulatory liabilities. Earnings, on the other hand, were \$1 million higher due to lower amortization costs, driven by a change in the quarterly allocation of these costs, the impact of a lower corporate income tax rate and a gain on the sale of property, partially offset by the impact of decreased electricity sales for the quarter. In May 2009, Newfoundland Power privately placed 30-year \$65 million 6.606% first mortgage sinking fund bonds.

For the **Other Canadian Electric Utilities**, revenues for the quarter increased \$2 million y-o-y. This is mainly due to the impact of an approximate \$3 million (\$2 million after tax) one-time charge at FortisOntario. The impact of lower electricity sales and the flow through to customers of low energy supply costs at FortisOntario was partially offset by the impact of an average 5.3% increase in customer electricity rates at Maritime Electric, effective April 1, 2009. Earnings were \$2 million higher y-o-y and comparable excluding the one-time charge at FortisOntario.

Revenues of the **Caribbean Regulated Electric Utilities** for Q2/2009 increased \$4 million y-o-y. This is mainly due to the favorable impact of the translation of foreign-currency denominated revenue. Excluding this impact, revenues decreased approximately \$5 million y-o-y. Although the electricity sales increased, cost of power component of the average electricity rate at Belize Electricity increased and basic electricity rates at Caribbean Utilities increased by 2.4% effective June 1, 2009, this segment suffered from declines due to the flow through to customers of lower energy supply costs at Caribbean Utilities, a decrease in value-added delivery component of the average electricity rate at Belize Electricity and a change in methodology at Belize Electricity for recording customer installation fees. Earnings of this segment increased by \$12 million y-o-y, mainly due to the one-time charge in the second quarter of 2008. Caribbean Utilities privately placed 15-year US\$40 million 7.50% senior unsecured notes with US\$30 million placed in May 2009 and US\$10 million placed in July 2009.

Revenues of **Fortis Generation** for Q2/2009 were \$13 million lower as compared to the same period in 2008. The main factors of this decline were the loss of revenue subsequent to the expiry of the power-for-water exchange agreement related to the Rankine hydroelectric generating facility, the impact of changing to the equity method of accounting for the financial results of the hydroelectric generation operations in central Newfoundland during the first quarter of 2009, lower average wholesale market energy prices per megawatt hour in Ontario and Upper New York State, partially offset by the impact of increased production in Belize. Earnings for the quarter were also \$4 million lower y-o-y.

Fortis Properties enjoyed higher revenues (\$3 million) as compared to the same period last year mainly driven by revenue contribution from Sheraton Hotel Newfoundland, which was acquired in November 2008, and the 214-room Holiday Inn Select in Windsor, Ontario, which was acquired in April 2009. Earnings of this segment were \$1 million higher y-o-y, driven by increased contribution from the Real Estate Division combined with lower corporate operating expenses, partially offset by lower contribution from the Hospitality Division mainly caused by lower hotel occupancies.

Valuation and Recommendation

Fortis remains to be a one of our picks due to its strategy and its execution. In addition to the fact that Fortis operates in a defensive industry, it also positions itself for more growth through possible acquisitions and organically to increase the shareholder value. The announced results are in line with our annual estimates. Due to the change in market multiples, we revised our target price to \$30.00 (previously \$28.00) while keeping our recommendation unchanged.

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RATING

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Outperform: 15% or more

Market Perform: Between 15% and -15%

Underperform: -15% or less

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Fortis Inc.

FTS.TO

Revising Estimates and Introducing 2007

- Fortis reported normalized EPS of \$0.26 and \$1.21 for the quarter and for full year 2005. This compares to our estimates of \$0.32 and \$1.28.
- Operating expenses at FortisAlberta, FortisBC and at the corporate level were greater than we had anticipated. As a result we have brought our 2006E earnings estimates down from \$1.42 to \$1.25 to reflect greater anticipated operating costs.
- We are also introducing our 2007E EPS estimate of \$1.33.
- We contend that growth at Fortis will resume in 2007 driven in part by rate base additions at FortisAlberta and FortisBC of approximately \$590 million in 2006 and 2007.
- We are also expecting continued strong performance from Forts Generation and FTS Properties.
- Our target price of \$27.00 and 2006E earnings estimate of \$1.25 imply a 21.6x P/E multiple. Given that Canadian pipeline and utilities trade at an average of 20x 2006E earnings, we don't believe it would be a stretch for Fortis to trade in this range.
- We reiterate our Outperform rating on Fortis and maintain our target price of \$27.00

Fortis's core strength is distribution and transmission of electricity. Fortis operates in 7 regulated jurisdictions across Canada and the Caribbean. Approximately 83% of Fortis's \$2.2 billion in assets (pre-Aquila acquisition of \$1.3 billion) is regulated

research team

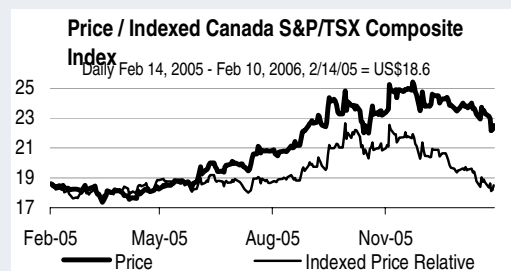
Dominique Barker, CA, CFA **Rizwan Suleiman, CFA**

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Research Analyst
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Rating	OUTPERFORM*
Price (10 Feb 06)	22.50 (C\$)
Target price (12 months)	27.00 (C\$)
52 week high - low	25.40 - 17.38
Market cap. (C\$m)	2,322.09
Enterprise value (C\$m)	4,657.99
Region / Country	Americas / Canada
Sector	Electric Utilities
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	UNDERWEIGHT
Date	13 February 2006

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



On 02/10/06 the Canada S&P/TSX Composite Index index closed at 11,651.69

Year	12/05A	12/06E	12/07E
EPS (CS adj., C\$)	1.21	1.25	1.33
Prev. EPS (C\$)		1.42	
P/E (x)	18.5	18.0	16.9
P/E rel. (%)	125.7	109.5	—
Q1 EPS	0.32	0.44	0.38
Q2	0.28	0.43	0.38
Q3	0.36	0.25	0.39
Q4	0.26	0.13	0.18

Number of shares (m)	103.20	IC (12/06E, C\$m)	2,777.23
BV/Share (Current, C\$m)	11.91	EV/IC (x)	1.7
Net Debt (Current, C\$m)	2,139.5	Dividend (Current, C\$m)	0.59
Net debt/Total cap. (Current)	63.8%	Dividend yield	2.6%

Year	12/05A	12/06E	12/07E
Revenues (C\$m)	1,455.1	1,507.4	1,556.4
EBITDA (C\$m)	513.3	545.5	577.5
OCFPS (C\$)	2.94	3.00	3.15
P/OCF (x)	8.3	7.5	7.1
EV/EBITDA (x)	9.1	8.5	8.1
Net debt (12/05A, C\$m)	2099.1	2099.1	2099.1
ROIC	17.8%	19.3%	20.7%

Source: Company data, Credit Suisse estimates

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Investment Summary

Companies Mentioned (Price as of 10 Feb 06)

Fortis Inc. (FTS.TO, C\$22.50, OUTPERFORM, TP C\$27.00, UNDERWEIGHT)

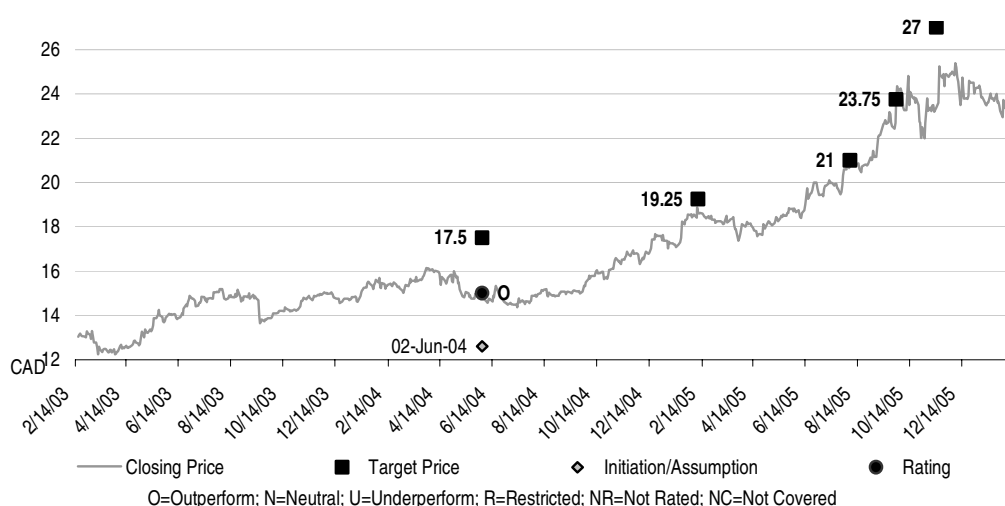
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, CA, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/ Assumption
6/2/04	15	17.5	OUTPERFORM	X
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		

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Outperform/Buy*	39%	(65% banking clients)
Neutral/Hold*	45%	(61% banking clients)
Underperform/Sell*	14%	(48% banking clients)
Restricted	2%	

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Risks: Risks to our \$27 price target for Fortis include Aquila integration risk, financing risk and risk of equity issues, regulatory risk, international risk, outstanding lawsuit with EPCOR

See the Companies Mentioned section for full company names.

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Q1 EPS Less than Expected

- Fortis reported Q1 EPS of \$0.36 per share, below our expectation of \$0.44 per share this quarter. Exhibit 1 details a brief reconciliation of our forecast to Fortis' first quarter results.
- The differences can be summarized as follows:
 - Tax Rate:** The effective tax rate of 27.8% this quarter relative to our assumption of 34% accounted for \$0.02 of the difference;
 - Accounting Change:** As of January 1, 2006, Newfoundland Power changed its revenue recognition policy from a billed basis to an accrual basis. This had the impact of reducing first quarter earnings by approximately \$0.02. It is important to note that the revenue recognition policy has the effect of shifting earnings from the first and second quarter to the third and fourth quarters of 2006.
 - Newfoundland Power – Power sales declined 4% over the quarter relative to our estimate of a 1% increase. This combined with lower amortization due to different quarterly allocation, led to a \$.02 overstatement in earnings.**
 - Regulated Caribbean and Non-Regulated Generation:** Lower than expected sales volumes and prices at Fortis' regulated Caribbean operations and within the non-regulated generation segment led to a \$0.03 overstatement in earnings.
- We have revised our model and have reduced our 2006E earnings estimate to \$1.23 from \$1.25. Our 2007E estimate remains unchanged.
- Our Outperform rating and \$27.00 target price are currently under review.

Fortis's core strength is distribution and transmission of electricity. Fortis operates in 7 regulated jurisdictions across Canada and the Caribbean. Approximately 83% of Fortis's \$2.2 billion in assets (pre-Aquila acquisition of \$1.3 billion) is regulated.

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Rating	OUTPERFORM*
Price (28 Apr 06)	22.99 (C\$)
Target price (12 months)	27.00 (C\$)
52 week high - low	25.40 - 17.93
Market cap. (C\$ m)	2,407.42
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Region / Country	Americas / Canada
Sector	Electric Utilities
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	UNDERWEIGHT
Date	01 May 2006

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



On 04/28/06 the Canada S&P/TSX Composite Index index closed at 12,234.56

Year	12/05A	12/06E	12/07E
EPS (CS adj., C\$)	1.21	1.23	1.33
Prev. EPS (C\$)		1.25	1.33
P/E (x)	18.9	18.8	17.3
P/E rel. (%)	128.4	127.5	119.3
Q1 EPS	0.32	0.35	0.37
Q2	0.28	0.32	0.34
Q3	0.36	0.29	0.33
Q4	0.26	0.26	0.29

Number of shares (m)	104.72	IC (12/06E, C\$ m)	3,090.52
BV/Share (Current, C\$)	11.98	EV/IC (x)	1.5
Net debt (Current, C\$ m)	2,250.4	Dividend (Current, C\$)	0.16
Net debt/Total cap. (Current)	64.5%	Dividend yield	0.7%

Year	12/05A	12/06E	12/07E
Revenue (C\$ m)	1,455.1	1,484.2	1,542.3
EBITDA (C\$ m)	513.3	525.8	567.9
OCFPS (C\$)	2.94	2.85	3.15
P/OCF (x)	8.3	8.1	7.3
EV/EBITDA (x)	9.2	9.0	8.4
Net debt (12/05A, C\$ m)	2099.1	2099.1	2099.1
ROIC	17.8%	16.9%	18.4%

Source: Company data, Credit Suisse estimates

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Investment Summary

Exhibit 1: Earnings Reconciliation

	C\$ MM	Q1/06A	Q1/06E	Q1/05A	% Var vs. CSFB Est.	YoY%
Total Revenue		\$396.0	\$423.6	\$384.9	-7%	3%
Cost of Power		-\$159.6	-\$166.2	-\$160.4	-4%	-1%
Gross Margin		\$236.4	\$257.4	\$224.5	-8%	5%
Gross Margin %		60%	61%	58%	-1%	1%
Operating Expenses		-\$98.7	-\$102.0	-\$95.8	-3%	3%
EBITDA		\$137.7	\$155.4	\$128.7	-11%	7%
EBITDA Margin		35%	37%	33%	-2%	1%
Depreciation		\$44.2	\$48.6	\$40.2	-9%	10%
EBIT		\$93.5	\$106.8	\$88.5	-12%	6%
Net Income (reported)		\$36.6	\$44.9	\$0.3	-18%	14542%
EPS		\$0.35	\$0.44	\$0.32	-20%	11%

Reconciling Items (all amounts are after tax) :

(1) Tax Rate Differential	-\$0.02
(2) Accounting Change	-\$0.02
(3) Newfoundland Power	-\$0.02
(4) Belize & Non-Regulated Power	-\$0.03

Normalized EPS	\$0.35	\$0.35	\$0.32	0%	11%
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Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 28 Apr 06)

Fortis Inc. (FTS.TO, C\$21.79, OUTPERFORM, TP C\$27.00, UNDERWEIGHT)

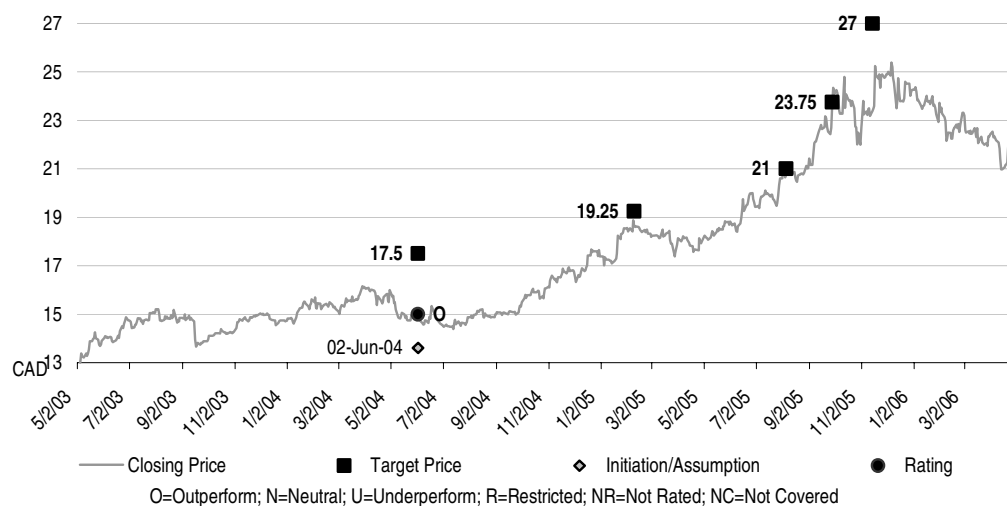
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Underperform/Sell*	15%	(52% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Q1 EPS Less than Expected

- Fortis reported Q1 EPS of \$0.36 per share, below our expectation of \$0.44 per share this quarter. Exhibit 1 details a brief reconciliation of our forecast to Fortis' first quarter results.
- The differences can be summarized as follows:
 - Tax Rate:** The effective tax rate of 27.8% this quarter relative to our assumption of 34% accounted for \$0.02 of the difference;
 - Accounting Change:** As of January 1, 2006, Newfoundland Power changed its revenue recognition policy from a billed basis to an accrual basis. This had the impact of reducing first quarter earnings by approximately \$0.02. It is important to note that the revenue recognition policy has the effect of shifting earnings from the first and second quarter to the third and fourth quarters of 2006.
 - Newfoundland Power – Power sales declined 4% over the quarter relative to our estimate of a 1% increase. This combined with lower amortization due to different quarterly allocation, led to a \$.02 overstatement in earnings.**
 - Regulated Caribbean and Non-Regulated Generation:** Lower than expected sales volumes and prices at Fortis' regulated Caribbean operations and within the non-regulated generation segment led to a \$0.03 overstatement in earnings.
- We have revised our model and have reduced our 2006E earnings estimate to \$1.23 from \$1.25. Our 2007E estimate remains unchanged.
- Our Outperform rating and \$27.00 target price are currently under review.

Fortis's core strength is distribution and transmission of electricity. Fortis operates in 7 regulated jurisdictions across Canada and the Caribbean. Approximately 83% of Fortis's \$2.2 billion in assets (pre-Aquila acquisition of \$1.3 billion) is regulat

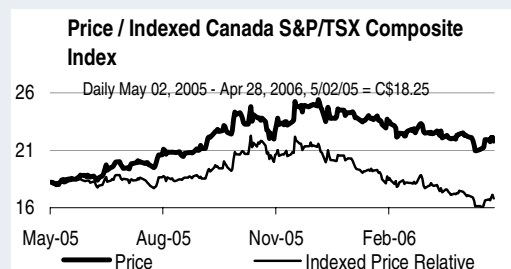
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Rating	OUTPERFORM*
Price (28 Apr 06)	22.99 (C\$)
Target price (12 months)	27.00 (C\$)
52 week high - low	25.40 - 17.93
Market cap. (C\$ m)	2,407.42
Enterprise value (C\$ m)	4,743.32
Region / Country	Americas / Canada
Sector	Electric Utilities
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	UNDERWEIGHT
Date	01 May 2006

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



On 04/28/06 the Canada S&P/TSX Composite Index index closed at 12,234.56

Year	12/05A	12/06E	12/07E
EPS (CS adj., C\$)	1.21	1.23	1.33
Prev. EPS (C\$)		1.25	1.33
P/E (x)	18.9	18.8	17.3
P/E rel. (%)	128.4	127.5	119.3
Q1 EPS	0.32	0.35	0.37
Q2	0.28	0.32	0.34
Q3	0.36	0.29	0.33
Q4	0.26	0.26	0.29

Number of shares (m)	104.72	IC (12/06E, C\$ m)	3,090.52
BV/Share (Current, C\$)	11.98	EV/IC (x)	1.5
Net debt (Current, C\$ m)	2,250.4	Dividend (Current, C\$)	0.16
Net debt/Total cap. (Current)	64.5%	Dividend yield	0.7%

Year	12/05A	12/06E	12/07E
Revenue (C\$ m)	1,455.1	1,484.2	1,542.3
EBITDA (C\$ m)	513.3	525.8	567.9
OCFPS (C\$)	2.94	2.85	3.15
P/OCF (x)	8.3	8.1	7.3
EV/EBITDA (x)	9.2	9.0	8.4
Net debt (12/05A, C\$ m)	2099.1	2099.1	2099.1
ROIC	17.8%	16.9%	18.4%

Source: Company data, Credit Suisse estimates

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Investment Summary

Exhibit 1: Earnings Reconciliation

	C\$ MM	Q1/06A	Q1/06E	Q1/05A	% Var vs. CSFB Est.	YoY%
Total Revenue		\$396.0	\$423.6	\$384.9	-7%	3%
Cost of Power		-\$159.6	-\$166.2	-\$160.4	-4%	-1%
Gross Margin		\$236.4	\$257.4	\$224.5	-8%	5%
Gross Margin %		60%	61%	58%	-1%	1%
Operating Expenses		-\$98.7	-\$102.0	-\$95.8	-3%	3%
EBITDA		\$137.7	\$155.4	\$128.7	-11%	7%
EBITDA Margin		35%	37%	33%	-2%	1%
Depreciation		\$44.2	\$48.6	\$40.2	-9%	10%
EBIT		\$93.5	\$106.8	\$88.5	-12%	6%
Net Income (reported)		\$36.6	\$44.9	\$0.3	-18%	14542%
EPS		\$0.35	\$0.44	\$0.32	-20%	11%

Reconciling Items (all amounts are after tax) :

(1) Tax Rate Differential	-\$0.02
(2) Accounting Change	-\$0.02
(3) Newfoundland Power	-\$0.02
(4) Belize & Non-Regulated Power	-\$0.03

Normalized EPS	\$0.35	\$0.35	\$0.32	0%	11%
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Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 28 Apr 06)

Fortis Inc. (FTS.TO, C\$21.79, OUTPERFORM, TP C\$27.00, UNDERWEIGHT)

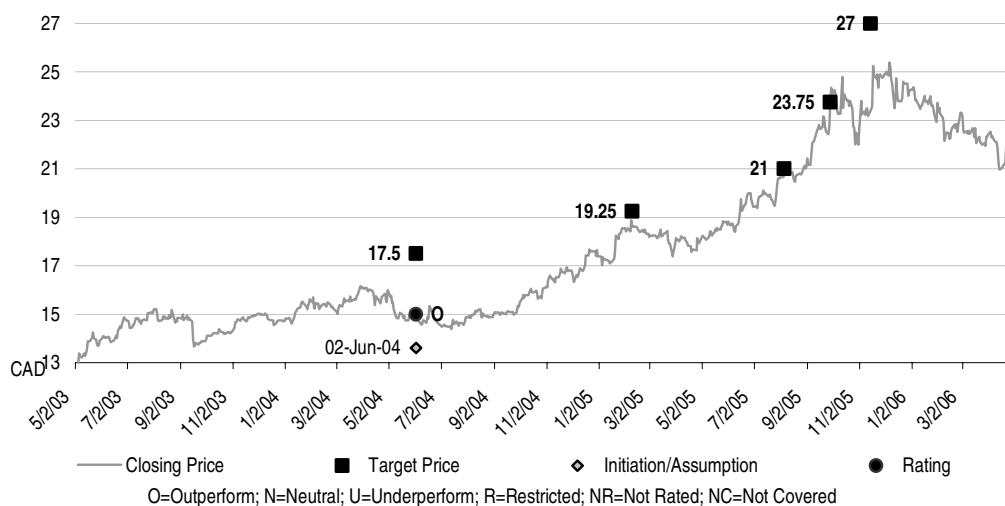
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/ Assumption
6/2/04	15	17.5	OUTPERFORM	X
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		

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Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Price Target: (12 months) for (FTS.TO)

Method: Primarily dividend yield versus the 10-year government of Canada forecast bond yield, where we divide the expected dividend of \$0.64 by 70% of the 10-Year Government of Canada Bond Yield of 4.21%. We also look at valuation multiples including (i) Enterprise Value to EBITDA (EV/EBITDA) of 9.4x, (ii) Price to Earnings (P/E) of 22.0x and (iii) Price to Cash Flow (P/CF) of 8.0x. Our \$27.00 target price for Fortis represents an average of these methodologies.

Risks: Risks to our \$27 price target for Fortis include Aquila integration risk, financing risk and risk of equity issues, regulatory risk, international risk, outstanding lawsuit with EPCOR

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Reducing to Neutral from Outperform

- We are reducing our Outperform rating on Fortis to Neutral and reducing our target price to \$25.50. Our earnings estimates for 2006E and 2007E are unchanged \$1.23 and \$1.33 respectively. Our target price methodology appears in Exhibit 1.
- Please see our report titled "Cash Flow Analysis, Frac Spreads and Updated View", dated September 18, 2006.

Exhibit 1: Fortis Inc. Valuation Summary

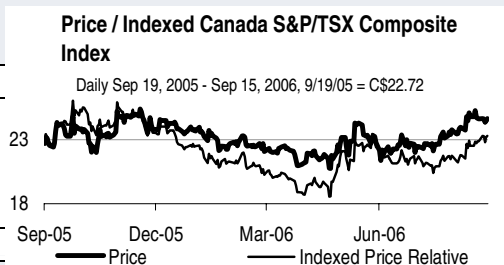
Method	Price Derived	Multiple Used
DCF	\$27.78	Average Discount Rate of 6.5%
2007 P/E	\$25.30	19.0x
2007 P/CF	\$25.33	8.0x
2007 EV/EBITDA	\$23.54	9.0x
Average	\$25.49	

Source: Company data, Credit Suisse estimates

Fortis's core strength is distribution and transmission of electricity. Fortis operates in 7 regulated jurisdictions across Canada and the Caribbean. Approximately 83% of Fortis's \$2.2 billion in assets (pre-Aquila acquisition of \$1.3 billion) is regulat

Rating	(from OUTPERFORM) NEUTRAL*
Price (15 Sep 06)	22.06 (C\$)
Target price (12 months)	(from 27.00) 25.50 (C\$)
52 week high - low	25.40 - 20.75
Market cap. (C\$ m)	2,310.03
Enterprise value (C\$ m)	4,645.93
Region / Country	Americas / Canada
Sector	Electric Utilities
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	18 September 2006

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



Year	12/05A	12/06E	12/07E
EPS (CS adj., C\$)	1.21	1.23	1.33
Prev. EPS (C\$)		1.23	1.33
P/E (x)	18.2	18.0	16.6
P/E rel. (%)	104.7	121.1	126.1
Q1 EPS	0.32	0.35	0.37
Q2	0.28	0.32	0.34
Q3	0.36	0.29	0.33
Q4	0.26	0.27	0.29

Number of shares (m)	IC (12/06E, C\$ m)
104.72	3,382.43
BV/share (current, C\$)	EV/IC (x)
11.98	1.4
Net debt (current, C\$ m)	Dividend (current, C\$)
2,250.4	0.16
Net debt/total cap. (current)	Dividend yield
64.5%	0.7%

Year	12/05A	12/06E	12/07E
Revenue (C\$ m)	1,455.1	1,455.5	1,537.0
EBITDA (C\$ m)	513.3	509.2	556.0
OCFPS (C\$)	2.94	2.66	3.17
P/OCF (x)	8.3	8.3	7.0
EV/EBITDA (x)	9.1	9.1	8.4
Net debt (12/05A, C\$ m)	2099.1	2099.1	2099.1
ROIC	17.8%	14.9%	16.2%

Source: Company data, Credit Suisse estimates

research team

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Investment Summary

Companies Mentioned (Price as of 15 Sep 06)

Fortis Inc. (FTS.TO, C\$22.06, OUTPERFORM, TP C\$25.50, MARKET WEIGHT)

Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/ Assumption
6/2/04	15	17.5	OUTPERFORM	X
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		

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Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

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****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

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Neutral/Hold*	42%	(58% banking clients)
Underperform/Sell*	15%	(51% banking clients)
Restricted	3%	

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Price Target: (12 months) for (FTS.TO)

Method: Primarily dividend yield versus the 10-year government of Canada forecast bond yield. We also look at valuation multiples including (i) Enterprise Value to EBITDA (EV/EBITDA) of 9.0x, (ii) Price to Earnings (P/E) of 19.0x and (iii) Price to Cash Flow (P/CF) of 8.0x. Our \$25.50 target price for Fortis represents an average of these methodologies.

Risks: Risks to our \$25.50 price target for Fortis include Aquila integration risk, financing risk and risk of equity issues, regulatory risk, international risk, outstanding lawsuit with EPCOR

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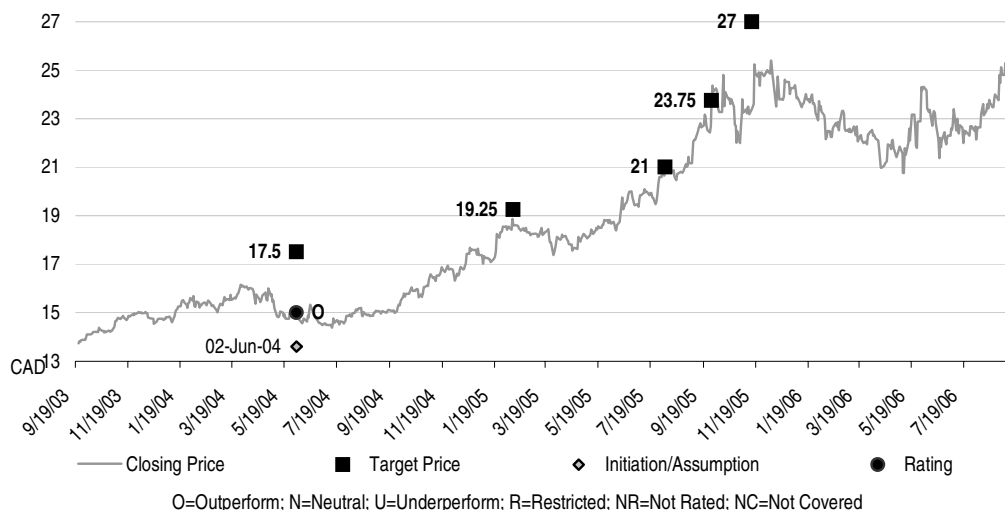
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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Bought Deal Announced - EPS Reduced Slightly

Rating	NEUTRAL*
Price (02 Jan 07)	29.51 (C\$)
Target price (12M)	25.50 (C\$)
52 week high - low	29.85 - 20.75
Market cap. (C\$ m)	3,112.10
Enterprise value (C\$ m)	5,448.05

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

Research Analysts

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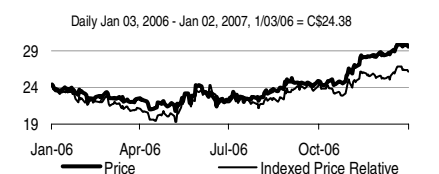
Rizwan Suleiman, CFA
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After the close today, Fortis announced it had accepted a bought deal to issue 5.2 million shares at \$29.

We have input the following into our model: equity injection of \$150 million and share increase of 5.2 million shares. Our debt/cap at year end 2007 goes from 68% to 66%. Our EPS for 2007 is reduced from \$1.33 to \$1.28.

Valuation: we believe the stock is expensive, currently trading at 23x 2007 earnings. We are maintaining our Neutral rating and \$25.50 target price.

Share price performance



On 01/02/07 the Canada S&P/TSX Composite Index index closed at 12,701.44

Quarterly EPS	Q1	Q2	Q3	Q4
2005A	0.32	0.28	0.36	0.26
2006E	0.35	0.32	0.37	0.19
2007E	0.30	0.24	0.30	0.44

Financial and valuation metrics

Year	12/05A	12/06E	12/07E
EPS (CS adj., C\$)	1.21	1.23	1.28
Prev. EPS (C\$)			1.33
P/E (x)	24.4	24.0	23.1
P/E rel. (%)	132.2	155.2	162.1
Revenue (C\$ m)	1,455.1	1,470.8	1,672.7
EBITDA (C\$ m)	513.3	511.9	575.2
OCFPS (C\$)	2.94	2.87	3.11
P/OCF (x)	8.3	10.3	9.5
EV/EBITDA (current)	10.9	10.6	9.5
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ROIC	17.8%	15.8%	16.4%
Number of shares (m)	105.46	IC (12/06E, C\$ m)	3,233.27
BV/share (current, C\$)	12.38	EV/IC (x)	1.7
Net debt (current, C\$ m)	2,799.5	Dividend (current, C\$)	0.67
Net debt/Total cap. (current)	66.6%	Dividend yield	2.3%

Source: Company data, Credit Suisse estimates

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B

Companies Mentioned (Price as of 02 Jan 07)

Fortis Inc. (FTS.TO, C\$29.51, NEUTRAL, TP C\$25.50, MARKET WEIGHT)

Disclosure Appendix**Important Global Disclosures**

I, Dominique Barker, CA, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/Assumption
6/2/04	15	17.5	OUTPERFORM	X
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		
9/18/06	24.5	25.5	NEUTRAL	

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Neutral/Hold*	44%	(55% banking clients)
Underperform/Sell*	15%	(51% banking clients)
Restricted	3%	

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (07 Feb 07)	26.50 (C\$)
Target price (12M)	25.50 (C\$)
52 week high - low	29.85 - 20.75
Market cap. (C\$ m)	2,792.12
Enterprise value (C\$ m)	5,128.02

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

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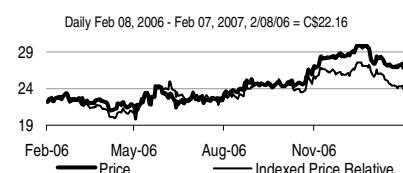
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EARNINGS

Fourth Quarter Strength Illusory

- **Event:** Fortis reported normalized diluted EPS of \$0.32 and \$1.36 for the fourth quarter and full year 2006, respectively. This compares to our estimate of \$0.19 and \$1.23 for same periods, and consensus of \$0.27 and \$1.31.
- **View:** While at first glance, reported earnings appear strong, much of the difference between actual performance and our estimate is due to (1) differential actual versus estimated tax rates at Fortis Alberta and (2) an accounting change from the billings method to the accrual method at Newfoundland Power that caused a \$10.7 MM increase in revenues from the inclusion of the final two weeks of earnings in December of 2006. Exhibit 1 on the next page details a reconciliation of our earnings.
- **Earnings Revision:** After adjusting our model for the accounting change at Newfoundland Power, and updating our estimates for Caribbean Utilities (Fortis is consolidating the company in 2007 after acquiring an additional 16% on November 7, 2007 to take its position to 54%) we are revising our 2007 earnings upwards from \$1.28 to \$1.36.
- **Dividend Increase:** Fortis also surprised the market with a 10.5% dividend increase to \$0.21 per share from \$0.19 (payable at the end of the second quarter to shareholders of record on May 4th 2007).
- **Valuation:** Our \$25.50 target price and Neutral rating remain unchanged at this time.

Share price performance



On 02/07/07 the Canada S&P/TSX Composite Index index closed at 13,182.76

Quarterly EPS	Q1	Q2	Q3	Q4
2006A	0.35	0.32	0.37	0.32
2007E	0.28	0.30	0.42	0.36
2008E				

Financial and valuation metrics

Year	12/06A	12/07E	12/08E
EPS (CS adj., C\$)	1.35	1.36	
Prev. EPS (C\$)		1.28	
P/E (x)	19.6	19.4	—
P/E rel. (%)	126.3	151.4	—
Revenue (C\$ m)	1,471.9	1,740.0	—
EBITDA (C\$ m)	519.9	632.7	—
OCFPS (C\$)	3.00	3.36	—
P/OCF (x)	9.9	7.9	—
EV/EBITDA (current)	9.9	8.1	—
Net debt (12/06A, C\$ m)	2099.1	2099.1	—
ROIC	13.4%	15.1%	—
Number of shares (m)	105.36	IC (12/07E, C\$ m)	4,154.77
BV/share (current, C\$)	12.31	EV/IC (x)	1.2
Net debt (current, C\$ m)	3,182.9	Dividend (current, C\$)	0.67
Net debt/Total cap. (current)	69.5%	Dividend yield	2.5%

Source: Company data, Credit Suisse estimates

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Fortis Inc.

Exhibit 1: Fortis Earnings Reconciliation

Fortis Q4/06 Earnings Reconciliation					
	CS MM	Q4/06A	Q4/06E	Q4/05A	% Var vs. CSFB Est. YoY%
Total Revenue		\$390.3	\$389.7	\$358.1	0% 9%
Cost of Power		-\$146.5	-\$157.1	-\$141.4	-7% 4%
Gross Margin		\$243.8	\$232.6	\$216.7	5% 13%
Gross Margin %		62%	60%	61%	3% 2%
Operating Expenses		-\$112.2	-\$107.4	-\$105.8	4% 6%
EBITDA		\$131.7	\$125.1	\$110.8	5% 19%
EBITDA Margin		34%	32%	31%	2% 3%
Depreciation		\$46.6	\$45.7	\$38.5	2% 21%
Segmented EBIT					
FortisAlberta		\$17.3	\$14.7	\$12.9	18% 35% ⁽¹⁾
FortisBC		\$14.3	\$14.2	\$12.5	1% 14%
Newfoundland Power		\$20.8	\$10.1	\$12.1	107% 71% ⁽²⁾
Maritimes Electric Company		\$6.4	\$5.7	\$4.8	12% 33%
FortisOntario		\$2.9	\$2.2	\$1.7	30% 66%
Caribbean Utilities		\$8.2	\$5.9	\$5.0	38% 64% ⁽³⁾
Fortis Generation		\$12.2	\$18.5	\$15.7	-34% -22% ⁽⁴⁾
Fortis Properties		\$10.0	\$10.2	\$9.5	-2% 5%
Corporate, Other and Intercompany Eliminations		-\$7.0	-\$1.9	-\$1.9	261% 264%
Total EBIT		\$85.1	\$79.5	\$72.4	7% 18%
EBIT Margin		22%	20%	20%	1% 2%
Net Income (reported)		\$33.9	\$21.0	\$22.3	61% 52%
EPS		\$0.32	\$0.19	\$0.21	69% 50%
OneTime Items (all amounts are after tax) :					
None					
Normalized EPS		\$0.32	\$0.19	\$0.21	69% 50%
Reconciling Items (all amounts are after tax) :					
(1) Fortis Alberta differential - lower actual tax rate			\$0.05		
(2) Newfoundland Power differential - accounting change			\$0.07		
(3) Caribbean Utilities differential - strong power prices			\$0.06		
(4) Fortis Generation differential - weak Ontario power prices			-\$0.05		
Reconciled EPS		\$0.32	\$0.32	\$0.21	0% 50%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 08 Feb 07)

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Fortis Inc. (FTS.TO)

Rating	NOT RATED*
Price (15 Mar 07)	27.10 (C\$)
Target price (12M)	—
52 week high - low	29.85 - 20.75
Market cap. (C\$ m)	2,961.30
Enterprise value (C\$ m)	5,297.20

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

Research Analyst

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DROP COVERAGE

Dropping Coverage

- Owing to the change in responsibilities of the primary analyst, we are dropping coverage of Fortis Inc. (FTS.TO).
- Effective upon the termination of coverage, the last rating issued on this stock (Neutral) should not be relied upon going forward.

Share price performance



On 03/14/07 the Canada S&P/TSX Composite Index index closed at 12,808.73.

Quarterly EPS	Q1	Q2	Q3	Q4
2006A	0.35	0.32	0.37	0.32
2007E	-	-	-	-
2008E	-	-	-	-

Financial and valuation metrics

Year	12/06A	12/07E	12/08E
EPS (CS adj., C\$)	1.35	-	-
Prev. EPS (C\$)	-	-	-
P/E (x)	20.0	-	-
P/E rel. (%)	129.1	-	-
Revenue (C\$ m)	1,471.9	-	-
EBITDA (C\$ m)	519.9	-	-
OCFPS (C\$)	3.00	-	-
P/OCF (x)	9.9	-	-
EV/EBITDA (current)	12.3	-	-
Net debt (12/06A, C\$ m)	3182.9	-	-
ROIC	13.4%	-	-
Number of shares (m)	-	IC (12/07E, C\$ m)	-
BV/share (current, C\$)	-	EV/IC (x)	-
Net debt (current, C\$ m)	-	Dividend (current, C\$)	-
Net debt/Total cap. (current)	-	Dividend yield	-

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 15 Mar 07)
Fortis Inc. (FTS.TO, C\$27.10, NOT RATED)

Disclosure Appendix

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/ Assumption
6/2/04	15	17.5	OUTPERFORM	X
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		
9/18/06	24.5	25.5	NEUTRAL	

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Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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Global Ratings Distribution		
Outperform/Buy*	40%	(61% banking clients)
Neutral/Hold*	42%	(57% banking clients)
Underperform/Sell*	15%	(48% banking clients)
Restricted	4%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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Fortis Inc. (FTS.TO)

INITIATION

Awaiting an acquisition?

Rating	NEUTRAL*
Price (03 Dec 07)	27.04 (C\$)
Target price (12M)	32.00 (C\$)
52 week high - low	29.85 - 24.80
Market cap. (C\$ m)	4,188.55
Enterprise value (C\$ m)	9,891.11

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

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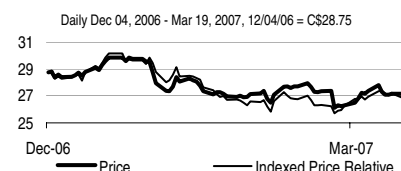
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- **Initiating coverage:** We are initiating coverage of Fortis Inc. with a Neutral rating and a C\$32.00 target price. Presently, Fortis possesses a compelling amount of organic growth from selected utility assets with adequate returns. To a certain extent, that utility based growth requires some ongoing funding from external sources. Over the long-term we view that growth positively. Yet, the funding requirements can often result in rather constrained share price movements.
- **Acquisitions a mainstay:** Within our coverage universe, Fortis continues to be the most acquisitive company. Moreover, the company tends to be one of the more acquisition focused utility related names in North America. Clearly, Fortis has an enviable track record with acquiring a diverse set of assets. In our view, the largely acquisition based strategy has translated into significant shareholder value over the last few years.
- **Improved capital efficiency:** From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.5x P/E multiple of 2008 earnings; a 165 bps yield spread; and, a DCF based valuation. We initiate coverage of Fortis with a Neutral rating.

Share price performance



On 11/30/07 the Canada S&P/TSX Composite Index index closed at 13,657.17.

Quarterly EPS	Q1	Q2	Q3	Q4
2006A	0.34	0.34	0.36	0.27
2007E	0.37	0.27	0.20	0.48
2008E	0.67	0.24	0.23	0.49

Financial and valuation metrics

Year	12/06A	12/07E	12/08E
EPS (C\$ adj., C\$)	1.30	1.31	1.64
Prev. EPS (C\$)			
P/E (x)	20.8	20.6	16.5
P/E rel. (%)	—	—	—
Revenue (C\$ m)	1,471.7	2,587.3	3,179.7
EBITDA (C\$ m)	532.7	813.5	1,048.7
OCFPS (C\$)	2.18	2.32	3.35
P/OCF (x)	13.7	11.7	8.1
EV/EBITDA (current)	13.4	12.2	9.7
Net debt (12/06A, C\$ m)	2700.0	5465.8	5771.4
ROIC	18.0%	18.6%	20.6%
Number of shares (m)	154.90	IC (12/07E, C\$ m)	9,304.86
BV/share (current, C\$)	14.98	EV/IC (x)	0.8
Net debt (current, C\$ m)	5,360.1	Dividend (current, C\$)	0.84
Net debt/Total cap. (current)	67.8%	Dividend yield	3.1%

Source: Company data, Credit Suisse estimates.

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Summary and investment case

We are initiating coverage of Fortis Inc. with a Neutral rating and a C\$32.00 target price. Presently, Fortis possesses a compelling amount of organic growth from selected utility assets with adequate returns.

Rating: Neutral

Target: C\$32.00

According to recent company filings, Fortis expects 2007 gross consolidated utility capital expenditures to be roughly C\$770m. Moreover, "Fortis expects gross electric utility capital expenditures of over \$3 billion over the next 5 years which will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Fortis expects gross gas utility capital expenditures over the next 5 years to exceed \$1 billion."

To a certain extent, that utility based growth requires some ongoing funding from external sources. Over the long-term we view that growth positively. Yet, the funding requirements can often result in rather constrained share price movements.

In addition to this significant organic growth plan, Fortis continues to be the most acquisitive within our coverage universe. Clearly, Fortis has an enviable track record with acquiring a diverse set of assets. In our view, the largely acquisition based strategy has translated into significant shareholder value over the last few years. Given the broader asset knowledge and the relative condition of the Terasen assets, we believe there is a considerable likelihood that Fortis will seek another large scale acquisition.

Notably, in our view, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns. Employing such a strategy could translate into a much more compelling investment theme.

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Introduction

We are initiating coverage of Fortis Inc. with a Neutral rating and a C\$32.00 target price. The Fortis investment thesis is a blend of significant organic utility growth with reasonable probability for acquisitions. Given the current risk-reward relationship and the lack of visible catalysts, we initiate coverage of Fortis with a Neutral rating and a C\$32.00 target price.

Our report is divided into three parts: (1) the growth engine; (2) financial statements; and, (3) valuation. Each of these areas is addressed in further detail below.

The growth engine

In our view, Fortis faces a growth dichotomy divided between acquisitions and incremental organic capital additions at its various utilities. Additionally, we believe the company has potential to become more capital efficient via selected asset monetisations and also via a funds management model. Given the array of topics, we have divided this section into three areas:

1. The acquisition trail;
2. Ongoing organic growth; and,
3. Capital efficiency.

These topics are addressed below.

The acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "[t]he Corporation will continue to pursue acquisition growth opportunities in regulated gas and electric utility businesses in Canada, the Caribbean and the United States. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 1 below).

Acquisitions are central to strategy

Exhibit 1: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,110.64	

Source: Bloomberg, Company data and Credit Suisse

For a number of reasons we believe there is a significant possibility of accelerated utility mergers and acquisitions activity. One reason is the repeal of the Public Utility Holding Company Act that does make selected acquisition activities less challenging. Additionally,

we believe the increased interest of pension funds and private equity in regulated utility assets is just at the beginning of a more meaningful trend. Exhibit 2 below highlights selected mergers and acquisition activity in the last few years.

Exhibit 2: Selected utility transactions

\$ in millions, unless otherwise stated

Announced Date	Buyer	Seller	Value (US\$m)	Status
10/26/07	MULTIPLE ACQUIRERS	PUGET ENERGY INC	6,670.7	Pending
6/25/2007	IBERDROLA SA	ENERGY EAST CORPORATION	8,095.5	Pending
2/26/07	KKR and other private equity firms	ENERGY FUTURE HOLDINGS (TXU)	43,218.2	Complete
2/7/07	GREAT PLAINS ENERGY INC	AQUILA INC	2,830.9	Pending
2/7/07	BLACK HILLS CORP	ELECTRIC & GAS UTILITY/CO	940.0	Pending
7/8/06	MDU Resources Group	Cascade Natural Gas Corp.	465.8	Completed
7/8/06	WPS Resources Corp.	Peoples Energy Corp.	2,472.4	Completed
7/5/06	Macquarie Consortium	Duquesne Light Holding	2,766.0	Completed
6/22/06	Gaz Metro LP	Green Mountain Power Corp.	279.5	Completed
5/11/06	ITC Holding Corp.	Michigan Electric Transmission Co.	866.6	Completed
4/25/06	Babcock and Brown Infrastructure	NorthWestern Corp.	2,200.0	Withdrawn
2/27/06	National Grid	KeySpan Corp.	11,877.5	Completed
12/19/05	FPL Group	Constellation Energy Inc.	15,311.5	Withdrawn
5/24/05	Mid American Energy Holding	Pacificorp	9,300.0	Completed
5/9/05	Duke Energy Corp.	Cinergy Corp.	14,600.0	Completed
12/20/04	Exelon Corp	Public Service Enterprise Group	25,700.0	Withdrawn
7/25/04	PNM Resources	TNP Enterprises	1,024.0	Completed
2/3/04	Ameren Corp	Illinois Power	2,300.0	Completed
4/29/02	Ameren Corp	CILCORP	1,363.0	Completed
9/10/01	Dominion Resources	Louis Dreyfus Natural Gas	2,295.0	Completed
2/20/01	Energy East	RGS Energy	2,400.0	Completed
2/12/01	PEPCO	Conectiv	5,000.0	Completed
10/2/00	NorthWestern	Montana Power	1,100.0	Completed
9/5/00	National Grid	Niagara Mohawk	8,900.0	Completed
8/1/00	FirstEnergy	GPU Inc.	12,000.0	Completed
7/17/00	AES Corp.	IPALCO	3,040.0	Completed
6/30/00	NS Power	Bangor Hydro	206.0	Completed
11/4/99	KeySpan	Eastern Enterprises	2,500.0	Completed
10/25/99	Berkshire Hathaway	MidAmerican Energy	9,000.0	Completed
10/5/99	DTE Energy	MCN Energy	4,600.0	Completed
9/23/99	Peco Energy Co.	Unicom Corp.	31,800.0	Completed
8/23/99	Carolina Power & Light	Florida Progress	8,000.0	Completed
6/28/99	Wisconsin Energy Corp.	Wicor Inc.	1,275.0	Completed
6/15/99	Energy East	CMP Group Inc.	1,228.0	Completed
6/15/99	Northeast Utilities	Yankee Gas	679.0	Completed
6/14/99	Dynegy	Illinova	2,000.0	Completed
6/14/99	Indiana Energy	SigCorp	1,900.0	Completed
6/7/99	NiSource Inc.	Columbia Energy	6,200.0	Completed
5/17/99	OGE Energy	Transok LLC	701.0	Completed
4/23/1999	Energy East	Connecticut Energy	617.0	Completed
3/25/1999	Northern States Power	New Century Energies	6,000.0	Completed
3/5/1999	Utilitcorp United	St. Joseph Power & Light Co.	277.0	Completed
2/22/1999	Dominion Resources	Consolidated Natural Gas Co.	6,400.0	Completed
2/17/1999	SCANA Corp.	PSC of North Carolina	9,000.0	Completed
2/1/1999	National Grid USA/NEES	Eastern Utilities Associates	634.0	Completed
12/17/1998	Scottish Power	Pacificorp	7,900.0	Completed
12/14/1998	National Grid Group plc	New England Electric System	3,200.0	Completed
12/1/1998	BEC Energy	Commonwealth Energy System	950.0	Completed
11/1/1998	AES Corp.	Cilcorp	885.0	Completed
11/1/1998	CP&L	North Carolina Natural Gas	354.0	Completed
8/1/1998	CalEnergy	Mid-America Energy	2,480.0	Completed
5/1/1998	Consolidated Edison	Orange & Rockland Utilities	790.0	Completed
4/1/1998	Sierra Pacific Resources	Nevada Power	4,000.0	Completed
1/2/1998	CMS Energy	Panhandle Eastern/Trunkline Gas	2,200.0	Completed
12/22/1997	AEP Resources	Central and Southwest Corp.	6,600.0	Completed
12/1/1997	NIPSCO Industries	Bay State Gas Company	540.0	Completed
3/12/1997	PacifiCorp	TPC Corporation	288.0	Completed

Source: Edison Electric Institute, Bloomberg and Credit Suisse

Clearly, there is a very competitive market for utility acquisitions given the sheer size of the utility market, we do not foresee increased M&A activity significantly impacting the company's acquisition strategy, however, robust competition might result in returns compression.

Increased M&A activity
might compress returns

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- With the recent Terasen acquisition, Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment;
- Bought deal financing commonly employed in Canada; and,
- Canadian dollar strength versus US players.

Fortis possesses a number of absolute and relative advantages over some other competitors

A notable aspect of the company's penchant for acquisitions and its rather robust organic growth (discussed in greater detail below) is the need for external equity. Quite obviously, external sources of funding are typically required for larger scale acquisitions. Yet, organic growth at some of the Fortis utilities has also required external equity funding. Exhibit 3 below highlights external equity raised in the last few years.

Exhibit 3: Selected equity type financing

C\$ in millions, unless otherwise stated

	2000	2001	2002	2003	2004	2005	2006	2007
Funds raised	51.8	-	97.7	475.2*	199.9**	130.3	125*	1,301.1

*=Preference share issuance; **= ~\$150m from exercise of warrants

Source: Company data and Credit Suisse

Considering the company's acquisition track record, we do not believe the rather frequent forays into the equity market are overly problematic. Yet, investors should be aware that part of the company's existing embedded growth profile is based upon an ability to effectively access capital markets. Thus, the need for capital market access can cast a significant overhang on the stock.

Organic growth

In our view, capital market access is critical to Fortis, in part, because of the significant amount of growth within its core utility assets. Exhibit 4 below highlights the substantial amount of capital additions over the last ten years to selected Fortis assets.

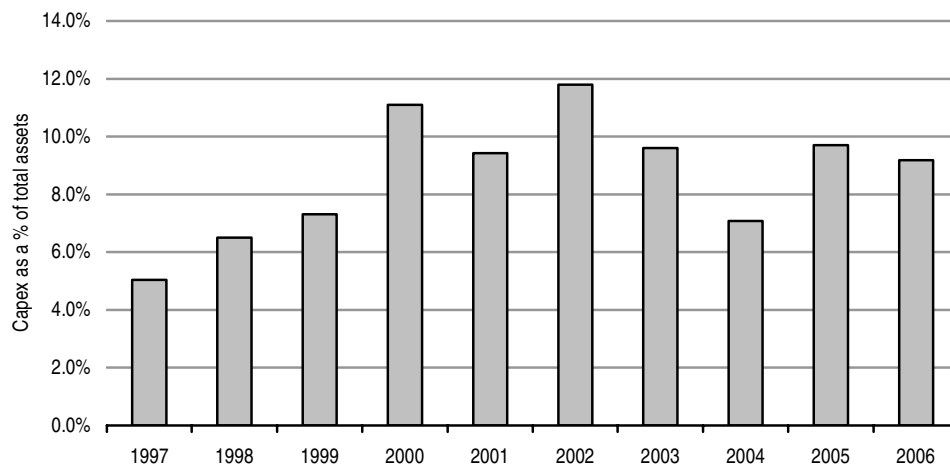
Exhibit 4: Selected Fortis historical yearly capital expenditures

C\$ in millions, unless otherwise stated

Capital Expenditure	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Segments										
NF Power			43.8	43.7	68.1	59.9	64.8	60.3	55.4	60.2
Maritime Electric			34.2	19.7	14.6	17.0	16.6	26.8	40.4	26.9
Fortis Ontario			3.0	3.4	3.5	4.6	11.1	9.6	10.9	10.4
Fortis Alberta								73.6	165.0	243.2
Fortis BC								57.1	116.0	110.9
Total Canadian			81.0	66.7	86.1	81.5	92.4	227.4	387.6	451.5
Total Caribbean			2.3	21.0	30.2	22.8	37.3	16.7	15.2	26.8
Fortis Generation					0.5	0.7	11.0	17.3	19.3	3.2
Fortis Properties			3.1	69.4	32.6	72.7	47.9	16.1	21.3	16.9
Corporate			0.1	0.5	0.1	51.1	19.2	1.2	2.6	1.7
Consolidated	49.8	65.5	86.5	157.7	149.5	228.8	207.7	278.7	446.0	500.0
Electric Utilities	43.5	63.0								
All other	6.2	2.4								
% of Capex to total assets	5.0%	6.5%	7.3%	11.1%	9.4%	11.8%	9.6%	7.1%	9.7%	9.2%

Source: Company data and Credit Suisse

As evidenced by Exhibit 5 below, the capital program has been significant in relation to the total assets for each business segment.

Exhibit 5: Capital expenditure as a percentage of total assets

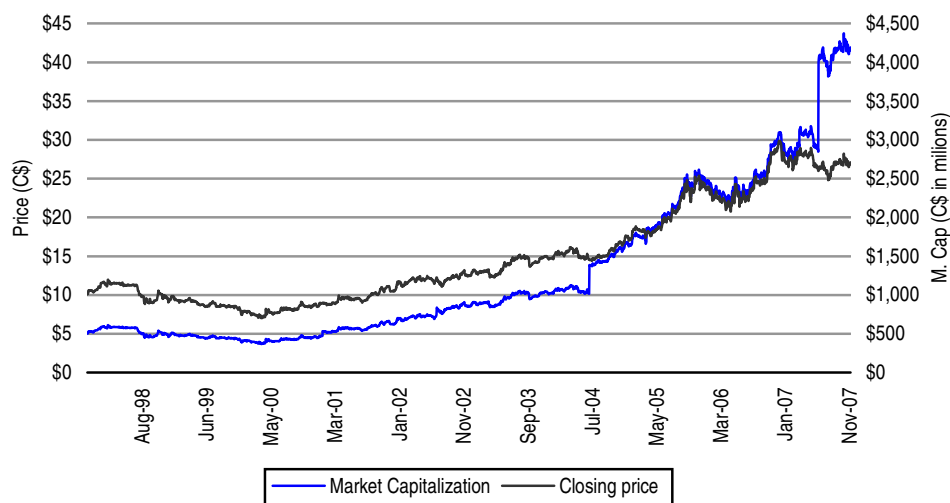
Significant capital expenditure over the last ten years

Source: Company data and Credit Suisse

Asset additions are important for a regulated utility's growth prospects. Increases in assets often reflect rate base growth that, all things being equal, translates into earnings growth. The combination of acquisitions and asset growth has translated into substantial market cap growth as in Exhibit 6 below.

Exhibit 6: Fortis Inc. market capitalization and stock price growth

C\$ in millions, unless otherwise stated

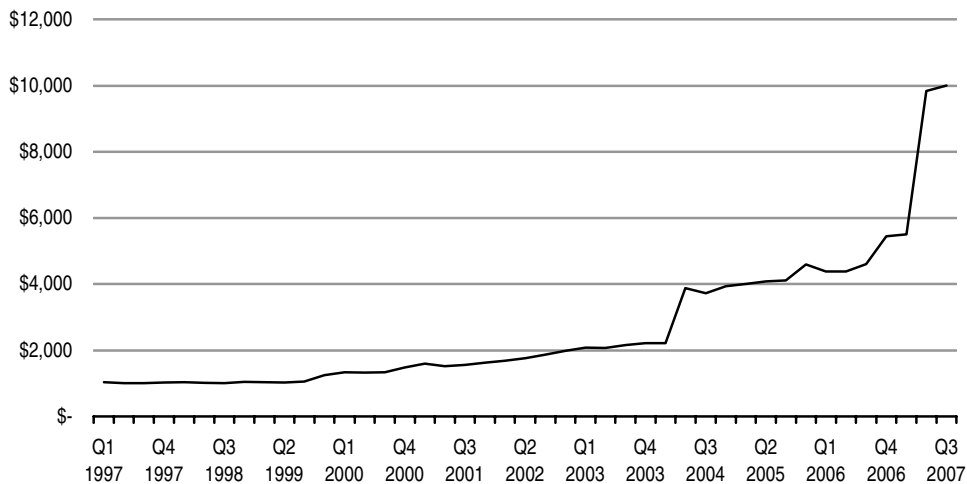


Source: Reuters and Credit Suisse

The market cap growth and share price performance is partially attributable to significant asset growth for the company's acquisition strategy and embedded organic growth.

Exhibit 7: Fortis Inc. asset growth

C\$ in millions, unless otherwise stated



Source: Company data and Credit Suisse

According to recent company filings, Fortis expects 2007 gross consolidated utility capital expenditures to be roughly C\$770m. Moreover, "Fortis expects gross electric utility capital expenditures of over \$3 billion over the next 5 years which will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Fortis expects gross gas utility capital expenditures over the next 5 years to exceed \$1 billion." Clearly, this level of utility capital expenditures is likely to translate into an ongoing source of somewhat predictable and steady earnings growth.

Steady and predictable utility growth in the next five years

Capital efficiency

From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. Given the valuation of selected real estate assets, we believe any such monetisation of these assets would likely be favourable for the stock. Additionally, given the recent acquisitions, Fortis Properties continues to increase in scale and scope, which may make it much more attractive for acquisition or monetisation. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used for future acquisitions.

Exhibit 8 highlights an asset management approach as an illustrative example only.

Exhibit 8: Asset management example

C\$ in millions, unless otherwise stated

Regulated Asset	3,000.0
Deemed equity rate	33.3%
Allowed rate of return	10.0%
Wholly owned earnings	100.0
Wholly owned returns	10.0%
Capital efficient model	
Ownership	20.0%
Management fee on remaining 80%	1.0%
Earnings on 20%	20.0
Earnings on 80% (mgmt fee)	0.8
Total earnings	20.8
Return (capital efficient model)	10.4%

Source: Credit Suisse estimates

Obviously, the above example is subject to a multitude of variables. Yet, we believe this type of approach could create value for equity holders with higher returns and enhanced capital efficiency. Conceptually, the above approach is somewhat similar to that of many private and public infrastructure specific funds. Considering the management approach and style often employed at Fortis, we believe the company may be poised to employ this asset management type of approach.

Asset management approach could enhance returns

Financial Statements

Naturally, one major area of focus for investors should be the rather extensive capital program that continues at Fortis. In 2006, Fortis invested nearly C\$500m in capital expenditures across various businesses. With the most recent financial results, Fortis had expectations that it would have gross consolidated utility capital expenditures of roughly C\$770m. Moreover, Fortis expects gross utility capital expenditures to total more than C\$4 billion over the next five years. A substantial amount of the Fortis capital program continues to be allocated to the company's western Canadian based utilities: FortisAlberta, FortisBC. For the next few years, we expect this capital program to be funded by a combination of internally generated operating cash flows, debt, preferred securities, and common equity.

As with all the companies within our coverage universe, we model Fortis over an extended time period. Our explicit financial model extends to 2025; however, we only have significant visibility with most of Fortis businesses for the next five years. Therefore, our financial commentary below focuses on the period from 2007-2011. As a summary, we provide the Exhibit 9 below.

Exhibit 9: Fortis summary statistics

C\$ in millions, unless otherwise stated

	2007- 2011	2011-2025
Average rate base growth	6.5%	-1.5%
Equity required*	300.0	25.0
Average yearly capex	823.7	199.0

*Q4 2007-2011

Source: Credit Suisse estimates

Strong near-term utility growth

Selected highlights of our income statement forecast include:

- Projected EPS growth of 30.5% and a CAGR of 6.9% for 2007-2011;
- Dividend growth of 32% and a CAGR of 7% for the years from 2007-2011; and,
- EBITDA growth of 49% and a CAGR of 10.4% for the years from 2007-2011.

Exhibit 10: Summary income statement
C\$ in millions, unless otherwise stated

Statement of Earnings	2006A	2007E	2008E	2009E	2010E	2011E
Revenue	1,471.7	2,587.3	3,179.7	3,313.9	3,456.5	3,602.0
Operating expenses	1,116.6	2,040.8	2,434.7	2,542.5	2,649.3	2,754.8
Operating income	355.2	546.5	745.0	771.4	807.2	847.2
Finance charges	168.3	292.6	360.3	381.0	400.9	420.0
Gain on sale of income producing property	(2.1)	-	-	-	-	-
Earnings before corporate taxes	188.9	254.0	384.7	390.5	406.3	427.2
Corporate taxes	32.5	44.8	106.0	107.1	111.2	116.9
Net earnings before non-controlling interest	156.4	209.1	278.7	283.4	295.1	310.3
Non-controlling interest	7.6	14.1	12.1	13.5	14.5	15.4
Net earnings	148.8	195.1	266.6	269.8	280.6	294.9
Preference share dividends	1.6	6.2	6.4	6.4	6.4	6.4
Net earnings applicable to common shares	147.2	188.8	260.2	263.4	274.2	288.5
Adjustments	(7.9)	2.4	-	-	-	-
Net earnings after adjustments	139.3	191.2	260.2	263.4	274.2	288.5
Adjustments for EPS (diluted)	18.0	10.1	0.4	0.4	0.4	0.4
Net earnings for Diluted EPS	157.3	201.3	260.6	263.8	274.6	288.9
Weighted average common shares outstanding						
Basic	103.6	137.4	157.8	161.1	163.4	166.7
Diluted	121.0	161.2	173.6	176.9	179.3	182.7
Adjustment to diluted shares	-	(13.6)	(13.6)	(13.6)	(13.6)	(13.6)
Diluted shares	121.0	147.6	160.0	163.3	165.7	169.1
Earnings per common share (before adjustments)						
Basic	1.42	1.37	1.66	1.64	1.68	1.74
Diluted	1.37	1.30	1.64	1.62	1.66	1.72
Earnings per common share (after adjustments)						
Basic	1.34	1.40	1.66	1.64	1.68	1.74
Diluted	1.30	1.31	1.64	1.62	1.66	1.72
Dividend per share	0.67	0.82	0.92	1.00	1.04	1.08

Source: Company data and Credit Suisse estimates

Exhibit 11: Summary cash flow statement
C\$ in millions, unless otherwise stated

Cash flow	2006A	2007E	2008E	2009E	2010E	2011E
Cash flow from operating activities	263.1	373.3	582.4	607.5	638.8	672.9
Change in deferred charges and other assets and d	(25.0)	(6.4)	-	-	-	-
Purchase of utility capital assets / additions to utility	(483.1)	(759.0)	(836.5)	(836.5)	(836.5)	(836.5)
Purchase of income producing properties	(16.9)	(13.3)	-	-	-	-
Contributions in aid of construction	53.6	55.3	-	-	-	-
Proceeds on sale of capital assets	8.2	2.8	-	-	-	-
Business acquisitions, net of cash acquired	(168.9)	(1,302.9)	-	-	-	-
Increase in investments	(1.9)	-	-	-	-	-
Cash flow from investing activities	(634.1)	(2,023.5)	(836.5)	(836.5)	(836.5)	(836.5)
Cash flow from financing activities	378.4	1,653.6	276.1	247.6	126.5	204.7
Effect of exchange rate changes on cash and cash eq	0.1	(2.9)	-	-	-	-
Change in cash and cash equivalents	7.5	0.5	22.0	18.5	(71.1)	41.1
Cash and cash equivalents, beginning of period	33.4	40.9	41.4	63.4	81.9	10.8
Cash and cash equivalents, end of period	40.9	41.4	63.4	81.9	10.8	51.9

Source: Company data and Credit Suisse estimates

Selected highlights of our cash flow forecast include:

- Roughly, C\$300 million of external equity required from 2008 to 2011; and,
- During our forecast period of 2008 to 2011, an average of C\$836 million of growth capital expenditures per year.

A fairly robust capital program in the near term

A critical part of any long-cycle, capital intensive business is maintaining a healthy balance sheet. Our summary balance sheet appears below.

Exhibit 12: Summary balance sheet statement

C\$ in millions, unless otherwise stated

Balance Sheet	2006A	2007E	2008E	2009E	2010E	2011E
ASSETS						
Current assets						
Cash and cash equivalents	40.9	41.4	63.4	81.9	10.8	51.9
Accounts receivable	278.1	423.2	423.2	423.2	423.2	423.2
Income taxes receivable	7.5	-	-	-	-	-
Prepaid expenses	14.3	32.1	32.1	32.1	32.1	32.1
Regulatory assets	35.7	176.2	176.2	176.2	176.2	176.2
Inventories of gas, materials and supplies	32.7	278.4	278.4	278.4	278.4	278.4
Total Current Assets	409.1	951.3	973.3	991.8	920.7	961.8
Corporate income tax deposit	5.9	5.9	5.9	5.9	5.9	5.9
Deferred charges and other assets	174.8	180.5	180.5	180.5	180.5	180.5
Regulatory assets	133.0	192.5	192.5	192.5	192.5	192.5
Future income taxes	7.1	38.0	38.0	38.0	38.0	38.0
Utility capital assets	3,574.9	6,707.0	7,252.1	7,776.4	8,280.8	8,766.1
Income producing properties	469.0	519.2	507.0	495.1	483.5	472.2
Investments	2.5	2.5	2.5	2.5	2.5	2.5
Intangibles, net of amortization	9.8	6.7	6.7	6.7	6.7	6.7
Goodwill	661.3	1,544.6	1,544.6	1,544.6	1,544.6	1,544.6
Total Assets	5,447.4	10,148.2	10,703.1	11,234.0	11,655.7	12,170.7
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Short-term borrowings	97.7	402.5	402.5	402.5	402.5	402.5
Accounts payable and accrued charges	333.8	718.8	718.8	718.8	718.8	718.8
Dividends payable	21.7	34.4	34.4	34.4	34.4	34.4
Regulatory liabilities	26.4	17.9	17.9	17.9	17.9	17.9
Current installments of long-term debt and capital lease	84.8	262.3	262.3	262.3	262.3	262.3
Income taxes payable	-	25.2	25.2	25.2	25.2	25.2
Future income taxes	1.0	5.7	5.7	5.7	5.7	5.7
	565.3	1,466.8	1,466.8	1,466.8	1,466.8	1,466.8
Deferred credits	79.0	254.7	254.7	254.7	254.7	254.7
Regulatory liabilities	338.9	374.7	374.7	374.7	374.7	374.7
Future income taxes	57.7	57.2	57.2	57.2	57.2	57.2
Long-term debt and capital lease obligations	2,558.5	4,842.3	5,170.0	5,485.1	5,788.0	6,079.2
Non-controlling interest	130.5	116.9	129.0	142.5	157.0	172.5
Preference shares	319.5	319.5	319.5	319.5	319.5	319.5
	4,049.3	7,432.1	7,771.9	8,100.5	8,417.9	8,724.6
Shareholders' equity						
Common shares	829.0	2,117.1	2,217.1	2,317.1	2,317.1	2,417.1
Preference shares	122.5	122.4	122.4	122.4	122.4	122.4
Contributed surplus	4.7	5.7	5.7	5.7	5.7	5.7
Equity portion of convertible debentures	7.2	5.8	5.8	5.8	5.8	5.8
Accumulated other comprehensive loss	-	(88.6)	(88.6)	(88.6)	(88.6)	(88.6)
Foreign currency translation adjustment	(51.5)	-	-	-	-	-
Retained earnings	486.3	553.7	668.8	771.1	875.4	983.8
	1,398.1	2,716.1	2,931.2	3,133.5	3,237.8	3,446.2
Total Liabilities and Shareholders' equity	5,447.4	10,148.2	10,703.1	11,234.0	11,655.7	12,170.7

Source: Company data and Credit Suisse estimates

Selected balance sheet highlights, include:

- From 2007-2011 an average return on equity of 8.2%;
- An 19.9% increase in assets from 2007-2011; and,
- An average unadjusted debt/total capitalization of 63% over the next 19 years peaking at 68% in 2007.

Valuation

Consistent with our past practice, we utilize multiple valuation methodologies to obtain our Fortis target price and rating. Our Neutral rating and C\$32.00 target price are largely the result of three distinct types of analysis, including:

- (1) multiple analyses;
- (2) yield analyses;
- (3) discounted cash flow.

Rating: Neutral

Target: C\$32.00

Each of these areas will be addressed in the sections below.

For comparative purposes, we used FactSet historical datasets for Canadian Utilities Ltd., Emera Inc., Enbridge Inc., TransAlta Corp., and TransCanada Corp. that appear in many tables throughout this section. Comparisons of companies within the energy infrastructure sector have been challenging for many reasons, including: business mix; asset quality; regulatory regime; the nature and extent of commodity exposure; and, business risks. For many investors, these companies are reasonably contrasted investment vehicles. Thus, our relative valuation section will focus upon these companies. A brief discussion of the comparative companies is included in Appendix I, and a comparative valuation table in Appendix II.

As a caveat, investors should be aware that much of the valuation data was obtained from FactSet. Therefore, the data should be internally consistent with FactSet's approach, but it may not be entirely consistent with other methods of financial reporting or analysis. From our perspective, the potential utility and internal consistency of the FactSet data outweighs any apparent inconsistency between calculation methods. Yet, investors should be aware of the above caveat.

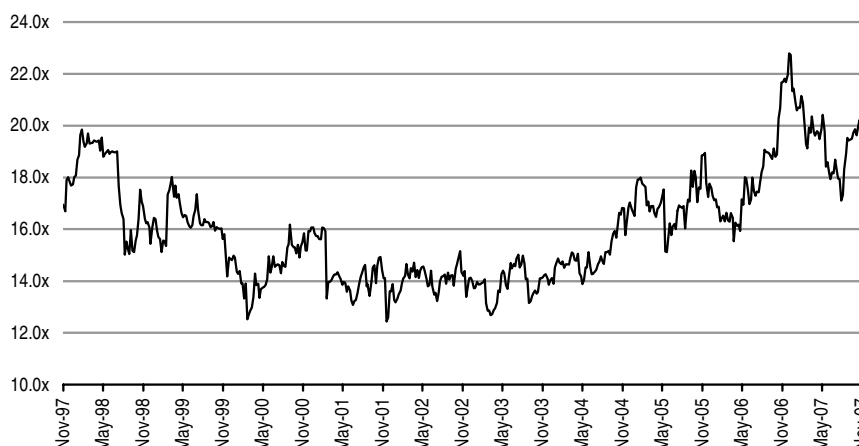
Multiple analyses

We considered three types of multiple based analysis in this section: (a) price-to-earnings; (b) price-to-book; and, (c) EV/EBITDA.

Price-to-earnings

According to FactSet data, over the last ten years, Fortis has traded at an average trailing P/E multiple of 16.0x within a range of 12.4x-22.8x. Specifically for Fortis, we provide a statistical 10-year summary in Exhibit 14.

Exhibit 13: Historical trailing price to earnings ratio



Source: FactSet and Credit Suisse

Exhibit 14: 10 yr P/E

Mean	16.0x
Median	15.7x
Standard Deviation	2.1
Range	10.4
Minimum	12.4x
Maximum	22.8x

Source: FactSet and Credit Suisse

Our comparative trailing earnings multiple analysis appears in the Exhibit 15 below.

Exhibit 15: Comparable company historical trailing P/E multiples

	Canadian Utilities Ltd	Emera Inc.	Enbridge Inc.	Fortis Inc. (Canada)	TransAlta Corp.	TransCanada Corp.
Avg. all available yrs	14.4x	14.9x	17.0x	13.2x	65.3x	19.6x
1 year average	17.1x	18.3x	20.5x	19.9x	306.4x	17.1x
2 year average	17.9x	18.1x	21.3x	18.8x	167.1x	15.8x
3 year average	16.7x	17.2x	20.1x	18.1x	120.1x	15.7x
4 year average	16.0x	17.0x	18.6x	17.3x	95.0x	15.6x
5 year average	15.3x	17.0x	18.8x	16.6x	83.3x	15.5x
10 year average	14.9x	16.1x	18.4x	16.0x	65.3x	15.9x

Source: FactSet and Credit Suisse

Given the magnitude of Fortis' capital program in the near term, we believe the company faces potentially fairly meaningful earnings contributions in the coming years. As a result we believe Fortis will likely trade at slightly higher earnings multiples than the historical two year average for the next several years. However, our longer-term earnings outlook is less robust primarily due to lack of visible growth. In Exhibit 16, we have discounted future earnings streams at a rate of 5%.

Exhibit 16: Share price based on future earnings discounted at 5% at various multiples

	2008	2009	2010	2011
12.0x	19.15	18.05	17.60	17.35
14.0x	22.34	21.06	20.54	20.25
16.0x	25.54	24.07	23.47	23.14
18.0x	28.73	27.08	26.41	26.03
20.0x	31.92	30.09	29.34	28.92
22.0x	35.11	33.09	32.27	31.81
24.0x	38.30	36.10	35.21	34.71

Source: Credit Suisse estimates

Obviously, companies with long duration assets like Fortis are somewhat sensitive and susceptible to changes in interest rates (as will be address in several sections below).

Given the potential for a slightly upward moving yield curve, we have applied a multiple slightly higher than the 2-year average multiple. On a price-earnings basis, we utilize a 19.5x multiple to obtain our C\$32.00 target price.

Price-to-book

On an historic basis, Fortis has traded at a 10-year average price-to-book multiple of 1.6x and within a range of 1.1x-2.4x. A statistical summary of the company's price-to-book ratio appears below in tabular form and as a chart.

Exhibit 17: Historical price to book ratio

Source: FactSet and Credit Suisse

Exhibit 18: 10 yr P/B

Mean	1.6x
Median	1.6x
Standard Deviation	0.3
Range	1.3
Minimum	1.1x
Maximum	2.4x

Source: FactSet and Credit Suisse

As evidenced by the table below, Fortis consistently trades at a lower price-to-book multiple than many of its peers.

Exhibit 19: Comparable company historical P/B multiples

	Canadian Utilities Ltd.	Emera Inc.	Enbridge Inc.	Fortis Inc. (Canada)	TransAlta Corp.	TransCanada Corp.
Avg. all available yrs	1.8x	1.5x	2.5x	1.4x	1.8x	1.8x
1 year average	2.5x	1.7x	2.9x	2.0x	2.4x	2.3x
2 year average	2.4x	1.6x	2.9x	2.0x	2.1x	2.3x
3 year average	2.3x	1.6x	2.9x	1.9x	1.9x	2.3x
4 year average	2.2x	1.6x	2.8x	1.9x	1.8x	2.3x
5 year average	2.1x	1.5x	2.7x	1.8x	1.7x	2.2x
10 year average	2.1x	1.5x	2.7x	1.6x	1.8x	1.9x

Source: FactSet and Credit Suisse

Similar to our price-to-earnings analysis, we have considered our forecast book value over multiple time frames in the matrix below

Exhibit 20: Share value based on future book value per share at different multiples

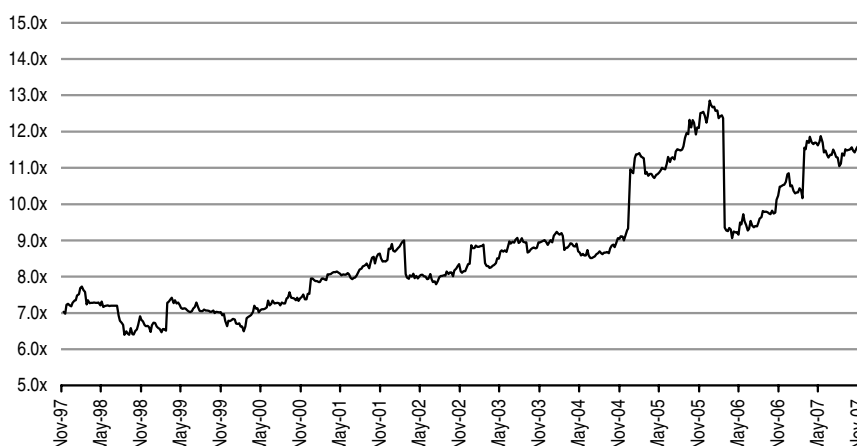
	2007	2008	2009	2010	2011
1.0x	16.09	16.18	17.02	17.37	18.20
1.2x	19.31	19.42	20.42	20.85	21.84
1.4x	22.53	22.65	23.82	24.32	25.47
1.6x	25.75	25.89	27.23	27.80	29.11
1.8x	28.97	29.12	30.63	31.27	32.75
2.0x	32.19	32.36	34.03	34.75	36.39
2.2x	35.41	35.60	37.44	38.22	40.03
2.4x	38.63	38.83	40.84	41.70	43.67

Source: Credit Suisse estimates

Our C\$32.00 target price equates to a 2.0x price-to-book multiple applied to our year end 2008 book value per share estimate. This multiple represents the one and two year historical average price-to-book multiple of the company.

EV/EBITDA

Our analysis of 10-years of FactSet data concluded that Fortis' average EV/EBITDA multiple has been 8.8x and within a range of 6.4x to 13.9x. A statistical summary and a chart appear below.

Exhibit 21: Historical EV/EBITDA multiple

Source: FactSet and Credit Suisse

Exhibit 22: 10 yr EV/EBITDA

Mean	8.8x
Median	8.5x
Standard Deviation	1.7
Range	7.6
Minimum	6.4x
Maximum	13.9x

Source: FactSet and Credit Suisse

Given the lack of longer-term visible growth prospects, we believe this multiple is likely to remain somewhat constant over time. A valuation matrix appears below

Exhibit 23: Comparable company historical EV/EBITDA multiples

	Canadian Utilities Ltd	Emera Inc.	Enbridge Inc.	Fortis Inc. (Canada)	TransAlta Corp.	TransCanada Corp.
Avg. all available yrs	6.7x	8.6x	9.8x	7.5x	7.9x	8.3x
1 year average	8.2x	8.9x	12.3x	11.2x	13.4x	9.2x
2 year average	8.1x	9.1x	12.1x	10.9x	11.4x	8.9x
3 year average	7.8x	8.8x	11.5x	10.9x	10.5x	8.9x
4 year average	7.7x	8.9x	11.3x	10.4x	10.2x	8.7x
5 year average	7.5x	9.1x	11.5x	10.1x	10.5x	8.5x
10 year average	7.2x	9.0x	10.9x	8.8x	9.3x	8.8x

Source: FactSet and Credit Suisse

As a result of the company's large capital program in the near-term, but limited longer-term visibility, we believe EV/EBITDA multiples to remain in line with the two-year historical average.

Exhibit 24: Share value based on forecasted future EBITDA at different multiples

	2007	2008	2009	2010	2011
9.0x	10.65	20.62	20.72	21.76	22.55
9.5x	13.04	23.62	23.77	24.97	25.84
10.0x	15.42	26.62	26.83	28.18	29.13
10.5x	17.81	29.62	29.89	31.38	32.42
11.0x	20.20	32.62	32.95	34.59	35.71
11.5x	22.58	35.62	36.01	37.80	39.00
12.0x	24.97	38.63	39.07	41.01	42.29
12.5x	27.36	41.63	42.13	44.21	45.58
13.0x	29.75	44.63	45.19	47.42	48.87

Source: Credit Suisse estimates

Our C\$32.00 target price is obtained by applying a 10.8x multiple which is slightly below the 2-year average.

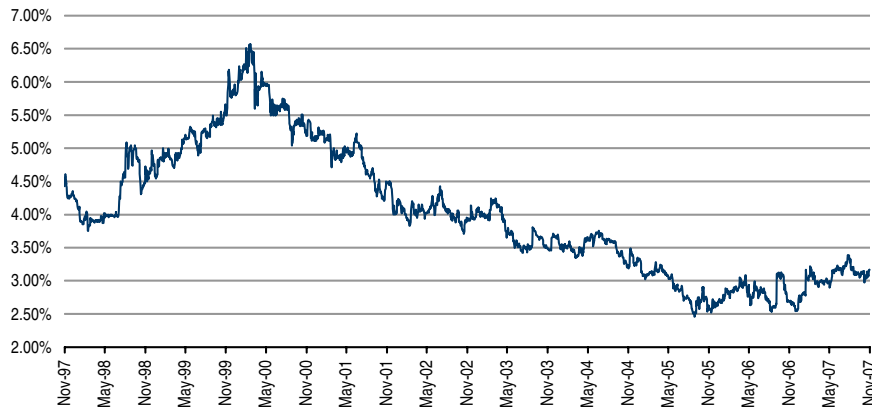
Yield analyses

We believe yield related analysis must address three specific areas: (a) dividend yield; (b) the dividend yield spread; and, (c) the dividend discount model.

Dividend yield

According to Bloomberg data, Fortis has traded at an average dividend yield of 4.0% over the last 10 years and within a range of 2.5% to 6.6% (See Exhibit 25 and Exhibit 26).

Exhibit 25: Historical Fortis dividend yield



Source: Bloomberg and Credit Suisse

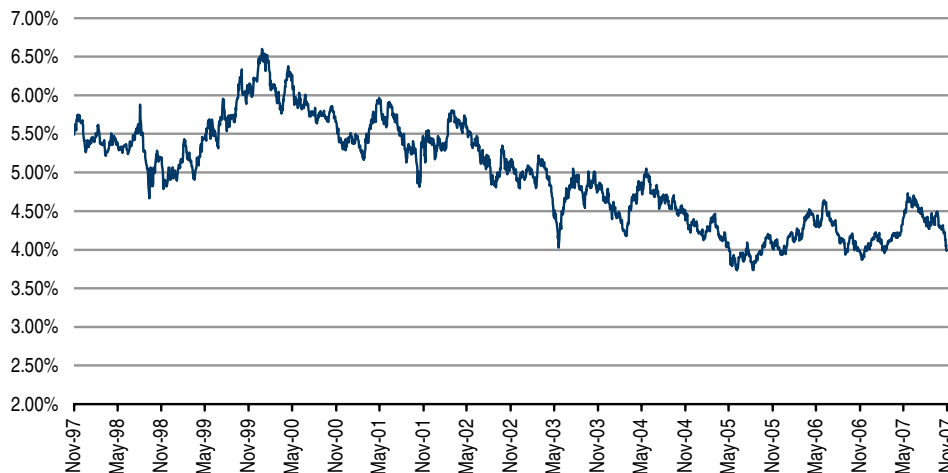
Exhibit 26: 10 yr dividend yield

Mean	4.0%
Median	3.9%
Standard Deviation	0.0097
Range	4.1%
Minimum	2.5%
Maximum	6.6%

Source: Bloomberg and Credit Suisse

For several reasons, we believe these metrics should be compared to movements in the Canadian 10-year bond yield (Exhibit 27).

Exhibit 27: Canadian 10 year bond yield



Source: Bloomberg and Credit Suisse

The sensitivity of dividend yield valuation is clearly evidence in the matrix below for current and estimated future dividend streams at various targeted yields.

Exhibit 28: Share value based on future dividends at various dividend yields

	2007	2008	2009	2010	2011
2.4%	34.17	38.33	41.67	43.33	45.00
2.6%	31.54	35.38	38.46	40.00	41.54
2.8%	29.29	32.86	35.71	37.14	38.57
3.0%	27.33	30.67	33.33	34.67	36.00
3.2%	25.63	28.75	31.25	32.50	33.75
3.4%	24.12	27.06	29.41	30.59	31.76
3.6%	22.78	25.56	27.78	28.89	30.00
3.8%	21.58	24.21	26.32	27.37	28.42
4.0%	20.50	23.00	25.00	26.00	27.00
4.2%	19.52	21.90	23.81	24.76	25.71
4.4%	18.64	20.91	22.73	23.64	24.55

Source: Credit Suisse estimates

In addition, we have discounted our projected future dividend payments at 5% and provided the valuation sensitivity in the table below.

Exhibit 29: Share value based on future dividend discounted at 5% at various multiples

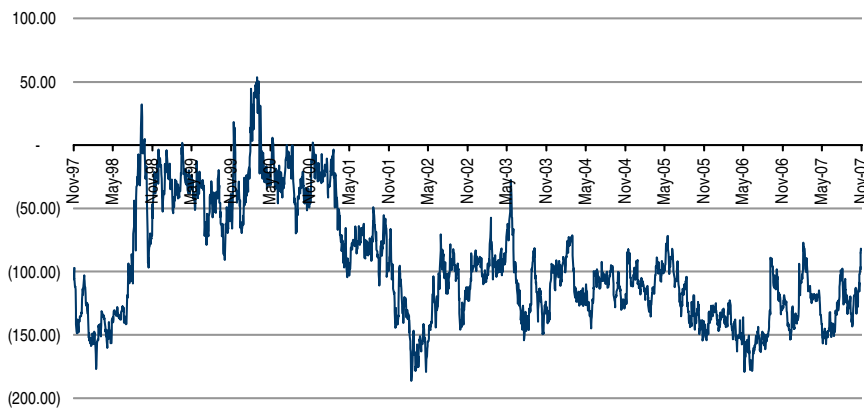
	2008	2009	2010	2011
2.40%	37.41	38.73	38.36	37.94
2.60%	34.53	35.75	35.41	35.02
2.80%	32.07	33.19	32.88	32.52
3.00%	29.93	30.98	30.69	30.35
3.20%	28.06	29.04	28.77	28.45
3.40%	26.41	27.34	27.08	26.78
3.60%	24.94	25.82	25.57	25.29
3.80%	23.63	24.46	24.23	23.96
4.00%	22.45	23.24	23.01	22.76
4.20%	21.38	22.13	21.92	21.68
4.40%	20.41	21.12	20.92	20.69

Source: Credit Suisse estimates

Our C\$32.00 target price is based upon a 2.85% dividend yield. That figure also equates to our 2011 projected dividend being discounted at 5% and applying a 2.9% dividend yield. The 2.85% dividend yield is slightly lower than the company's recent yield levels; and is closer to the lower end of the 10-year range.

Dividend yield spread

We believe that one should not solely rely upon dividend yield based metrics. In our view, many yield based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered the company's historic dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 30 and Exhibit 31 highlight this relationship.

Exhibit 30: Dividend yield spread versus the Canadian 10 year (bps)

Source: Bloomberg and Credit Suisse

Exhibit 31: 10 yr yield spread

Mean	-94.84
Median	-103.85
Standard Deviation	46.24
Range	239.97
Minimum	-186.41
Maximum	53.56

Source: Bloomberg and Credit Suisse

Naturally, the yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship, however, we must note that interest rate sensitive investments like Fortis usually do not exhibit perfect correlations. Clearly, some near-term uncertainty has impacted the valuation of many interest rate sensitive investment vehicles. Yet, in historic terms, the interest rate environment continues to be extremely accommodative which underpins often robust valuations for companies like Fortis. Thus, we apply a 165 bps spread to a moderate outlook on 10-year Canadian bond yield to obtain our C\$32.00 target price.

The dividend discount model

Many energy infrastructure investors often focus on dividends as the cash returned to shareholders is an easily comparable metric across companies and regions. Accounting impacts are less meaningful when considering the actual cash received by a shareholder, however, income taxes may play a significant role across regions. Regardless of these factors, the dividend discount model essentially provides a very simplified discounted cash flow based valuation tool. A simplified dividend discount model is based on the following formulae:

$$P_0 = D_1 / K_S \quad P_0 = D_1 / (K_S - g)$$

Where:

P_0 = Share price today

D_1 = Dividend one period from now

G = Expected growth rate in cash dividends

K_S = Required rate of return

As one would expect, there is a significant amount of valuation sensitivity with a dividend discount model analysis. We capture part of that sensitivity in the table below.

Exhibit 32: Share value under different dividend discount model assumptions

		Cost of equity				
		7.5%	8.5%	9.5%	10.5%	11.5%
Dividend Growth	3.0%	20.44	16.73	14.15	12.27	10.82
	4.0%	26.29	20.44	16.73	14.15	12.27
	5.0%	36.80	26.29	20.44	16.73	14.15
	6.0%	61.33	36.80	26.29	20.44	16.73
	7.0%	184.00	61.33	36.80	26.29	20.44
	8.0%	(184.00)	184.00	61.33	36.80	26.29
	9.0%	(61.33)	(184.00)	184.00	61.33	36.80

Source: Company data, Credit Suisse estimates

Our financial model forecasts roughly a compound annual dividend growth rate of 7% from 2007 to 2011 which would equate to a value significantly above our current target price using a reasonable cost-of-equity. Obviously, many limitations exist with valuing only dividend streams. Therefore, we now address our discounted cash flow analysis.

Discounted cash flow

Given the long asset life associated with many infrastructure assets, we do not believe that simple multiples effectively convey all of the potential value within these types of companies. Therefore, we place a significant amount of emphasis upon longer-term explicit financial models which then utilize discounted cash flows to ascertain corporate value. Admittedly, there is a considerable amount of valuation variability arising from using a DCF valuation methodology when one considers the tremendous sensitivity of the cost of capital and asset turns on valuation.

Longer-term cash flow driven valuations are preferred, however, many limitations exist

In our view, that valuation variability is outweighed by the benefits of long-term forecasts that attempt to comprehend the real economic value of long duration assets. For instance, there is an inherent mismatch between the economic value of many infrastructure assets and the accounting life of an asset. Quite often the economic value of an asset can extend beyond 50 years and, sometimes, well beyond 100 years with a relatively small amount of sustaining capital. Yet, the accounting life of these assets does not usually exceed 40 years and is often 25 years. As a result of this inherent mismatch, we believe longer-term valuations are necessary to properly ascertain corporate value.

Obviously, a tremendous number of limitations exist for any discounted cash flow analysis and method of valuation. Most importantly, any DCF approach largely consists of assumptions being built upon assumptions. These assumptions are perhaps even more challenging given the capital intensity of the utilities business which can make the precise timing of cash flows and capital projects very problematic. Even with these limitations, we believe it necessary and worthwhile to focus on our Fortis valuation with our explicit 5 year forecast period.

Our DCF valuation approach consists of three steps:

1. Generation of free cash flow forecast;
2. Estimation of a discount rate; and,
3. Discounting the free cash flows to the present.

Considering the above, the DCF analysis starting point is our free cash flow forecast. A summary version of our financial model appears in Exhibit 33 below. Our summary is based upon our explicit financial forecast until 2011 that was outlined in a previous section of this report.

Exhibit 33: Free cash flow summary

C\$ in millions, unless otherwise stated

Free cash flow to the firm	2007E	2008E	2009E	2010E	2011E
Operating Cash Flow	373.3	582.4	607.5	638.8	672.9
After tax interest cost	207.7	255.8	270.5	284.6	298.2
Capex	(772.3)	(836.5)	(836.5)	(836.5)	(836.5)
Dispositions	2.8	-	-	-	-
Free cash flow to firm	(188.5)	1.7	41.5	86.9	134.6

Source: Credit Suisse estimates

As expected with Fortis' significant capital program, negative free cash flow occurs in 2007 and very little positive free cash is generated in 2008 and 2009 of our forecast periods.

In the second step of our DCF analysis, we employ two methods of calculation to obtain our cost of equity: (a) the capital asset pricing model (CAPM); and, (b) a bond yield plus risk premium approach.

CAPM: Cost of equity = Risk free rate + (Beta x Market risk premium)

Therefore, using a risk free rate of 4.5%, a beta of 0.613 (obtained from Bloomberg) and a equity risk premium of 3.5%, we obtain a cost of equity of roughly 7.4%. A corporate bond yield approach (corporate bond + equity risk premium) generated a slightly higher cost of equity based upon a corporate bond yield of 5.65% and an equity risk premium of 350 bps.

With these assumptions and using the free cash flow to the firm methodology, we generated the following range of valuations highlighted in Exhibit 34.

Exhibit 34: Share value under different DCF assumptions

		WACC				
		4.5%	5.0%	5.5%	6.0%	6.5%
Long-term growth rate	1.00%	32.15	24.44	18.32	13.32	9.14
	1.25%	34.62	26.18	19.58	14.26	9.86
	1.50%	37.51	28.17	21.00	15.31	10.65
	1.75%	40.92	30.46	22.61	16.48	11.52
	2.00%	45.01	33.13	24.46	17.80	12.50

Source: Credit Suisse estimates

Upon considering the relatively benign Canadian interest rate environment, a weighted average cost of capital of roughly 5.12% is reasonably supported. As evidenced by the matrix appearing in Exhibit 34 and a modest long-term growth rate of 2.0%, our DCF value falls within a range of C\$30.00 to C\$35.00.

Valuation summary

We are initiating coverage of Fortis Inc. with a Neutral rating and a C\$32.00 target price. A significant portion of our analysis is based upon a very large capital program in the near to medium term, with a lack of visible growth in the longer term. A summary of our various valuation approaches appears in Exhibit 35 below.

Rating: Neutral

Target price: C\$32.00

Exhibit 35: Valuation summary

Valuation summary	Metric	Value	Comment
Price to earnings	19.5x	~C\$31.90	A slightly higher than the 2 year historic P/E multiple is reflective of the significant capital program over the next few years.
Price to book	2.0x	~C\$32.40	Applying the one and two year average price-to-book multiple on our forecast year end 2008.
EV/EBITDA	10.8x	~C\$32.00	Applying a slightly lower multiple than the two year EV/EBITDA multiple on our 2008 forecast year.
Dividend yield	2.85%	~C\$32.30	Slightly lower than the current dividend yield as a result of the current low-interest rate environment and ongoing yield affection.
Yield spread	165 bps	~C\$32.30	Represents a 165 basis point spread to the forecast 10 year Canadian government bond yield.
Discounted cash flow	-	~C\$30.00 to C\$35.00	We utilise our explicit forecast up to year 2025 combined with a 2% long-term growth rate and a 5.12% weighted average cost of capital to obtain our discounted cash flow valuation driven target price.

Source: Company data and Credit Suisse estimates

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and Caribbean. However, the company does not have any visible growth in the longer term. This combination of factors leads to our initiation of coverage with a Neutral rating and a C\$32.00 target price.

Risks

We believe Fortis faces a number of business and financial risks, including:

- **Increasing competition:** We believe Fortis will face a tremendous amount of competition for transactions; that may decrease prospective returns.
- **Commodity prices:** Fortis has some direct and indirect commodity exposure that could meaningfully impact our investment thesis.
- **Interest rate movements:** A number of sources of interest rate risk exist, including: refinancing; regulatory related earnings streams and associated formulae; and, relative investment value.
- **Regulation:** Some of the company's assets are subject to various forms of regulation and, therefore, investors should not underestimate the potential impact of changes to the regulatory environment.
- **Energy market dynamics:** Fortis faces a multitude of factors related to broader energy markets that it cannot control, including: fossil fuel commodity prices; electricity prices; weather; demand management activities; substitution activities; fuel availability; and, water levels. These factors, among others, may ultimately affect our investment thesis.
- **Access to capital markets:** Given the company's capital program and balance sheet objectives, we believe that access to capital markets on reasonable terms is critical.
- **Environmental rules:** Emissions regimes are still in development in Canada and certain forms of regulation may meaningfully impact the company's utility and non-regulated generation businesses.

Appendices

List of appendices

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Appendix I: Comparable company descriptions

Exhibit 36: Comparable company descriptions

Company	Ticker	Description
Canadian Utilities Ltd.	CU.TO	Canadian Utilities Limited is a diversified, Canadian based, international group of companies engaged in Power Generation, Utilities (natural gas and electricity transmission and distribution) and Global Enterprises, with companies active in technology, logistics and energy services.
Emera Inc	EMA.TO	Emera Inc. is an energy and services company with 570,000 customers, \$4.0 billion in assets. The company operates two regulated utility subsidiaries in northeast North America - Nova Scotia Power and Bangor Hydro-Electric - that together account for over 90% of revenues. In addition, Emera owns a 12.9% equity interest in the Maritimes & Northeast Pipeline, which delivers Nova Scotia's offshore natural gas to markets in Maritime Canada and New England.
Enbridge Inc.	ENB.TO	Enbridge operates, in Canada and the U.S., the world's longest crude oil and liquids pipeline system. Its pipeline systems have operated for over 55 years and now comprise approximately 13,500 kilometres (8,500 miles) of pipeline, delivering more than 2 million barrels per day of crude oil and liquids.
TransAlta Corp.	TA.TO	TransAlta is a power generation and energy marketing company with approximately 8,500 MW of generating capacity. TransAlta has generating facilities in Canada, United States, Australia and Mexico. The company has a diverse fuel mix in (coal, natural gas, hydro electric and renewables).
TransCanada Corp.	TRP.TO	TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure. Our network of more than 59,000 kilometres (36,500 miles) of pipeline taps into virtually all major gas supply basins in North America. TransCanada is one of the continent's largest providers of gas storage and related services with approximately 360 billion cubic feet of storage capacity. A growing independent power producer, TransCanada also owns, or has interests in, approximately 7,700 megawatts of power generation.

Source: Company data and Credit Suisse

Appendix II: Comparable company valuation tables

Exhibit 37: Comparable company overview

Company	Ticker	Currency	Rating	Price Target	Price 12/3/2007	Shares O/S (mm)	Market Cap	Enterprise Value	Indicated Dividend			Price Appr	Div Yield	Total Return
									\$	2007E Payout				
Canadian Utilities -CI A	CU.TO	CAD	Not Rated	NR	\$51.18	125.4	\$6,420	\$8,694	\$1.26	44.2%		n/a	2.5%	n/a
Emera Inc	EMA.TO	CAD	Neutral	\$24	\$21.33	111.4	\$2,376	\$4,282	\$0.91	68.8%		12.5%	4.3%	16.8%
Fortis Inc	FTS.TO	CAD	Neutral	\$32	\$27.04	154.9	\$4,189	\$9,549	\$0.82	62.4%		18.3%	3.0%	21.4%
Enbridge Inc	ENB.TO	CAD	Neutral	\$42	\$37.43	368.3	\$13,785	\$23,735	\$1.23	70.2%		12.2%	3.3%	15.5%
Transalta Corp	TA.TO	CAD	Outperform	\$36	\$31.83	202.6	\$6,447	\$8,896	\$1.00	77.8%		13.1%	3.1%	16.2%
Transcanada Corp	TRP.TO	CAD	Outperform	\$44	\$39.54	537.8	\$21,263	\$37,219	\$1.36	67.0%		11.3%	3.4%	14.7%
Average										69.2%		13.5%	3.3%	16.8%

Source: FactSet, Bloomberg and Credit Suisse estimates

Exhibit 38: Comparable company valuation

Company	Operating EPS			Operating CFPS			EBITDA			P/E			P/CFPS			TEV/EBITDA		
	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Canadian Utilities -CI A	\$3.10	\$2.85	\$2.84	\$5.58	\$5.83	\$5.86	\$1,100	\$1,177	\$1,159	16.5x	18.0x	18.0x	9.2x	8.8x	8.7x	7.9x	7.4x	7.5x
Emera Inc	\$1.33	\$1.32	\$1.35	\$2.34	\$2.81	\$2.64	\$543	\$549	\$576	16.0x	16.1x	15.8x	9.1x	7.6x	8.1x	7.9x	7.8x	7.4x
Fortis Inc	\$1.19	\$1.31	\$1.64	\$2.25	\$2.32	\$3.35	\$686	\$813	\$1,049	22.7x	20.6x	16.5x	12.0x	11.7x	8.1x	13.9x	11.7x	9.1x
Enbridge Inc	\$1.73	\$1.75	\$1.86	\$3.41	\$3.62	\$3.66	\$2,024	\$2,157	\$2,408	21.7x	21.4x	20.1x	11.0x	10.3x	10.2x	11.7x	11.0x	9.9x
Transalta Corp	\$1.16	\$1.29	\$1.76	\$3.36	\$3.67	\$4.50	\$567	\$953	\$1,181	27.5x	24.7x	18.1x	9.5x	8.7x	7.1x	15.7x	9.3x	7.5x
Transcanada Corp	\$1.94	\$2.03	\$2.09	\$4.85	\$4.58	\$4.14	\$3,558	\$3,930	\$3,791	20.4x	19.5x	18.9x	8.2x	8.6x	9.5x	10.5x	9.5x	9.8x
Average										20.8x	20.0x	17.9x	9.8x	9.3x	8.6x	11.3x	9.5x	8.5x

Source: FactSet, Bloomberg and Credit Suisse estimates

Appendix III: Management highlights

Exhibit 39: Fortis Inc. management

Management Team	Title	Comments
H. Stanley Marshall	President and Chief Executive Officer	Mr. Marshall has been President and CEO of Fortis Inc. since 1995. Mr. Marshall serves on the boards of all Fortis companies and is a Director of Toromont Industries Ltd.
Barry V. Perry	Vice President, Finance, and Chief Financial Officer	Barry V. Perry is Vice President, Finance and has been CFO since 2004. Earlier, he was Vice President, Finance and Chief Financial Officer of Newfoundland Power. Mr. Perry serves on the Boards of FortisAlberta Inc. and FortisBC Inc.
Ronald W. McCabe	General Counsel and Corporate Secretary	Mr. McCabe has been General Counsel and Corporate Secretary of Fortis Inc since 1997. Earlier, he practiced corporate law and was in-house counsel to two airlines.

Source: Company data and Credit Suisse

Appendix IV: Board of Directors

Exhibit 40: Board of directors

Board of Directors	Title	Member since
Bruce Chafe	Mr. Chafe was appointed Chairman of the Fortis board in May 2006. In the past, he was chairman of the audit committee of the Fortis board. Mr. Chafe has been a Director of Fortis Properties Corporation since 1997. He has also served on the boards of Newfoundland Power Inc. and FortisBC Inc.	1997
Frank Crothers	Mr. Crothers is Chairman and Chief Executive Officer of Island Corporate Holdings Limited, a private Bahamas-based investment company with diverse interests throughout the Caribbean, North America, Australia and South Africa. He has served on many public and private sector boards including a term as chairman of the Caribbean Association of Electrical Utilities.	2007
Peter E. Case	Mr. Case has been a consultant to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research from CIBC World Markets. Prior to that position, he was Managing Director at BMO Nesbitt Burns.	2005
Geoffrey F. Hyland	Mr. Hyland retired as President and CEO of ShawCor Ltd. in June 2005. Mr. Hyland is a Director of FortisOntario Inc.	2001
Linda L. Inkpen	Dr. Inkpen was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc.	1994
H. Stanley Marshall	Mr. Marshall joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. Mr. Marshall serves on the boards of all Fortis companies and is a Director of Toromont Industries Ltd.	1995
John S. McCallum	Mr. McCallum is Chair of the Governance and Nominating Committee of the board. He was Chairman of Manitoba Hydro from 1991 to 2000 and Policy Advisor to the Federal Minister of Finance from 1984 to 1991.	2001
Harry McWatters	Mr. McWatters is the founder and President of Sumac Ridge Estate Wine Group, a leader in the British Columbia wine industry. He is President of Black Sage Vineyards Ltd., See Ya Later Ranch Ltd., Okanagan Estate Wine Cellars Ltd., and is responsible for government and industry relations in western Canada for Vincor Canada.	2007
David G. Norris	Mr. Norris is Chair of the Audit Committee of the board. He has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Mr. Norris was appointed Chair of the Board of Newfoundland Power Inc. in 2006.	2005
Michael A. Pavey	Mr. Pavey retired as Executive Vice-President and CFO of Major Drilling Group International Inc. in 2006.	2006
Roy P. Rideout	Mr. Rideout is Chair of the Human Resources Committee of the Board. He retired as Chairman and CEO of Clarke Inc. in October 2002.	2001

Source: Company data and Credit Suisse

Appendix V: Corporate governance highlights

For greater details on Fortis' corporate governance practices we believe investors should consult various securities filings. Yet, we highlight selected corporate governance practices below, including:

- A majority of Directors are independent.
- The company "has adopted a written code for the directors, officers and employees."
- The Governance and Nominating Committee shall "carry out procedures specified by the Board for assessing the effectiveness of the Board, the directors, and each Board committee".

Appendix VI: Selected company assets

Exhibit 41: Selected company assets

Regulated Utilities - Canada	
Terasen	Principal natural gas distributor in British Columbia, serving over 900,000 customers, or 95% of natural gas users in the province. It also provides propane distribution to approximately 2,400 customers in the Whistler area.
FortisAlberta	FortisAlberta owns and/or operates about 105,000 kilometers of distribution lines, and distributes electricity generated by other market participants to end-use customers in southern and central Alberta. The company serves more than 440,000 customers.
FortisBC	FortisBC's assets include about 6,750 kilometers of distribution lines and four hydroelectric power plants with a combined capacity of 235 MW. The company generates approximately 45 percent of its electricity requirements and the balance is met through power purchase agreements. FortisBC operates in the southern interior of British Columbia and serves approximately 152,000 customers.
Newfoundland Power	Newfoundland Power operates an integrated generation, transmission, and distribution system in Newfoundland. It has an installed generating capacity of approximately 136 MW, of which 92 MW is hydroelectric in nature. The company serves approximately 230,000 customers.
Maritime Electric	Maritime Electric generates, transmits, and distributes electricity in the Prince Edward Island. It maintains on-island generating facilities at Charlottetown and Bord.
FortisOntario	FortisOntario is composed of Canadian Niagara Power and Cornwall Electric. It serves approximately 52,000 customers in Fort Erie, Port Colborne and Gananoque in the province of Ontario. It also own an interest in Westario Power and Rideau St. Lawrence.
Regulated Utilities - Caribbean	
Belize Electric	Belize Electricity is the primary distributor of electricity in Belize, Central America. It caters to more than 71,000 customers. Fortis holds a 70.1 percent interest in Belize Electricity.
Caribbean Utilities	Caribbean Utilities generates, transmits, and distributes electricity in Grand Cayman, Cayman Islands. The company has installed generating capacity of 120 MW. Fortis holds an approximate 54% controlling interest.
Fortis Turks and Caicos	Fortis Turks and Caicos distributes electricity in the Turks and Caicos Islands as per 50-year licenses that will expire in 2036 and 2037. It has an installed diesel-fired generating capacity of approximately 37 MW. Fortis Inc. acquired Fortis Turks and Caicos in August 2006.
Non-Regulated	
Fortis Generation	Fortis Generation operates non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia, and Upper New York State. It has a generating capacity of 195 MW, of which 190 MW is hydroelectric generation.
Fortis Properties	Fortis Properties owns and operates 19 hotels (more than 3,500 rooms) in eight Canadian provinces and 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Source: Company data and Credit Suisse

Appendix VII: Selected company asset maps

Exhibit 42: Selected company asset maps



Source: Company data

Companies Mentioned (Price as of 03 Dec 07)

AES Corporation (AES, \$21.73)
 Ameren Corp. (AEE, \$53.25)
 American Electric Power Co., Inc. (AEP, \$47.78, OUTPERFORM, TP \$52.00, UNDERWEIGHT)
 Aquila, Inc. (ILA, \$3.94)
 Berkshire Hathaway Inc. (BRKA, \$143200, NEUTRAL, TP \$125000.00, MARKET WEIGHT)
 Black Hills Corporation (BKH, \$42.43)
 Canadian Utilities Ltd. (CU.TO, C\$51.18)
 CMS Energy (CMS, \$17.37)
 Con Edison (ED, \$48.56, NEUTRAL, TP \$50.00, UNDERWEIGHT)
 Constellation Energy Group Inc. (CEG, \$99.91, OUTPERFORM, TP \$112.00, OVERWEIGHT)
 Dominion Resources (D, \$47.39, OUTPERFORM, TP \$49.00, OVERWEIGHT)
 DTE Energy (DTE, \$49.58, NEUTRAL, TP \$51.00, UNDERWEIGHT)
 Duke Energy (DUK, \$19.83, NEUTRAL, TP \$20.00, UNDERWEIGHT)
 Dynegy Inc. (DYN, \$7.94, NEUTRAL, TP \$10.00, OVERWEIGHT)
 Emera (EMA.TO, C\$21.33)
 Enbridge Inc. (ENB.TO, C\$37.43, NEUTRAL, TP C\$42.00, UNDERWEIGHT)
 Energy East Corporation (EAS, \$27.60)
 Exelon Corporation (EXC, \$82.43, NEUTRAL, TP \$80.00, OVERWEIGHT)
 FirstEnergy (FE, \$69.43)
 Fortis Inc. (FTS.TO, C\$27.04, NEUTRAL, TP C\$32.00, UNDERWEIGHT)
 FPL Group (FPL, \$71.44, OUTPERFORM, TP \$76.00, OVERWEIGHT)
 Gaz Metro LP (GZM_u.TO, C\$14.72)
 Great Plains Energy (GXP, \$29.61, RESTRICTED, UNDERWEIGHT)
 Iberdrola (IBE.MC, Eu11.08, RESTRICTED)
 Integrys Energy Group (TEG, 51.72)

ITC Holdings Corp (ITC, \$51.96, OUTPERFORM, TP \$61.00, UNDERWEIGHT)
MDU Resources (MDU, \$27.11)
National Grid (NG.L, 812.50 p, NEUTRAL, TP 720.00 p, UNDERWEIGHT)
NiSource Inc (NI, \$18.52, NEUTRAL, TP \$22.00, MARKET WEIGHT)
Northeast Util (NU, \$31.90)
Northwestern Corp. (NWEK, \$27.81)
NSTAR (NST, \$35.09)
OGE (OGE, \$36.01)
Pepco Holdings Inc. (POM, \$28.13, NEUTRAL, TP \$31.00, UNDERWEIGHT)
Progress Energy (PGN, \$49.10, NEUTRAL, TP \$53.00, UNDERWEIGHT)
Public Services New Mexico (PNM, \$22.57)
Public Svc Ent (PEG, \$97.55, NEUTRAL, TP \$100.00, OVERWEIGHT)
Puget Energy, Inc. (PSD, \$28.09)
SCANA Corporation (SCG, \$42.97)
Sierra Pacific (SRP, \$17.27, OUTPERFORM, TP \$18.00, UNDERWEIGHT)
TransAlta Corporation (TA.TO, C\$31.83, OUTPERFORM, TP C\$36.00, UNDERWEIGHT)
TransCanada Corp. (TRP.TO, C\$39.54, OUTPERFORM, TP C\$44.00, UNDERWEIGHT)
Unisource Energy Corp (UNS, \$30.89, NEUTRAL, TP \$36.00, UNDERWEIGHT)
Wisconsin Energy (WEC, \$48.00)
Xcel Energy (XEL, \$22.94)

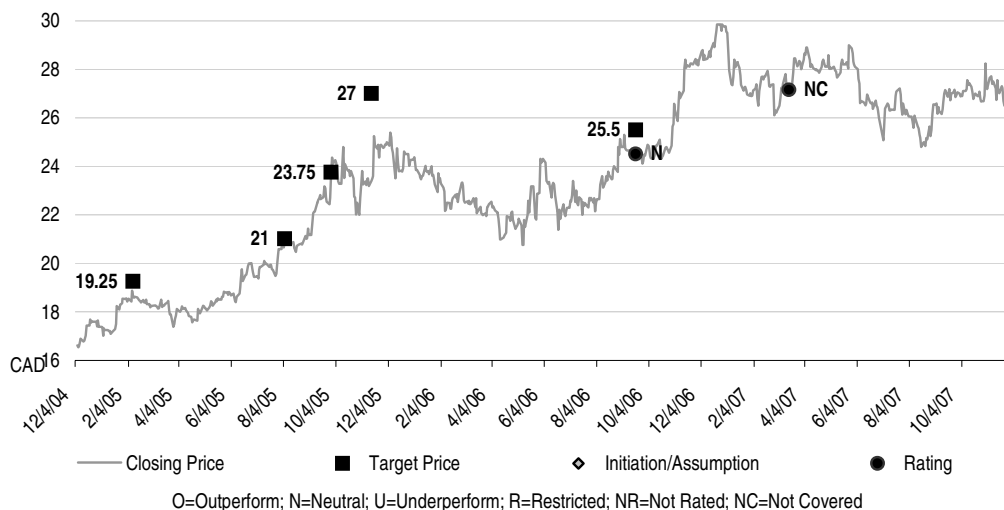
Disclosure Appendix

Important Global Disclosures

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/ Assumption
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		
9/18/06	24.5	25.5	NEUTRAL	
3/16/07	27.15		NOT COVERED	

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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.5x our 2008 EPS (earnings per share) estimate of C\$1.64; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 165 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (22 Jan 08, C\$)	28.00
Target price (C\$)	32.00 ¹
52-week price range	29.38 - 24.80
Market cap. (C\$ m)	4,337.25
Enterprise value (C\$ m)	10,039.77

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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PRE RESULTS COMMENT

Quarterly earnings preview

- **Earnings preview:** Fortis is scheduled to report Q4 2007 earnings on or about the 7th of February. We are forecasting Q4 2007 earnings per share of C\$0.48 which is slightly higher than the Street's C\$0.45 consensus estimate and at the top end of the C\$0.42-C\$0.48 range. Given the long-cycle nature of most of our coverage universe, we do not place undue emphasis on quarterly results. Yet, we do believe certain issues will be pertinent in the quarter. Finally, in light of the company's declaration of dividend increase on the 11th of December, we do not foresee any further increase to the dividend at this time.
- **Selected issues:** With the company's results, we focus our analytical efforts on both the financial and strategic issues. From a financial perspective, we focus on three areas: (a) capital expenditure guidance and actual spend in the last quarter; (b) financing costs; and, (c) balance sheet strength. In terms of strategic issues, we consider the following to be pertinent: (a) an acquisition outlook; (b) potential for capital efficiency initiatives; and, (c) future financing plans.
- **Conference call details:** Fortis does not typically conduct conference calls associated with earnings releases.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.5x P/E multiple of 2008 earnings; a 165 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 01/17/08 the Canada S&P/TSX Composite Index index closed at 12795.63

Quarterly EPS	Q1	Q2	Q3	Q4
2006A	0.34	0.34	0.36	0.27
2007E	0.37	0.27	0.20	0.48
2008E	0.67	0.24	0.23	0.49

Financial and valuation metrics

Year	12/06A	12/07E	12/08E
EPS (CS adj., C\$)	1.30	1.31	1.64
Prev. EPS (C\$)	—	—	—
P/E (x)	21.5	21.3	17.1
P/E rel. (%)	—	—	—
Revenue (C\$ m)	1,471.7	2,587.3	3,179.7
EBITDA (C\$ m)	532.7	813.5	1,048.7
OCFPS (C\$)	2.18	2.32	3.35
P/OCF (x)	13.7	12.5	8.3
EV/EBITDA (current)	13.7	12.3	9.9
Net debt (12/06A, C\$ m)	2,700.0	5,465.8	5,784.1
ROIC (%)	18.0	18.6	20.6
Number of shares (m)	154.90	IC (12/07E, C\$ m)	9,304.86
BV/share (current, C\$)	14.98	EV/IC (x)	1.1
Net debt (current, C\$ m)	5,360.1	Dividend annualized (C\$)	0.84
Net debt/tot. cap. (current, %)	67.8	Dividend yield (%)	3.0

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 22 Jan 08)

Fortis Inc. (FTS.TO, C\$28.00, NEUTRAL, TP C\$32.00, UNDERWEIGHT)

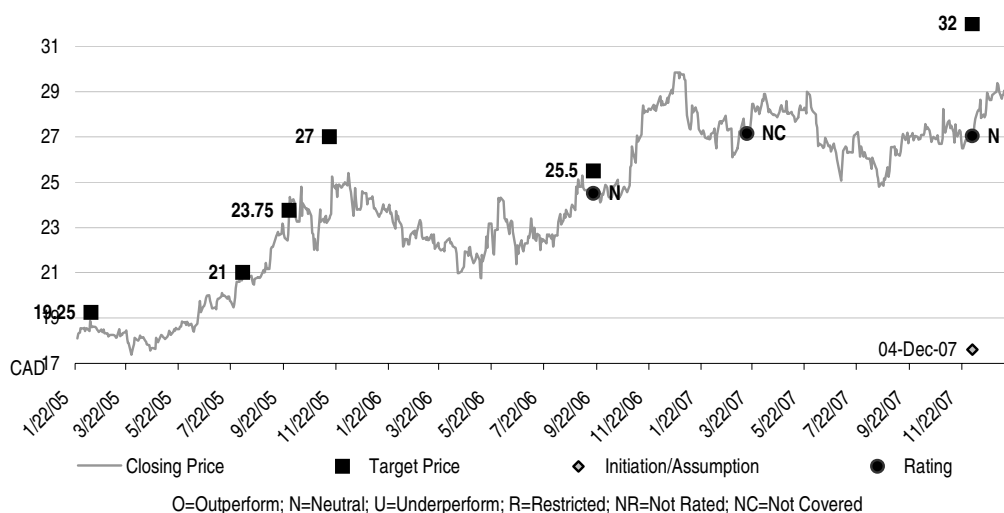
Disclosure Appendix

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/ Assumption
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		
9/18/06	24.5	25.5	NEUTRAL	
3/16/07	27.15		NOT COVERED	
12/4/07	27.04	32	NEUTRAL	X

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Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

*The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.5x our 2008 EPS (earnings per share) estimate of C\$1.64; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 165 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating	NEUTRAL*
Price (07 Feb 08, C\$)	29.24
Target price (C\$)	32.00 ¹
52-week price range	29.75 - 24.80
Market cap. (C\$ m)	4,529.33
Enterprise value (C\$ m)	10,726.37

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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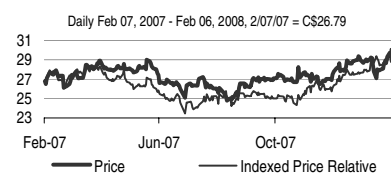
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Ongoing organic opportunity

- **Missed the mark:** Fortis reported Q4 2007 EPS (FD) of C\$0.49 above our estimate of C\$0.48 and the Street's estimate of C\$0.45 within the C\$0.42-C\$0.48 range. We believe the headline number required adjustments for a few items, including: a gain on sale of surplus land and one of several tax related matters. From our perspective, a clean earnings number is roughly C\$0.41 which missed the mark against our estimate or that of the Street. After a very surprising December dividend increase announcement, as expected, the dividend was held in line with that earlier new release (ie. the increase from C\$0.21 to C\$0.25 payable in equal quarterly installments).
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated utility capital expenditures to exceed C\$4 billion. More than three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Improved capital efficiency:** From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 02/06/08 the Canada S&P/TSX Composite Index index closed at 12867.2

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.65	0.26	0.24	0.48
2009E	0.67	0.26	0.22	0.46

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.63	1.61
Prev. EPS (C\$)	—	1.64	1.62
P/E (x)	23.4	18.0	18.2
P/E rel. (%)			
Revenue (C\$ m)	2,718.0	3,236.0	3,369.6
EBITDA (C\$ m)	814.0	1,050.4	1,097.2
OCFPS (C\$)	2.34	3.40	3.51
P/OCF (x)	12.4	8.6	8.3
EV/EBITDA (current)	12.6	10.2	10.2
Net debt (12/07A, C\$ m)	5,476.0	5,948.2	6,346.4
ROIC (%)	20.0	21.0	20.8
Number of shares (m)	154.90	IC (12/08E, C\$ m) 9,908.56	
BV/share (current, C\$)	14.98	EV/IC (x) 1.1	
Net debt (current, C\$ m)	5,360.1	Dividend annualized (C\$) 0.84	
Net debt./tot. cap. (current, %)	67.8	Dividend yield (%) 2.9	

Source: Company data, Credit Suisse estimates.

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The adjusted earnings of C\$0.41 came in under the Street's view on our earnings estimate. Yet, in long-cycle industries, we do not place undue emphasis on quarterly results. We believe the company is well positioned for meaningful organic growth, however, we believe Fortis will likely continue its acquisition focus in due course. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2007	Q4 2006	chg y/y
Regulated Gas Utilities - Canadian	52	-	n/a
Regulated Electric Utilities - Canadian	25	27	-7%
Regulated Electric Utilities - Caribbean	9	8	13%
Non-regulated - Fortis Generation	7	7	0%
Non-regulated - Fortis Properties	8	3	167%
Corporate and other	(22)	(11)	100%
Net earnings applicable to common shares	79	34	132%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

This segment consists of Terasen Gas which was acquired on 17 May 2007. Those that have followed the Terasen assets for an extended time frame would likely generally agree with the company's assessment that "[p]erformance was consistent with that expected to be achieved". Worth noting as an adjustment was the C\$7 million after-tax gain for the sale of surplus land that was included in the company's numbers.

Exhibit 2: Regulated gas utilities – Canadian earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2007	Q4 2006	chg y/y
Terasen Gas	52	-	N/A

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution

C\$ in millions, unless otherwise stated

	Q4 2007	Q4 2006	chg y/y
FortisBC	7	6	17%
FortisAlberta	6	9	-33%
Newfoundland Power	9	9	0%
Other Cdn Electric Utilities	3	3	0%
Earnings	25	27	-7%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by roughly 17% compared to the same period last year. See Exhibit 4 for selected highlights.

Exhibit 4: Selected FortisBC performance highlights

	Q4 2007	Q4 2006	chg y/y
Energy deliveries (GWh)	839	842	0%
Revenue (C\$/MWh)	72.71	68.88	6%
Energy supply costs (C\$/MWh)	22.65	23.75	-5%
Operating expenses (C\$/MWh)	23.84	20.19	18%
Gross margin (C\$/MWh)	26.22	24.94	5%
Earnings (C\$millions)	7	6	17%

Source: Company data and Credit Suisse

FortisAlberta

Segmented earnings at FortisAlberta decreased by approximately 33% compared to the same period last year. See the table below for selected highlights.

Exhibit 5: Selected FortisAlberta performance highlights

	Q4 2007	Q4 2006	chg y/y
Energy deliveries (GWh)	4,002	3,901	3%
Revenue (C\$/MWh)	16.99	16.92	0%
Operating expenses (C\$/MWh)	8.00	7.69	4%
Gross margin (C\$/MWh)	9.00	9.23	-3%
Earnings (C\$millions)	6	9	-33%

Source: Company data and Credit Suisse

Newfoundland Power

Earnings in this segment remained flat this period compared to the same period last year.

Exhibit 6 below contains selected highlights for Newfoundland Power.

Exhibit 6: Selected Newfoundland Power performance highlights

	Q4 2007	Q4 2006	chg y/y
Energy deliveries (GWh)	1,384	1,353	2%
Revenue (C\$/MWh)	95.38	84.26	13%
Energy supply costs (C\$/MWh)	63.58	51.00	25%
Operating expenses (C\$/MWh)	10.12	11.09	-9%
Gross margin (C\$/MWh)	21.68	22.17	-2%
Earnings (C\$millions)	9	9	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter stayed flat compared to the same quarter last year. The results did include a one-time C\$2 million after-tax gain at FortisOntario relating to a refund ordered by the regulator. The segment's earnings also contained a C\$0.5 million charge to future tax expenses relating to Federal income tax rate reductions. See the table below for selected highlights.

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights

	Q4 2007	Q4 2006	chg y/y
Energy deliveries (GWh)	554	544	2%
Revenue (C\$/MWh)	119.13	115.81	3%
Energy supply costs (C\$/MWh)	77.62	79.04	-2%
Operating expenses (C\$/MWh)	14.44	14.71	-2%
Gross margin (C\$/MWh)	27.08	22.06	23%
Earnings (C\$millions)	3	3	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment increased by roughly 13% compared to the same quarter last year. See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights

	Q4 2007	Q4 2006	chg y/y
Energy deliveries (GWh)	272	259	5%
Revenue (C\$/MWh)	279.41	123.55	126%
Energy supply costs (C\$/MWh)	154.41	65.64	135%
Operating expenses (C\$/MWh)	36.76	19.31	90%
Gross margin (C\$/MWh)	88.24	38.61	129%
Earnings (C\$millions)	9	8	13%

Note: Revenue for 2006 doesn't include Caribbean Utilities as it was not consolidated at that time.

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. See the table below for selected highlights.

Exhibit 9: Selected generation production highlights

GWh, unless otherwise stated

	Q4 2007	Q4 2006	chg y/y
Belize	52	53	-2%
Ontario	179	186	-4%
Central Newfoundland	40	59	-32%
British Columbia	5	4	25%
Upper New York State	27	38	-29%
Total	303	340	-11%

Source: Company data and Credit Suisse

Earnings for the segment were unchanged from the current quarter compared to the same quarter last year.

Exhibit 10: Selected non-regulated – Fortis Generation performance highlights

	Q4 2007	Q4 2006	chg y/y
Energy deliveries (GWh)	303	340	-11%
Revenue (C\$/MWh)	62.71	58.82	7%
Energy supply costs (C\$/MWh)	9.90	2.94	237%
Operating expenses (C\$/MWh)	9.90	11.76	-16%
Gross margin (C\$/MWh)	42.90	44.12	-3%
Earnings (C\$millions)	7	7	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$8 million which is nearly a 166% increase over last year's quarterly earnings. REVPAR increased to C\$73.84 from C\$67.84 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was 96.8%, up from 94.9% last year.

Corporate

Corporate expenses significantly increased to C\$22 million from C\$11 million in Q4 2006. The increase was primarily related to acquisition financing for Terasen.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) organic growth; (b) capital efficiency; and, (c) acquisition trail. Each of these issues is addressed below.

Organic growth

Fortis has a large capital program underway. In 2007 the company invested approximately C\$790 million of which C\$768 million was allocated to its regulated utility capital program. Fortis is projecting that capital expenditures for the upcoming 2008 year would amount to roughly C\$890 million, a 12.6% increase from last year. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company is forecasting to spend over C\$4 billion over the next five years. Due to this large capital requirement, we continue to believe that capital market access is critical to Fortis. Yet, we do not forecast a specific common equity funding requirement until 2010.

Capital efficiency

From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. Given the valuation of selected real estate assets, we believe any such monetisation of these assets would likely be favourable for the stock. Additionally, given the recent acquisitions, Fortis Properties continues to increase in scale and scope, which may make it much more attractive for acquisition or monetisation. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used for future acquisitions.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation is pursuing acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some

potentially value creating acquisition activity (see Exhibit 11 below for select Fortis M&A transactions).

Exhibit 11: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,110.64	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- With the recent Terasen acquisition, Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment;
- Bought deal financing commonly employed in Canada; and,
- Canadian dollar strength versus US players.

Fortis possesses a number of absolute and relative advantages over some other competitors

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. Yet, the company does not have visibly sustainable growth over the longer-term. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition. Our 2008 earnings estimate decreased slightly from C\$1.64 to C\$1.63. We are also formally introducing our 2009 earnings estimate to be C\$1.61. We retain our C\$32.00 target price which is obtained utilizing multiple valuation methodologies, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Maintain Neutral rating and C\$32.00 target price

Companies Mentioned (Price as of 07 Feb 08)
 Fortis Inc. (FTS.TO, C\$29.24, NEUTRAL, TP C\$32.00)

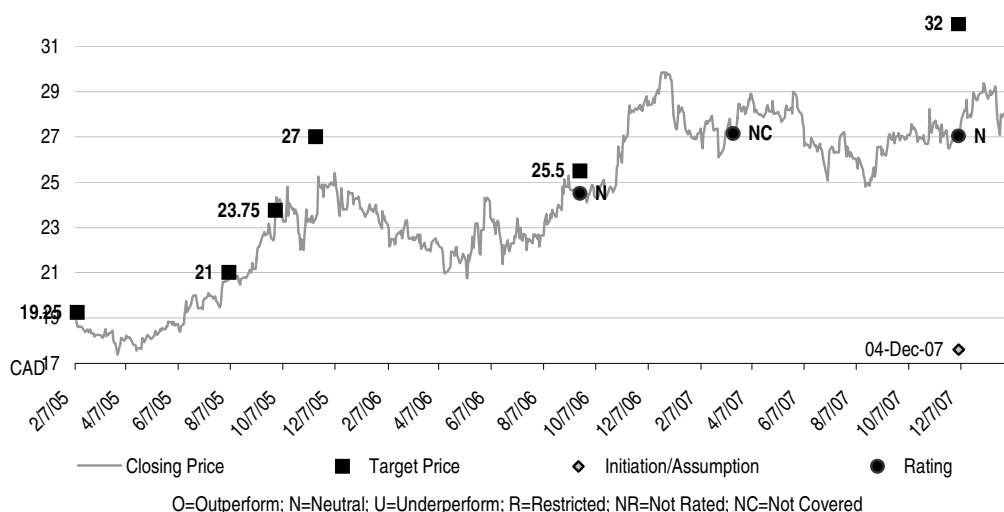
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



FTS.TO Date	Closing Price Price (CAD)	Target Price Price (CAD)	Rating	Initiation/Assumption
2/9/05	18.653	19.25		
8/5/05	20.85	21		
9/28/05	23.688	23.75		
11/14/05	23.4	27		
9/18/06	24.5	25.5	NEUTRAL	
3/16/07	27.15		NOT COVERED	
12/4/07	27.04	32	NEUTRAL	X

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.9x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 88 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (24 Apr 08, C\$)	27.28
Target price (C\$)	32.00 ¹
52-week price range	29.75 - 24.80
Market cap. (C\$ m)	4,225.72
Enterprise value (C\$ m)	10,422.76

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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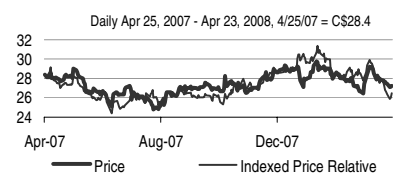
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PRE RESULTS COMMENT

Quarterly earnings preview

- **Earnings preview:** Fortis is scheduled to report Q1 2008 earnings on or about the 1st of May. We are forecasting Q1 2008 earnings per share of C\$0.62 which is slightly higher than the Street's C\$0.56 consensus estimate and at the top end of the C\$0.43-C\$0.62 range. In considering some of the weather related impacts from the company's natural gas distribution utility, the earnings dispersion among the quarters can often be considerable. Moreover, the long-cycle nature of most of our coverage universe, we do not place undue emphasis on quarterly results. Yet, we do believe certain issues will be pertinent in the quarter.
- **Selected issues:** With the company's results, we focus our analytical efforts on both the financial and strategic issues. From a financial perspective, we focus on three areas: (a) capital expenditure guidance and actual spend in the last quarter; (b) financing costs; and, (c) balance sheet strength. In terms of strategic issues, we consider the following to be pertinent: (a) an acquisition outlook; (b) potential for capital efficiency initiatives; and, (c) future financing plans.
- **Conference call details:** Fortis does not typically conduct conference calls associated with earnings releases.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 04/23/08 the Canada S&P/TSX Composite Index index closed at 14069.8

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.62	0.29	0.24	0.48
2009E	0.64	0.29	0.22	0.46

Financial and valuation metrics

Year	12/07A	12/08E	12/09E	
EPS (CS adj., C\$)	1.25	1.63	1.61	
Prev. EPS (C\$)	—	—	—	
P/E (x)	21.8	16.8	17.0	
P/E rel. (%)	140.5	120.7	128.0	
Revenue (C\$ m)	2,718.0	3,236.0	3,369.6	
EBITDA (C\$ m)	814.0	1,050.4	1,097.2	
OCFPS (C\$)	2.34	3.40	3.51	
P/OCF (x)	12.4	8.0	7.8	
EV/EBITDA (current)	12.2	9.9	9.9	
Net debt (12/07A, C\$ m)	5,476	5,948	6,346	
ROIC (%)	20.0	21.0	20.8	
Number of shares (m)	154.90	IC (12/08E, C\$ m)		9,908.56
BV/share (current, C\$)	15.0	EV/IC (x)		1.1
Net debt (current, C\$ m)	5,360.1	Dividend (current, C\$)		0.84
Net debt/tot. cap. (current, %)	67.8	Dividend yield (%)		3.1

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 24 Apr 08)
 Fortis Inc. (FTS.TO, C\$27.28, NEUTRAL, TP C\$32.00)

Disclosure Appendix

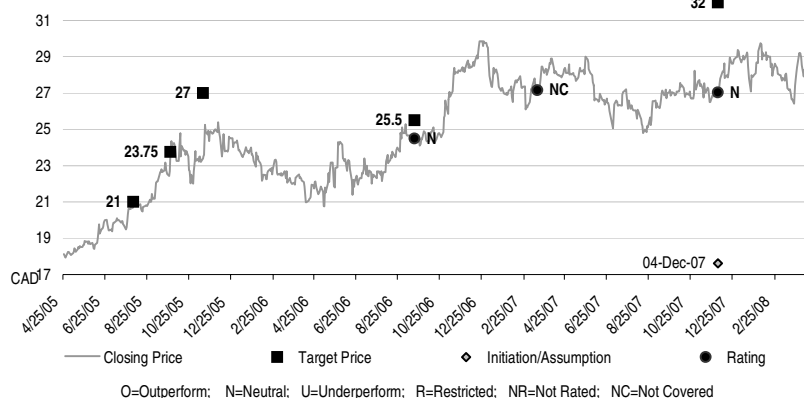
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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(CAD)	(CAD)	Rating Assumption
8/5/05	20.85	21	
9/28/05	23.688	23.75	
11/14/05	23.4	27	
9/18/06	24.5	25.5	N
3/16/07	27.15		NC
12/4/07	27.04	32	N X



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Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

*The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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Global Ratings Distribution		
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Neutral/Hold*	40%	(56% banking clients)

Underperform/Sell*	12%	(48% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.9x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 88 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

See the Companies Mentioned section for full company names.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating	NEUTRAL*
Price (01 May 08, C\$)	27.96
Target price (C\$)	32.00 ¹
52-week price range	29.75 - 24.80
Market cap. (C\$ m)	4,331.06
Enterprise value (C\$ m)	10,449.07

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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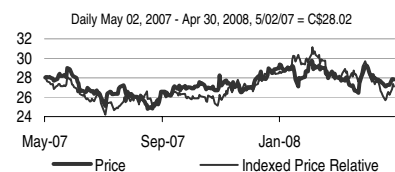
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Shifting among the quarters

- **Slight miss:** Fortis reported Q1 2008 EPS (FD) of C\$0.55 which was below our estimate of C\$0.62 and slightly below the Street's C\$0.56 estimate and well within the C\$0.43-C\$0.62 range. We believe the earnings difference is attributable to three things: (a) as reported, a quarterly shift in Newfoundland Power's purchased power expense; (b) slightly higher than anticipated corporate costs; and, (c) selected other minor non-material variances. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively solid financial and operation performance which is somewhat typical.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated utility capital expenditures to exceed C\$4 billion. More than three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Improved capital efficiency:** From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



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Financial and valuation metrics

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Net debt/tot. cap. (current, %)	67.8	Dividend yield (%)	3.0

Source: Company data, Credit Suisse estimates.

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Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2008	Q1 2007	chg y/y
Regulated Gas Utilities - Canadian	58	-	N/A
Regulated Electric Utilities - Canadian	33	39	-15%
Regulated Electric Utilities - Caribbean	7	4	75%
Non-regulated - Fortis Generation	6	7	-14%
Non-regulated - Fortis Properties	3	2	50%
Corporate and other	(16)	(10)	60%
Net earnings applicable to common shares	91	42	117%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

This segment consists of Terasen Gas which was acquired on 17 May 2007. Those that have followed the Terasen assets for an extended time frame would likely generally agree with the company's assessment that "[p]erformance was consistent with that expected to be achieved".

Exhibit 2: Regulated gas utilities – Canadian earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2008	Q1 2007	chg y/y
Terasen Gas	58	-	N/A

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution

C\$ in millions, unless otherwise stated

	Q1 2008	Q1 2007	chg y/y
FortisBC	12	12	0%
FortisAlberta	11	12	-8%
Newfoundland Power	6	11	-45%
Other Cdn Electric Utilities	4	4	0%
Earnings	33	39	-15%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC was relatively flat compared to the same period last year. See Exhibit 4 for selected highlights.

Exhibit 4: Selected FortisBC performance highlights

	Q1 2008	Q1 2007	chg y/y
Energy deliveries (GWh)	875	879	0%
Revenue (C\$/MWh)	75.43	72.81	4%
Energy supply costs (C\$/MWh)	24.00	22.75	5%
Operating expenses (C\$/MWh)	18.29	18.20	0%
Gross margin (C\$/MWh)	33.14	31.85	4%
Earnings (C\$millions)	12	12	0%

Source: Company data and Credit Suisse

FortisAlberta

Segmented earnings at FortisAlberta decreased by approximately 8% compared to the same period last year. See the table below for selected highlights.

Exhibit 5: Selected FortisAlberta performance highlights

	Q1 2008	Q1 2007	chg y/y
Energy deliveries (GWh)	4,138	3,945	5%
Revenue (C\$/MWh)	17.64	16.22	9%
Operating expenses (C\$/MWh)	7.97	7.35	8%
Gross margin (C\$/MWh)	9.67	8.87	9%
Earnings (C\$millions)	11	12	-8%

Source: Company data and Credit Suisse

Newfoundland Power

Earnings in this segment decreased by roughly 45% this period compared to the same period last year. Worth noting the drop in earnings was attributed to a shift in the quarterly distribution of annual purchased power expense which reduced earnings by approximately C\$6m. Exhibit 6 below contains selected highlights for Newfoundland Power.

Exhibit 6: Selected Newfoundland Power performance highlights

	Q1 2008	Q1 2007	chg y/y
Energy deliveries (GWh)	1,716	1,663	3%
Revenue (C\$/MWh)	95.57	92.60	3%
Energy supply costs (C\$/MWh)	71.10	63.74	12%
Operating expenses (C\$/MWh)	8.16	8.42	-3%
Gross margin (C\$/MWh)	16.32	20.44	-20%
Earnings (C\$millions)	6	11	-45%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter stayed flat compared to the same quarter last year. See the table below for selected highlights.

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights

	Q1 2008	Q1 2007	chg y/y
Energy deliveries (GWh)	599	602	0%
Revenue (C\$/MWh)	116.86	116.28	1%
Energy supply costs (C\$/MWh)	81.80	79.73	3%
Operating expenses (C\$/MWh)	11.69	11.63	1%
Gross margin (C\$/MWh)	23.37	24.92	-6%
Earnings (C\$millions)	4	4	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment increased by roughly 75% compared to the same quarter last year. One notable item in this segment was a C\$12m unfavourable impact relating to foreign exchange associated with the strengthening of the Canadian dollar versus the US dollar. Q1 2007 figure was reduced by C\$2m associated with a charge on the disposal of steam-turbine assets. See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights

	Q1 2008	Q1 2007	chg y/y
Energy deliveries (GWh)	258	241	7%
Revenue (C\$/MWh)	290.70	319.50	-9%
Energy supply costs (C\$/MWh)	155.04	182.57	-15%
Operating expenses (C\$/MWh)	42.64	70.54	-40%
Gross margin (C\$/MWh)	93.02	66.39	40%
Earnings (C\$millions)	7	4	75%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment decreased by 14% from the current quarter compared to the same quarter last year. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights

	Q1 2008	Q1 2007	chg y/y
Energy deliveries (GWh)	288	291	-1%
Revenue (C\$/MWh)	65.97	72.16	-9%
Energy supply costs (C\$/MWh)	6.94	6.87	1%
Operating expenses (C\$/MWh)	13.89	13.75	1%
Gross margin (C\$/MWh)	45.14	51.55	-12%
Earnings (C\$millions)	6	7	-14%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$3 million which is nearly a 50% increase over last year's quarterly earnings. REVPAR increased to C\$67.82 from C\$65.46 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was 96.6%, up from 94.9% last year.

Corporate

Corporate expenses significantly increased to C\$16 million from C\$10 million in Q1 2007. The increase was primarily related to acquisition financing for Terasen.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) organic growth; (b) capital efficiency; and, (c) acquisition trail. Each of these issues is addressed below.

Organic growth

In the most recent quarter the company's capital expenditure totaled C\$165 million of which C\$158 million was for its regulated utilities. Fortis is projecting that capital expenditures for 2008 would amount to roughly C\$900 million, a roughly 14% increase from last year. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company is forecasting to spend over C\$4 billion over the next five years. Due to this large capital requirement, we continue to believe that capital market access is critical to Fortis. Yet, we do not forecast a specific common equity funding requirement until 2010.

Capital efficiency

From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. Given the valuation of selected real estate assets, we believe any such monetisation of these assets would likely be favourable for the stock. Additionally, given the recent acquisitions, Fortis Properties continues to increase in scale and scope, which may make it much more attractive for acquisition or monetisation. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used for future acquisitions.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation is pursuing acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some

potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,110.64	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- With the recent Terasen acquisition, Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment;
- Bought deal financing commonly employed in Canada; and,
- Canadian dollar strength versus US players.

Fortis possesses a number of absolute and relative advantages over some other competitors

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. Yet, the company does not have visibly sustainable growth over the longer-term. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition. Our 2008 earnings estimate decreased from C\$1.63 to C\$1.54. We retain our C\$32.00 target price which is obtained utilizing multiple valuation methodologies, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Maintain Neutral rating and C\$32.00 target price

Companies Mentioned (Price as of 01 May 08)

Fortis Inc. (FTS.TO, C\$27.96, NEUTRAL, TP C\$32.00)

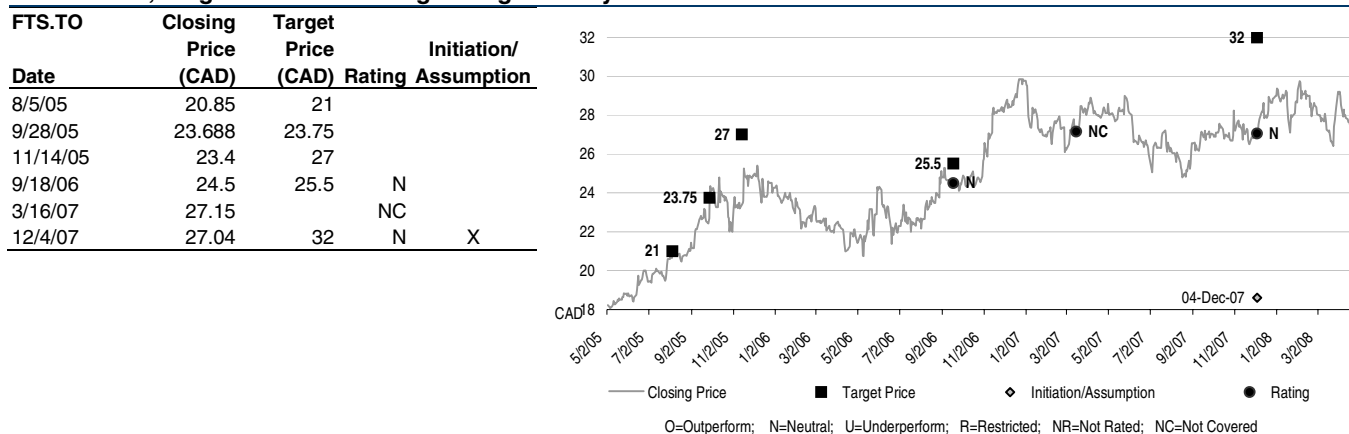
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.9x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 88 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

See the Companies Mentioned section for full company names.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Caribbean conundrum

Rating	NEUTRAL*
Price (27 Jun 08, C\$)	27.31
Target price (C\$)	32.00 ¹
52-week price range	29.75 - 24.80
Market cap. (C\$ m)	4,230.37
Enterprise value (C\$ m)	10,348.39

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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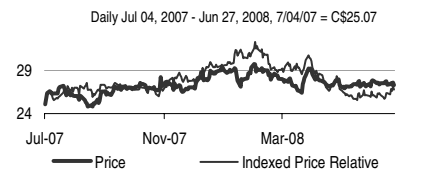
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- **Negative regulatory decision:** Belize Electricity Limited (BEL), which is 70.1% owned by Fortis Inc., received a negative regulatory decision from the Belizean Public Utilities Commission (PUC) in relation to the Annual Rate Review Proceeding. That adverse decision retroactively disallowed BZ\$36m (roughly C\$18m) of previously incurred power costs and reduced "Belize Electricity's rate of return on assets to 10 per cent from 12 per cent." In the near term, we are obviously concerned about the cash flows, earnings and returns at BEL, as they will modestly impact Fortis on a consolidated basis.
- **Regulatory evolution will be critical:** Given the balance of capital costs, consumer rates, selected commodity prices and utility returns, we believe certain regulatory trends are likely to continue favouring ratepayers over utility companies in the near term. Obviously, the progression of the current decision, whether on appeal or in future rate applications, will be critical to fully assess the value of BEL.
- **Improved capital efficiency:** From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 06/27/08 the Canada S&P/TSX Composite Index index closed at 14355.21

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.24	0.47
2009E	0.64	0.29	0.22	0.46

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.54	1.61
Prev. EPS (C\$)	—	—	—
P/E (x)	21.9	17.7	16.9
P/E rel. (%)	140.7	127.9	128.1
Revenue (C\$ m)	2,718.0	3,284.0	3,369.6
EBITDA (C\$ m)	814.0	1,041.5	1,097.2
OCFPS (C\$)	2.34	3.44	3.50
P/OCF (x)	12.4	7.9	7.8
EV/EBITDA (current)	12.2	9.9	9.8
Net debt (12/07A, C\$ m)	5,476	5,866	6,262
ROIC (%)	20.0	21.8	20.9
Number of shares (m)	154.90	IC (12/08E, C\$ m)	9,855.76
BV/share (current, C\$)	15.0	EV/IC (x)	1.0
Net debt (current, C\$ m)	5,360.1	Dividend (current, C\$)	0.84
Net debt/tot. cap. (current, %)	67.8	Dividend yield (%)	3.1

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 27 Jun 08)
Fortis Inc. (FTS.TO, C\$27.31, NEUTRAL, TP C\$32.00)

Disclosure Appendix

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Disclosure Appendix

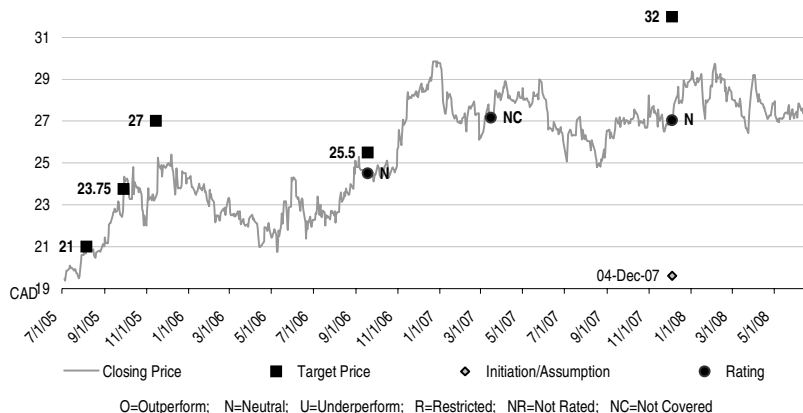
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(CAD)	(CAD)	Rating Assumption
8/5/05	20.85	21	
9/28/05	23.688	23.75	
11/14/05	23.4	27	
9/18/06	24.5	25.5	N
3/16/07	27.15		NC
12/4/07	27.04	32	N X



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Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.9x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 88 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (08 Aug 08, C\$)	26.76
Target price (C\$)	32.00 ¹
52-week price range	29.75 - 24.43
Market cap. (C\$ m)	4,203.22
Enterprise value (C\$ m)	10,175.59

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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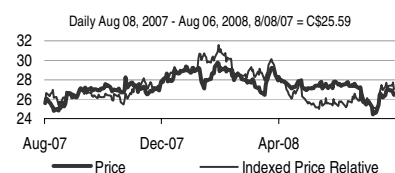
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RESULTS

Capital creep

- **In-line quarter:** On a headline basis, Fortis reported Q2 2008 headline EPS (FD) of C\$0.18 which required several adjustments. Comparable EPS of C\$0.28 is the result of adjusting for a C\$2m one-time charge at FortisOntario and C\$13m of disallowed fuel and purchased power costs in Belize. The adjusted EPS matched our C\$0.28 and the identical Street estimate within a C\$0.25-C\$0.30 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively solid financial and operation performance which is somewhat typical.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated utility capital expenditures to exceed C\$4.5 billion from the previous quarter's C\$4.0 billion. More than three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Improved capital efficiency:** From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.
- **Valuation:** We utilize multiple valuation methodologies to obtain our C\$32.00 target price, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 08/06/08 the Canada S&P/TSX Composite Index index closed at 13453.51

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.24	0.47
2009E	0.64	0.29	0.22	0.46

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.54	1.61
Prev. EPS (C\$)	—	—	—
P/E (x)	21.4	17.4	16.6
P/E rel. (%)	131.4	134.5	149.5
Revenue (C\$ m)	2,718.0	3,486.0	3,369.6
EBITDA (C\$ m)	814.0	1,035.4	1,097.2
OCFPS (C\$)	2.34	4.17	3.50
P/OCF (x)	12.4	6.4	7.7
EV/EBITDA (current)	12.2	9.8	9.6
Net debt (12/07A, C\$ m)	5,476	5,502	5,898
ROIC (%)	20.0	24.2	21.2
Number of shares (m)	157.07	IC (12/08E, C\$ m)	9,718.41
BV/share (current, C\$)	15.5	EV/IC (x)	1.0
Net debt (current, C\$ m)	5,262.0	Dividend (current, C\$)	1.00
Net debt/tot. cap. (current, %)	66.4	Dividend yield (%)	3.7

Source: Company data, Credit Suisse estimates.

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By our calculations, Fortis reported comparable EPS of C\$0.28 after adjusting for a C\$2m one-time charge at FortisOntario and C\$13m of disallowed power costs in Belize. In our view, Fortis delivered a relatively solid financial and operation performance which is somewhat typical. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2008	Q2 2007	chg y/y
Regulated Gas Utilities - Canadian	12	1	1100%
Regulated Electric Utilities - Canadian	26	33	-21%
Regulated Electric Utilities - Caribbean	(5)	8	-163%
Non-regulated - Fortis Generation	7	5	40%
Non-regulated - Fortis Properties	7	6	17%
Corporate and other	(18)	(12)	-50%
Net earnings applicable to common shares	29	41	-29%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

This segment consists of Terasen Gas which was acquired on 17 May 2007. Those that have followed the Terasen assets for an extended time frame would likely generally agree with the company's assessment that "[p]erformance was consistent with that expected to be achieved". The company stated that "[o]n a full quarter-over-quarter basis, earnings of the Terasen Gas companies were comparable."

Exhibit 2: Regulated gas utilities – Canadian earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2008	Q2 2007	chg y/y
Terasen Gas	12	1	1100%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution

C\$ in millions, unless otherwise stated

	Q2 2008	Q2 2007	chg y/y
FortisBC	7	6	17%
FortisAlberta	7	15	-53%
Newfoundland Power	10	8	25%
Other Cdn Electric Utilities	2	4	-50%
Earnings	26	33	-21%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by 17% compared to the same period last year. See Exhibit 4 for selected highlights.

Exhibit 4: Selected FortisBC performance highlights

	Q2 2008	Q2 2007	chg y/y
Energy deliveries (GWh)	673	670	0%
Revenue (C\$/MWh)	78.75	77.61	1%
Energy supply costs (C\$/MWh)	17.83	19.40	-8%
Operating expenses (C\$/MWh)	25.26	25.37	0%
Gross margin (C\$/MWh)	35.66	32.84	9%
Earnings (C\$millions)	7	6	17%

Source: Company data and Credit Suisse

FortisAlberta

Largely the result of timing issues with regulator approved charges, segmented earnings at FortisAlberta decreased by approximately 53% compared to the same period last year. See the table below for selected highlights.

Exhibit 5: Selected FortisAlberta performance highlights

	Q2 2008	Q2 2007	chg y/y
Energy deliveries (GWh)	3,768	3,650	3%
Revenue (C\$/MWh)	19.90	18.63	7%
Operating expenses (C\$/MWh)	8.49	8.22	3%
Gross margin (C\$/MWh)	11.41	10.41	10%
Earnings (C\$millions)	7	15	-53%

Source: Company data and Credit Suisse

Timing issues at a number of utilities

Newfoundland Power

Earnings in this segment increased by roughly 25% this period compared to the same period last year. Worth noting the increase in earnings was attributed to a shift in the quarterly distribution of annual purchased power expense which increased earnings by approximately C\$2.5m. Exhibit 6 below contains selected highlights for Newfoundland Power.

Exhibit 6: Selected Newfoundland Power performance highlights

	Q2 2008	Q2 2007	chg y/y
Energy deliveries (GWh)	1,183	1,172	1%
Revenue (C\$/MWh)	101.44	98.12	3%
Energy supply costs (C\$/MWh)	59.17	63.14	-6%
Operating expenses (C\$/MWh)	10.99	11.09	-1%
Gross margin (C\$/MWh)	31.28	23.89	31%
Earnings (C\$millions)	10	8	25%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter decreased by 50% compared to the same quarter last year mainly the result of a C\$2m after-tax repayment by FortisOntario related to a refund the company received in December 2007. See the table below for selected highlights.

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights

	Q2 2008	Q2 2007	chg y/y
Energy deliveries (GWh)	508	516	-2%
Revenue (C\$/MWh)	120.08	125.97	-5%
Energy supply costs (C\$/MWh)	78.74	83.33	-6%
Operating expenses (C\$/MWh)	13.78	13.57	2%
Gross margin (C\$/MWh)	27.56	29.07	-5%
Earnings (C\$millions)	2	4	-50%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment decreased by roughly 163% compared to the same quarter last year. One notable item in this segment was a C\$13m unfavourable impact relating to the company's 70% share of disallowed previously incurred fuel and purchased power costs at Belize Electricity (see our 30 June 2008 note "*Caribbean conundrum*" for details). The company stated regarding Belize Electricity:

"As a result of the PUC's Final Decision on Belize Electricity's 2008/2009 rate application, Belize Electricity does not meet certain debt covenant financial ratios resulting in approximately \$16 million (BZ\$30 million) of indebtedness being in default as at June 30, 2008. In accordance with certain of these debt covenants, Belize Electricity is also prohibited from incurring new indebtedness or declaring dividends. The Company has informed the lenders of the situation and has requested appropriate waivers. As at June 30, 2008, \$10 million of the above debt was reclassified from long-term to current on the balance sheet."

Belize situation requires ongoing monitoring

See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights

	Q2 2008	Q2 2007	chg y/y
Energy deliveries (GWh)	276	258	7%
Revenue (C\$/MWh)	282.61	286.82	-1%
Energy supply costs (C\$/MWh)	231.88	158.91	46%
Operating expenses (C\$/MWh)	43.48	42.64	2%
Gross margin (C\$/MWh)	7.25	85.27	-92%
Earnings (C\$millions)	(5)	8	-163%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment increased by 40% from the current quarter compared to the same quarter last year. The improvement can partly be attributed to New York State power prices. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights

	Q2 2008	Q2 2007	chg y/y
Energy deliveries (GWh)	312	274	14%
Revenue (C\$/MWh)	70.51	65.69	7%
Energy supply costs (C\$/MWh)	6.41	7.30	-12%
Operating expenses (C\$/MWh)	12.82	14.60	-12%
Gross margin (C\$/MWh)	51.28	43.80	17%
Earnings (C\$millions)	7	5	40%

Source: Company data and Credit Suisse

Strong NY power prices

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$7 million which is nearly a 16.6% increase over last year's quarterly earnings. REVPAR increased to C\$87.54 from C\$82.11 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was 96.7%, up from 96.0% last year.

Corporate

Corporate expenses significantly increased to C\$18 million from C\$12 million in Q2 2007. The increase was primarily related to acquisition financing for Terasen.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) organic growth; (b) capital efficiency; and, (c) acquisition trail. Each of these issues is addressed below.

Organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$389 million for the first half of 2008, of which C\$371 million was for its regulated utilities. Fortis now projects that capital expenditures for 2008 will exceed C\$900 million, a roughly 14% increase from last year. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). Additionally, Fortis forecasts a capital plan of more than C\$4.5 billion over the next five years which amounts to roughly a C\$500 million increase from Q1 2008's figures. Roughly C\$300m of the incremental amount is the result of new projects and the remainder arises from overall project inflation. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. Due to the large capital investment opportunity, we continue to believe that capital market access is critical to Fortis. Yet, we do not forecast a specific common equity funding requirement until 2010.

Creeping capital figures

Capital efficiency

From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. Given the valuation of selected real estate assets, we believe any such monetisation of these assets would likely be favourable for the stock. Additionally, given the recent acquisitions, Fortis Properties continues to increase in scale and scope, which may make it much more attractive for acquisition or monetisation. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used for future acquisitions.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation is pursuing acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in

Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.” Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,110.64	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- With the recent Terasen acquisition, Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment;
- Bought deal financing commonly employed in Canada; and,
- The historically strong Canadian dollar versus US players.

Fortis possesses a number of absolute and relative advantages over some other competitors

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition. We retain our C\$32.00 target price which is obtained utilizing multiple valuation methodologies, including: a 19.9x P/E multiple of 2009 earnings; an 88 bps yield spread; and, a DCF based valuation. We reiterate our Neutral rating.

Maintain Neutral rating and C\$32.00 target price

Companies Mentioned (Price as of 08 Aug 08)
 Fortis Inc. (FTS.TO, C\$26.76, NEUTRAL, TP C\$32.00)

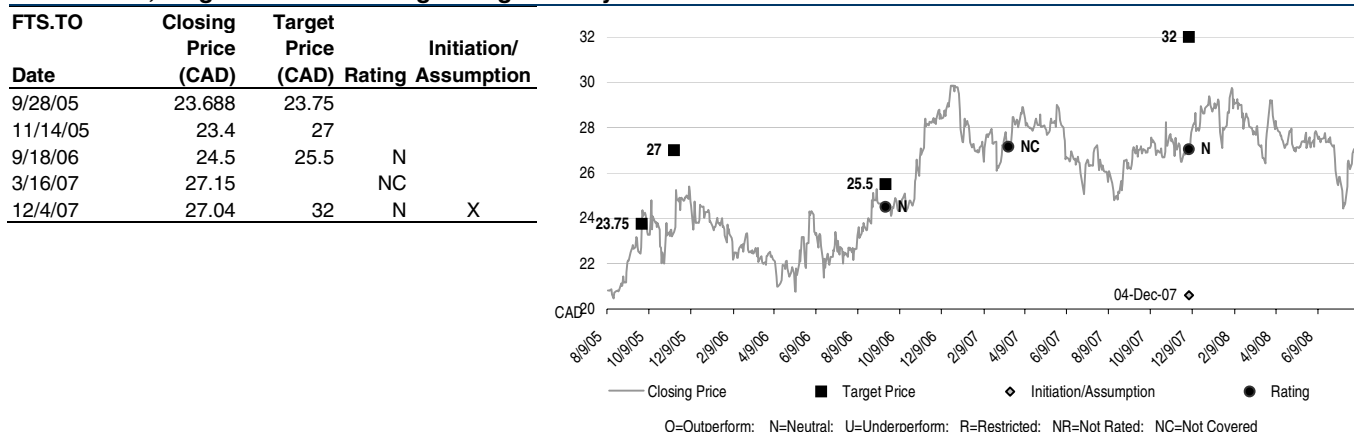
Disclosure Appendix

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I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 19.9x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.8x and a 88 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

DECREASE TARGET PRICE

Rating	NEUTRAL*
Price (23 Oct 08, C\$)	25.74
Target price (C\$)	(from 32.00) 28.00 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	4,043.01
Enterprise value (C\$ m)	10,015.38

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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Unlikely acquisition activity

- **Considering the conditions:** Under the existing capital market conditions, we believe clear limitations exist for the acquisition strategy often used by Fortis. Such limitations along with the company's existing leverage levels and possible access to capital markets may affect stock performance. In the near-term, we believe Fortis faces a few positives, including: S&P/TSX 60 index inclusion; ongoing organic utility growth; and, continued interest in selected dividend paying stocks. Given our cautionary stance, we are reducing our target price to C\$28.00 from the previous C\$32.00.
- **Acquisitions delayed, but organic growth continues:** As capital markets become more predictable and less volatile, we believe Fortis may resume an acquisition-based strategy. Yet, until that time, Fortis continues to possess a rather robust outlook for its utility capital program exceeding C\$4.5 billion over the next five years. More than three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Improved capital efficiency:** From our perspective, Fortis possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.
- **Valuation:** In light of the current environment, we have reduced our Fortis target from C\$32.00 to C\$28.00. We utilize multiple valuation methodologies to obtain our target price, including: roughly a 17.5x P/E multiple of 2009 earnings; a 1.75x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.54	1.61
Prev. EPS (C\$)	—	—	—
P/E (x)	20.6	16.7	16.0
P/E rel. (%)	126.4	129.3	143.8
Revenue (C\$ m)	2,718.0	3,486.0	3,369.6
EBITDA (C\$ m)	814.0	1,035.4	1,097.2
OCFPS (C\$)	2.34	4.17	3.50
P/OCF (x)	12.4	6.2	7.4
EV/EBITDA (current)	12.0	9.7	9.5
Net debt (C\$ m)	5,476	5,502	5,898
ROIC (%)	20.0	24.2	21.2
Number of shares (m)	157.07	IC (12/08E, C\$ m) 9,718.41	
BV/share (current, C\$)	15.5	EV/IC (x) 1.0	
Net debt (current, C\$ m)	5,262.0	Dividend (current, C\$) 1.00	
Net debt/tot. cap. (current, %)	66.4	Dividend yield (%) 3.9	

Source: Company data, Credit Suisse estimates.

On 10/22/08 the Canada S&P/TSX Composite Index index closed at 9236.88

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.24	0.47
2009E	0.64	0.29	0.22	0.46

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Companies Mentioned (Price as of 23 Oct 08)
 Fortis Inc. (FTS.TO, C\$25.74, NEUTRAL, TP C\$28.00)

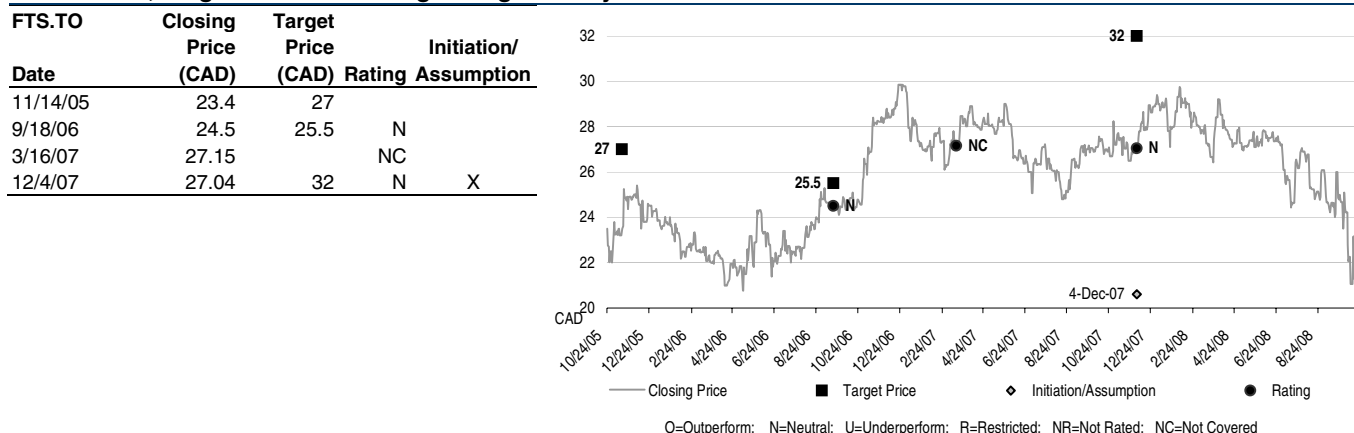
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Neutral (N): The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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Global Ratings Distribution		
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Restricted

2%

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$28 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 17.5x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 9.8x and a 43 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$28.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Rating	NEUTRAL*
Price (31 Oct 08, C\$)	26.30
Target price (C\$)	28.00 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	4,130.97
Enterprise value (C\$ m)	10,240.69

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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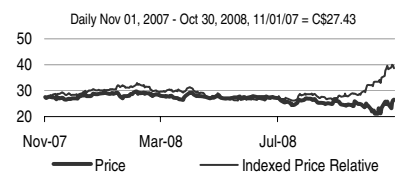
Fortis Inc. (FTS.TO)

FORECAST INCREASE

Ongoing organic growth

- **A slight beat:** On a headline basis, Fortis reported Q3 2008 headline EPS (FD) of C\$0.31 which required several adjustments. Comparable EPS of C\$0.26 is the result of adjusting for C\$5.5m and C\$2m tax reductions at Terasen Gas and Terasen Inc respectively. The adjusted EPS was higher than our C\$0.24 and that of the Street's at C\$0.21. The figure also exceeded the C\$0.18-C\$0.24 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively solid financial and operation performance which is somewhat typical.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated utility capital expenditures to exceed C\$4.5 billion from the previous quarter's C\$4.0 billion. More than three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Wary of M&A in current market conditions:** Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Under the existing capital market conditions, we believe clear limitations exist for the typical Fortis strategy. Under normal market conditions, our concerns about the company's balance sheet and minimal maturity profile would be minimal. Yet, we do not view the current capital market conditions for the foreseeable future as being overly conducive to obtaining capital on reasonable terms.
- **Valuation:** Our C\$28.00 target and Neutral rating are obtained via multiple valuation methodologies to obtain our target price, including: roughly a 17.5x P/E multiple of 2009 earnings; a 1.75x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 10/30/08 the Canada S&P/TSX Composite Index index closed at 9856.21

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.26	0.46
2009E	0.64	0.29	0.22	0.46

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.56	1.61
Prev. EPS (C\$)	—	1.54	—
P/E (x)	21.1	16.8	16.3
P/E rel. (%)	129.2	130.2	147.0
Revenue (C\$ m)	2,718.0	3,655.2	3,369.6
EBITDA (C\$ m)	814.0	1,043.5	1,097.2
OCFPS (C\$)	2.34	3.55	3.50
P/OCF (x)	12.4	7.4	7.5
EV/EBITDA (current)	12.1	9.8	9.7
Net debt (C\$ m)	5,476	5,629	6,025
ROIC (%)	20.0	25.6	20.8
Number of shares (m)	157.07	IC (12/08E, C\$ m)	9,885.50
BV/share (current, C\$)	15.5	EV/IC (x)	1.0
Net debt (current, C\$ m)	5,262.0	Dividend (current, C\$)	1.00
Net debt/tot. cap. (current, %)	66.4	Dividend yield (%)	3.8

Source: Company data, Credit Suisse estimates.

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On a headline basis, Fortis reported Q3 2008 headline EPS (FD) of C\$0.31 which required several adjustments. Comparable EPS of C\$0.26 is the result of adjusting for C\$5.5m and C\$2m tax reductions at Terasen Gas and Terasen Inc respectively. The adjusted EPS was higher than our C\$0.24 and that of the Street's at C\$0.21. As usual, a substantial amount of organic utility growth continues across various Fortis assets. Once again, in a somewhat typical fashion, we believe Fortis delivered a relatively solid financial and operational performance. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

A slight beat

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2008	Q3 2007	chg y/y
Regulated Gas Utilities - Canadian	1	(4)	125%
Regulated Electric Utilities - Canadian	38	28	36%
Regulated Electric Utilities - Caribbean	7	10	-30%
Non-regulated - Fortis Generation	9	5	80%
Non-regulated - Fortis Properties	9	8	13%
Corporate and other	(15)	(16)	6%
Net earnings applicable to common shares	49	31	58%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

This segment consists of Terasen Gas which was acquired on 17 May 2007. Those that have followed the Terasen assets for an extended time frame would likely generally agree with the company's assessment that "[d]ue to seasonality of the business, virtually all of the annual earnings of the Terasen Gas companies are generated in the first and fourth quarters". Upon the adjustment for a C\$5.5 million tax reduction, the earnings for this segment were roughly 13% weaker than last year.

Exhibit 2: Regulated gas utilities – Canadian earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2008	Q3 2007	chg y/y
Terasen Gas	(4.5)	(4.0)	-13%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution

C\$ in millions, unless otherwise stated

	Q3 2008	Q3 2007	chg y/y
FortisBC	8	6	33%
FortisAlberta	17	15	13%
Newfoundland Power	8	2	300%
Other Cdn Electric Utilities	5	5	0%
Earnings	38	28	36%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by 33% compared to the same period last year. See Exhibit 4 for selected highlights.

Exhibit 4: Selected FortisBC performance highlights

	Q3 2008	Q3 2007	chg y/y
Energy deliveries (GWh)	697	703	-1%
Revenue (C\$/MWh)	74.61	73.97	1%
Energy supply costs (C\$/MWh)	17.22	21.34	-19%
Operating expenses (C\$/MWh)	22.96	22.76	1%
Gross margin (C\$/MWh)	34.43	29.87	15%
Earnings (C\$millions)	8	6	33%

Source: Company data and Credit Suisse

FortisAlberta

Largely the result of increased future income tax recoveries associated with the Alberta Electric System Operator (AESO) charges deferral account, segmented earnings at FortisAlberta increased by approximately 13% compared to the same period last year. See the table below for selected highlights.

Exhibit 5: Selected FortisAlberta performance highlights

	Q3 2008	Q3 2007	chg y/y
Energy deliveries (GWh)	3,748	3,781	-1%
Revenue (C\$/MWh)	19.74	18.51	7%
Operating expenses (C\$/MWh)	8.27	8.20	1%
Gross margin (C\$/MWh)	11.47	10.31	11%
Earnings (C\$millions)	17	15	13%

Source: Company data and Credit Suisse

Newfoundland Power

Earnings in this segment increased by roughly 300% this period compared to the same period last year. Worth noting the increase in earnings was attributed to a shift in the quarterly distribution of annual purchased power expense which increased earnings by approximately C\$5.5m. Exhibit 6 below contains selected highlights for Newfoundland Power.

Exhibit 6: Selected Newfoundland Power performance highlights

	Q3 2008	Q3 2007	chg y/y
Energy deliveries (GWh)	897	874	3%
Revenue (C\$/MWh)	104.79	102.97	2%
Energy supply costs (C\$/MWh)	56.86	67.51	-16%
Operating expenses (C\$/MWh)	12.26	13.73	-11%
Gross margin (C\$/MWh)	35.67	21.74	64%
Earnings (C\$millions)	8	2	300%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter was flat compared to the same quarter last year. See the table below for selected highlights.

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights

	Q3 2008	Q3 2007	chg y/y
Energy deliveries (GWh)	532	537	-1%
Revenue (C\$/MWh)	124.06	117.32	6%
Energy supply costs (C\$/MWh)	82.71	76.35	8%
Operating expenses (C\$/MWh)	13.16	13.04	1%
Gross margin (C\$/MWh)	28.20	27.93	1%
Earnings (C\$millions)	5	5	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment decreased by roughly 30% compared to the same quarter last year. The C\$3 million decrease in earnings for this segment was mainly due to a reduction in the “value-added” component of the average electricity rate at Belize; a 3.25% reduction in rates and elimination of the CRS at Caribbean Utilities; higher amortization and operating costs; and the losses due to the impact of Hurricane Ike.

The company stated that “[o]n July 25, 2008, Belize Electricity filed application with the Supreme Court of Belize for leave to apply for judicial review of 2008 amended bylaws, upon which the Final Decision was premised, and appeal of the Final Decision. Leave was granted on October 3, 2008. It is expected that the judicial review will be heard in late 2008.”

Belize situation requires ongoing monitoring

See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights

	Q3 2008	Q3 2007	chg y/y
Energy deliveries (GWh)	304	283	7%
Revenue (C\$/MWh)	315.79	282.69	12%
Energy supply costs (C\$/MWh)	197.37	148.41	33%
Operating expenses (C\$/MWh)	39.47	38.87	2%
Gross margin (C\$/MWh)	78.95	95.41	-17%
Earnings (C\$millions)	7	10	-30%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment increased by 80% from the current quarter compared to the same quarter last year. The improvement can partly be attributed to New York State power prices and increased production. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights

	Q3 2008	Q3 2007	chg y/y
Energy deliveries (GWh)	305	254	20%
Revenue (C\$/MWh)	68.85	66.93	3%
Energy supply costs (C\$/MWh)	6.56	7.87	-17%
Operating expenses (C\$/MWh)	9.84	11.81	-17%
Gross margin (C\$/MWh)	52.46	47.24	11%
Earnings (C\$millions)	9	5	80%

Source: Company data and Credit Suisse

Strong NY power prices

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$9 million which is nearly a 12.5% increase over last year's quarterly earnings. REVPAR slightly

decreased to C\$93.64 from C\$95.11 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was 96.6%, slightly down from 96.9% last year.

Corporate

Corporate expenses significantly decreased to C\$15 million from C\$16 million in Q2 2007. The increase was primarily related to a C\$2 million tax reduction associated with the settlement of historical corporate tax at Terasen. However, the adjusted figure would show an increase in corporate expenses by roughly C\$1 million.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) a consideration of credit markets; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$623 million for the nine months in 2008, of which C\$595 million was for its regulated utilities. Fortis now projects that capital expenditures for 2008 will exceed C\$900 million, a roughly 14% increase from last year. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). In addition, Fortis continues to forecast a capital plan of more than C\$4.5 billion over the next five years. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. Due to the large capital investment opportunity, we continue to believe that capital market access is critical to Fortis. Yet, we do not forecast a specific common equity funding requirement until 2010.

With the significant current capital market dislocations, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. Given the valuation of selected real estate assets, we believe any such monetisation of these assets would likely be favourable for the stock. Additionally, given the recent acquisitions, Fortis Properties continues to increase in scale and scope, which may make it much more attractive for acquisition or monetisation. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Ongoing organic growth

Opportunities for improved capital efficiency

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

A consideration of credit markets

For the infrastructure sector, we have several of concerns about credit market conditions for the foreseeable future. Some of those concerns include:

- The ability to access to credit markets on reasonable terms;
- Placing debt at the appropriate duration for utility assets;
- Regulatory acceptance of potentially meaningfully higher interest costs;
- The credit raters potentially changing the thresholds for credit metrics;
- Concentration of credit risk with certain financial institutions; and,
- Will the regulatory direction align appropriately with the capital market's expectations.

Many issues related to the direction of credit markets

With respect to capital structure, Fortis has clearly stated objectives:

“To help ensure access to capital, the Corporation targets a consolidated long-term capital structure containing approximately 40 per cent equity, including preference shares, and 60 per cent debt, as well as investment-grade ratings.”

In addition, the company usually raises debt at the subsidiary level “to ensure regulatory transparency, tax efficiency and financial flexibility.” Under normal market conditions, our concerns about the company's balance sheet and minimal maturity profile would be minimal. Yet, we do not view the current capital market conditions for the foreseeable future as being overly conducive to obtaining capital on reasonable terms. Therefore, we have a degree of concern about potential required de-leveraging by Fortis to maintain a reasonably competitive credit rating.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated “The Corporation is pursuing acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.” Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfound land
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfound land and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,139.74	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- With the recent Terasen acquisition, Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment;
- Bought deal financing commonly employed in Canada; and,
- The historically strong Canadian dollar versus US players.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Under the existing capital market conditions, we believe clear limitations exist for the typical Fortis strategy. Under normal market conditions, our concerns about the company's balance sheet and minimal maturity profile would be minimal. Yet, we do not view the current capital market conditions for the foreseeable future as being overly conducive to obtaining capital on reasonable terms.

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition. Our 2008 earnings estimate increased from C\$1.54 to C\$1.56. We retain

Maintain Neutral rating and C\$28.00 target price

our C\$28.00 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2009 earnings; a 1.75x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Companies Mentioned (Price as of 31 Oct 08)

Fortis Inc. (FTS.TO, C\$26.30, NEUTRAL, TP C\$28.00)

Disclosure Appendix

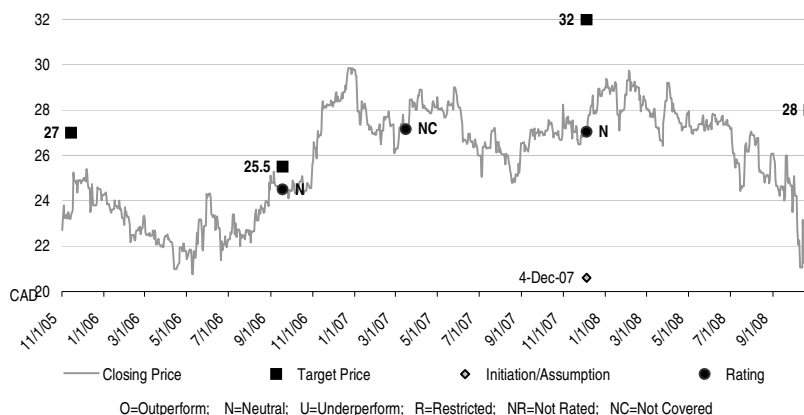
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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(CAD)	(CAD)	Rating Assumption
11/14/05	23.4	27	
9/18/06	24.5	25.5	N
3/16/07	27.15		NC
12/4/07	27.04	32	N X
10/24/08	24.75	28	



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Underperform/Sell*	13%	(50% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$28 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. We use a P/E (price/earnings) multiples of 17.5x our 2009 EPS (earnings per share) estimate of C\$1.61; we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 9.8x and a 43 bps yield spread.

Risks: There are a number of risk to Fortis' achievement of our C\$28.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

DECREASE TARGET PRICE

Rating	NEUTRAL*
Price (02 Dec 08, C\$)	27.00
Target price (C\$)	(from 28.00) 27.50 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	4,247.18
Enterprise value (C\$ m)	10,012.22

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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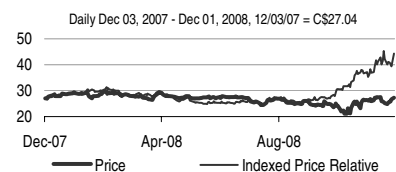
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Shoring up the balance sheet

- **Equity issue:** After market close, Fortis announced a bought deal financing of 11.7m common shares at a C\$25.65 purchase price which represented a 5% discount to the C\$27.00 closing price. Gross proceeds will be roughly C\$300.1m or, assuming full exercise of an over allotment option, C\$345.1m. Closing for the deal is expected on or about December 19th, 2008. Proceeds will be used to repay debt and for general corporate purposes. In our view, the deal timing is earlier than we expected and for a slightly larger amount.
- **Earnings dilution, but improved balance sheet:** Largely the result of the size of the issue and timing differences against our previous expectations, we have made a number of adjustments to our financial model. We view the equity issue as mildly dilutive and our earnings estimates for 2009 and 2010 decline from C\$1.61 and C\$1.69 to C\$1.57 and C\$1.64, respectively. We believe modest balance sheet improvement should be viewed positively in the current capital markets. Yet, as with other recent equity issuers, we do not expect positive near-term post-issue performance for the Fortis stock.
- **Ongoing growth:** Fortis has a very robust utility capital program. Over the next five-years, Fortis expects consolidated utility capital expenditures to exceed C\$4.5bn. That capital program will likely be balanced with selected strategic acquisitions. In our view, this equity issue is not dissimilar than the C\$150m issued in January, 2007. Less than 2 months after that equity issue, the company announced the Terasen acquisition. We don't believe anything is imminent, however, some relative valuations are attractive at this time.
- **Valuation:** Given the dilution outlined above, we are modestly reducing our target from C\$28.00 to C\$27.50. That target is based upon multiple valuation methodologies, including: roughly a 17.5x P/E multiple on 2009 earnings; a 1.6x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 12/01/08 the Canada S&P/TSX Composite Index index closed at 8406.21

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.26	0.46
2009E	0.61	0.29	0.22	0.45

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.56	1.57
Prev. EPS (C\$)	—	—	1.61
P/E (x)	21.6	17.3	17.1
P/E rel. (%)	181.3	177.1	201.7
Revenue (C\$ m)	2,718.0	3,655.2	3,369.6
EBITDA (C\$ m)	814.0	1,043.5	1,097.2
OCFPS (C\$)	2.34	3.54	3.32
P/OCF (x)	12.4	7.6	8.1
EV/EBITDA (current)	12.2	9.6	9.5
Net debt (C\$ m)	5,476	5,285	5,679
ROIC (%)	20.04	25.61	20.80
Number of shares (m)	157.30	IC (12/08E, C\$ m)	9,885.50
BV/share (current, C\$)	15.6	EV/IC (x)	1.0
Net debt (current, C\$ m)	5,529.0	Dividend (current, C\$)	1.00
Net debt/tot. cap. (current, %)	67.3	Dividend yield (%)	3.7

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 02 Dec 08)
Fortis Inc. (FTS.TO, C\$27.00, NEUTRAL, TP C\$27.50)

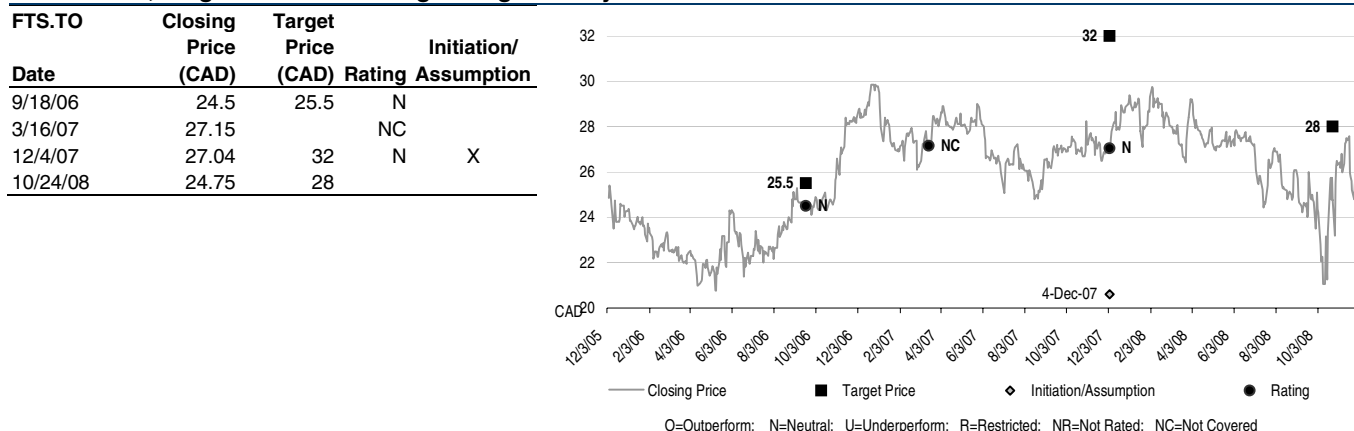
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Restricted

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Risks: There are a number of risk to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Rating	NEUTRAL*
Price (03 Dec 08, C\$)	25.48
Target price (C\$)	27.50 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	4,008.08
Enterprise value (C\$ m)	9,773.12

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

Research Analysts

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Paul Tan

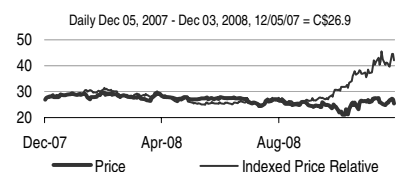
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Potential power plant purchase

- **Acquisition opportunity:** AbitibiBowater Inc. announced that the company will take several actions "aimed at creating a more flexible and responsive operating platform". One such action was the permanent closure by the end of Q1 2009 of the Grand Falls, Newfoundland and Labrador newsprint mill. That facility receives some power from the Exploits River Hydro Partnership in which Fortis Generation holds a 51% interest and Abitibi the remainder. The partnership owns and operates two hydro electric generating plants in central Newfoundland. These plants produce roughly 590 GWh annually, of which 450 GWh is utilized by AbitibiBowater and the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay PPA, expiring in 2033.
- **Powering up:** Given the partnership structure, Fortis seems well positioned to purchase the remaining portion of the Exploits River Hydro Partnership that it does not own from Abitibi. In our view, the incremental power could be easily sold to Newfoundland Hydro under a new longer-term PPA. Subject to terms, this potential transaction could be incrementally positive for Fortis.
- **Ongoing growth:** Fortis has a very robust utility capital program. Over the next five years, Fortis expects consolidated utility capital expenditures to exceed C\$4.5bn. That capital program will likely be balanced with selected strategic acquisitions. We don't believe anything material is imminent, however, some relative valuations are attractive at this time.
- **Valuation:** Our rating and C\$27.50 target price is based upon multiple valuation methodologies, including: roughly a 17.5x P/E multiple on 2009 earnings; a 1.6x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 12/03/08 the Canada S&P/TSX Composite Index index closed at 8296.96

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.26	0.46
2009E	0.61	0.29	0.22	0.45

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.56	1.57
Prev. EPS (C\$)	—	—	—
P/E (x)	20.4	16.3	16.2
P/E rel. (%)	171.0	167.1	190.4
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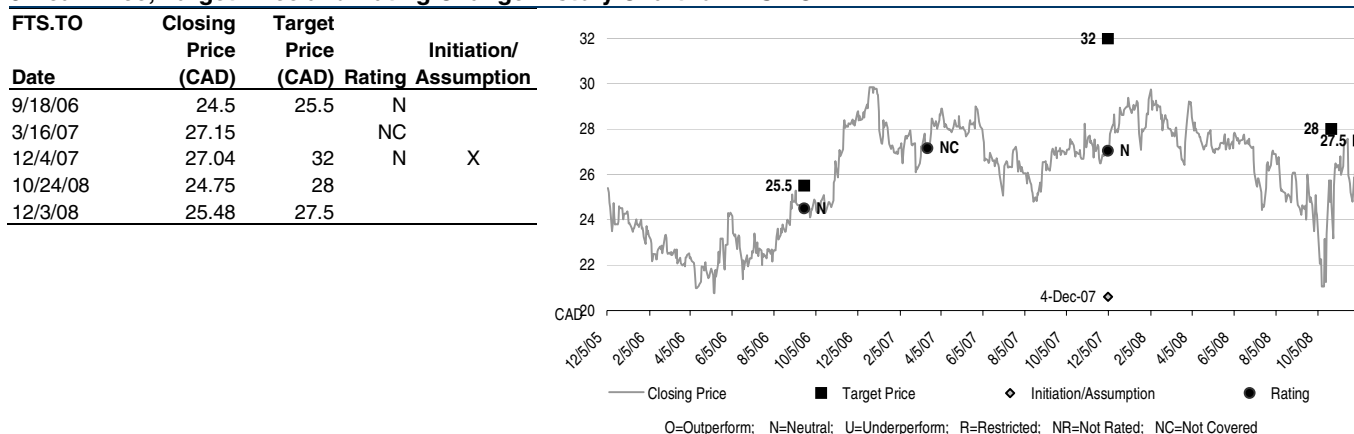
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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (09 Dec 08, C\$)	25.20
Target price (C\$)	27.50 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	3,964.04
Enterprise value (C\$ m)	9,729.08

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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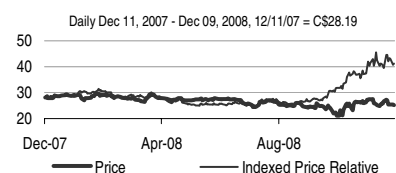
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COMPANY UPDATE

A discounted DRIP

- **Dividend increase:** Fortis Inc. announced the company will be increasing its quarterly dividend by roughly 4% from C\$0.25 to C\$0.26, payable on March 1, 2009 for shareholders of record at the close of business on February 6, 2009. We previously forecasted no dividend growth in 2009 and a modest growth to C\$0.26/sh per quarter in 2010. Therefore, the earlier than anticipated dividend growth may be viewed somewhat positively. Additionally, the company amended and restated its Dividend Reinvestment and Share Purchase Plan to provide a 2% discount (previously no discount). The discount will be effective for dividends payable on March 1, 2009 and will continue indefinitely.
- **Keeping cash:** We view the steps taken by the company as incrementally (albeit modestly) positive for the stock. Moreover, the company's dividend reinvestment plan should provide additional cash flow to the company for its large capital program. We continue to believe that Fortis will require external equity in the future to fund its capital program.
- **Ongoing growth:** Fortis has a very robust utility capital program. Over the next five-years, Fortis expects consolidated utility capital expenditures to exceed C\$4.5bn. That capital program will likely be balanced with selected strategic acquisitions. A potential acquisition of the remaining share of the Exploits River Hydro Partnership is possible (see our 4 December note). Yet, we don't believe anything material is imminent, however, some relative valuations are attractive at this time.
- **Valuation:** Our rating and C\$27.50 target price is based upon multiple valuation methodologies, including: roughly a 17.5x P/E multiple on 2009 earnings; a 1.6x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 12/09/08 the Canada S&P/TSX Composite Index index closed at 8397.56

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.26	0.46
2009E	0.61	0.29	0.22	0.45

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.56	1.57
Prev. EPS (C\$)	—	—	—
P/E (x)	20.2	16.2	16.0
P/E rel. (%)	209.5	192.1	188.4
Revenue (C\$ m)	2,718.0	3,655.2	3,369.6
EBITDA (C\$ m)	814.0	1,043.5	1,097.2
OCFPS (C\$)	2.34	3.54	3.32
P/OCF (x)	12.4	7.1	7.6
EV/EBITDA (current)	11.9	9.3	9.2
Net debt (C\$ m)	5,476	5,285	5,679
ROIC (%)	20.04	25.61	20.80
Number of shares (m)	157.30	IC (12/08E, C\$ m)	9,885.50
BV/share (current, C\$)	15.6	EV/IC (x)	0.98
Net debt (current, C\$ m)	5,529.0	Dividend (current, C\$)	1.00
Net debt/tot. cap. (current, %)	67.3	Dividend yield (%)	4.0

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 09 Dec 08)
 Fortis Inc. (FTS.TO, C\$25.20, NEUTRAL, TP C\$27.50)

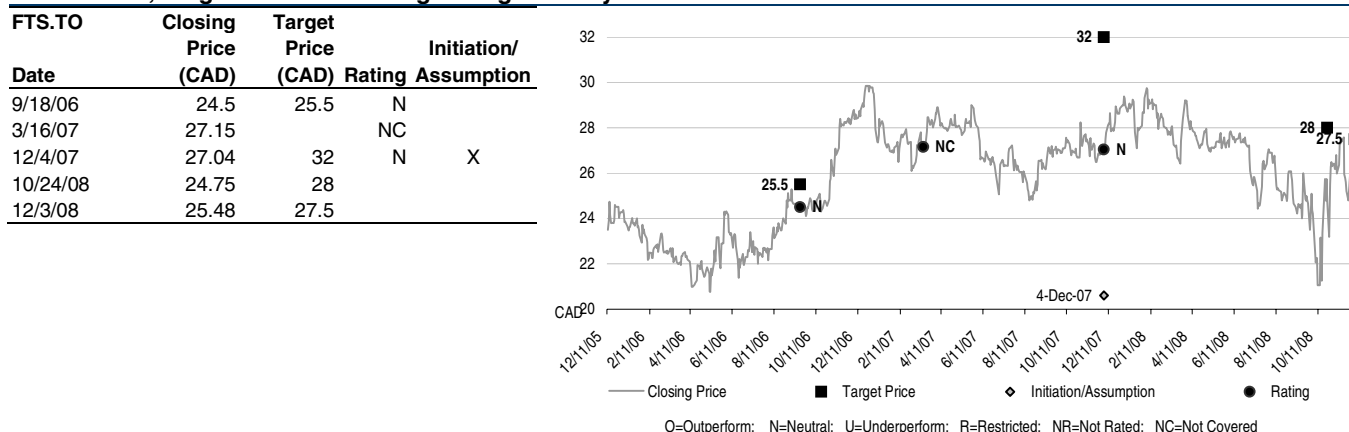
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Restricted

2%

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiples of 17.5x our 2009 EPS (earnings per share) estimate of C\$1.57 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.3x.

Risks: There are a number of risk to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Rating	NEUTRAL*
Price (16 Dec 08, C\$)	25.10
Target price (C\$)	27.50 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	3,948.31
Enterprise value (C\$ m)	9,713.34

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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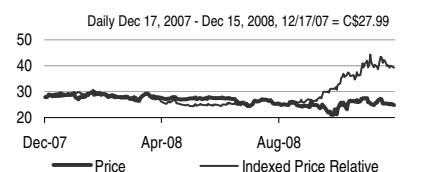
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Provincial power play?

- **Power plant in play:** After the recent announcement by AbitibiBowater Inc. to permanently close by the end of Q1 2009 the Grand Falls, Newfoundland and Labrador newsprint mill, the Government of Newfoundland and Labrador introduced, what amounts to, an expropriation bill. According to the Government press release, the bill will “ensure these valuable natural resources are returned to their rightful owners – the people of Newfoundland and Labrador.” The Government also stated, “[t]he Provincial Government will also be taking control of the power plants of Abitibi... ..Nalcor Energy will now manage this asset.” In the near-term, we believe that Fortis will be able to maintain its 51% interest in this generation plant.
- **Ownership change?:** Given the surprise announcement and position, we no longer believe that Fortis will have any opportunity to purchase the 49% interest in the Exploits River Hydro Partnership that it does not own. In fact, over the longer-term, we believe there is a greater probability that Fortis will be able to divest its stake in that asset to Nalcor Energy for fair market value.
- **Ongoing growth:** Fortis has a very robust utility capital program. Over the next five-years, Fortis expects consolidated utility capital expenditures to exceed C\$4.5bn. That capital program will likely be balanced with selected strategic acquisitions. We don't believe anything material is imminent, however, some relative valuations are attractive at this time.
- **Valuation:** Our rating and C\$27.50 target price is based upon multiple valuation methodologies, including: roughly a 17.5x P/E multiple on 2009 earnings; a 1.6x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 12/15/08 the Canada S&P/TSX Composite Index index closed at 8461.83

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.37	0.27	0.20	0.41
2008E	0.55	0.28	0.26	0.46
2009E	0.61	0.29	0.22	0.45

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., C\$)	1.25	1.56	1.57
Prev. EPS (C\$)	—	—	—
P/E (x)	20.1	16.1	15.9
P/E rel. (%)	208.7	191.3	187.6
Revenue (C\$ m)	2,718.0	3,655.2	3,369.6
EBITDA (C\$ m)	814.0	1,043.5	1,097.2
OCFPS (C\$)	2.34	3.54	3.32
P/OCF (x)	12.4	7.1	7.6
EV/EBITDA (current)	11.9	9.3	9.2
Net debt (C\$ m)	5,476	5,285	5,679
ROIC (%)	20.04	25.61	20.80
Number of shares (m)	157.30	IC (12/08E, C\$ m)	9,885.50
BV/share (current, C\$)	15.6	EV/IC (x)	0.98
Net debt (current, C\$ m)	5,529.0	Dividend (current, C\$)	1.00
Net debt/tot. cap. (current, %)	67.3	Dividend yield (%)	4.0

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 15 Dec 08)
 AbitibiBowater (ABH, \$.36, NEUTRAL [V], TP \$2.00)
 Fortis Inc. (FTS.TO, C\$25.10, NEUTRAL, TP C\$27.50)

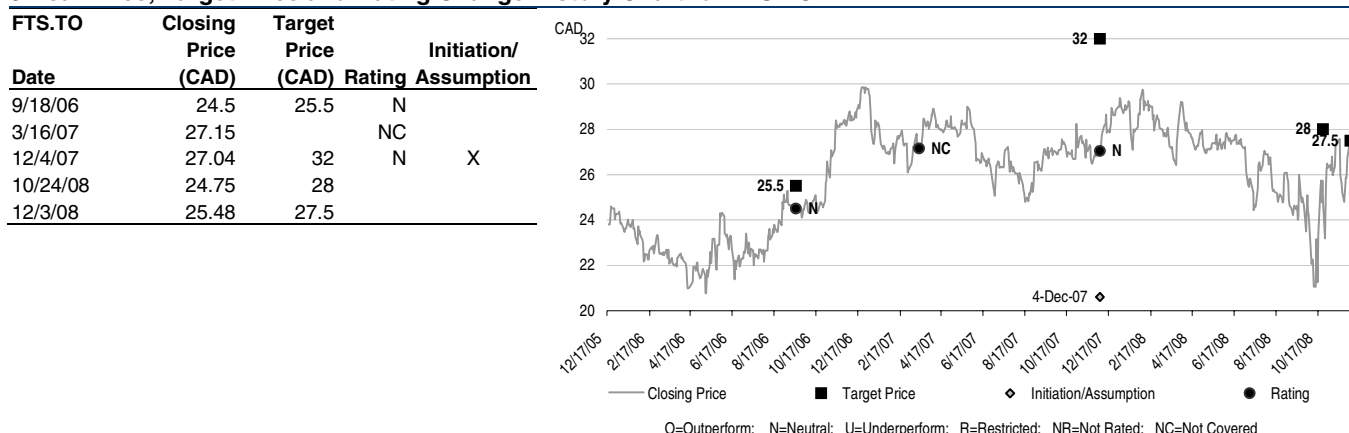
Disclosure Appendix

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Neutral (N): The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Neutral/Hold*	44%	(57% banking clients)

Underperform/Sell*	15%	(48% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiples of 17.5x our 2009 EPS (earnings per share) estimate of C\$1.57 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.3x.

Risks: There are a number of risk to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating	NEUTRAL*
Price (05 Feb 09, C\$)	23.64
Target price (C\$)	27.50 ¹
52-week price range	29.75 - 21.05
Market cap. (C\$ m)	3,999.11
Enterprise value (C\$ m)	10,376.74

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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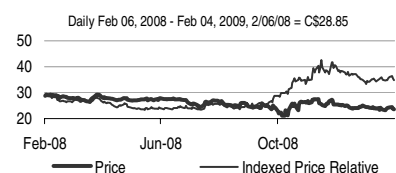
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Continuing capital expenditures

- **Earnings review:** On a headline basis, Fortis reported Q4 2008 headline EPS (FD) of C\$0.46. Comparable EPS of C\$0.45 is the result of adjusting for C\$1m additional earnings from Caribbean Utilities related to a change in its fiscal year-end. The adjusted EPS was largely in line with our C\$0.46 estimate which was identical to the Street's view. The figure is roughly in the middle of the C\$0.36-C\$0.58 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively solid financial and operation performance which is somewhat typical.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1bn for 2009 and C\$4.5bn over the next five years. Roughly three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Wary of M&A in current market conditions:** Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Under the existing capital market conditions, we believe clear limitations exist for the typical Fortis strategy. Capital market conditions are demonstrating some signs of improved functioning. Yet, we do not believe the market would likely positively respond to large scale acquisition financing at this time.
- **Valuation:** Our rating and C\$27.50 target price is based upon multiple valuation methodologies, including: roughly a 17.0x P/E multiple on 2010 earnings; a 1.52x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 02/04/09 the Canada S&P/TSX Composite Index index closed at 8693.09

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.61	0.28	0.22	0.45
2010E	0.63	0.29	0.24	0.47

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.57	1.64
Prev. EPS (C\$)	—	—	1.66
P/E (x)	15.2	15.1	14.4
P/E rel. (%)	180.9	177.6	192.4
Revenue (C\$ m)	3,903.0	3,379.9	3,522.4
EBITDA (C\$ m)	1,048.0	1,101.6	1,156.5
OCFPS (C\$)	3.83	3.33	3.48
P/OCF (x)	6.4	7.1	6.8
EV/EBITDA (current)	9.5	9.4	9.2
Net debt (C\$ m)	5,468	5,872	6,092
ROIC (%)	27.72	20.51	20.33
Number of shares (m)	169.17	IC (12/09E, C\$ m)	10,575.38
BV/share (current, C\$)	17.6	EV/IC (x)	0.98
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%)	4.4

Source: Company data, Credit Suisse estimates.

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On a headline basis, Fortis reported Q4 2008 headline EPS (FD) of C\$0.46. Comparable EPS of C\$0.45 reflected the impact of a C\$1m adjustment arising from Caribbean Utilities earnings related to a change in fiscal year-end. The adjusted EPS was largely in line with our C\$0.46 estimate which was identical to the Street's view. The figure is roughly in the middle of the C\$0.36-C\$0.58 range. As usual, a substantial amount of organic utility growth continues across various Fortis assets. Once again, in a somewhat typical fashion, we believe Fortis delivered a relatively solid financial and operational performance. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Largely in line

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2008	Q4 2007	chg y/y
Regulated Gas Utilities - Canadian	47	52	-10%
Regulated Electric Utilities - Canadian	29	25	16%
Regulated Electric Utilities - Caribbean	8	9	-11%
Non-regulated - Fortis Generation	8	7	14%
Non-regulated - Fortis Properties	4	8	-50%
Corporate and other	(20)	(22)	9%
Net earnings applicable to common shares	76	79	-4%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

This segment consists of Terasen Gas which was acquired on 17 May 2007. Those that have followed the Terasen assets for an extended time frame would likely generally agree with the company's assessment that "[d]ue to seasonality of the business, virtually all of the annual earnings of the Terasen Gas companies are generated in the first and fourth quarters". The unadjusted earnings for this segment decreased by roughly 10%. However, upon the adjustment in Q4 2007 for a C\$7 million after-tax gain on the sale of surplus land, the earnings for this segment were roughly 4% stronger than last year.

Exhibit 2: Regulated gas utilities – Canadian earnings contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q4 2008	Q4 2007	chg y/y
Terasen Gas	47.0	52.0	-10%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)*C\$ in millions, unless otherwise stated*

	Q4 2008	Q4 2007	chg y/y
FortisBC	7	7	0%
FortisAlberta	11	6	83%
Newfoundland Power	8	9	-11%
Other Cdn Electric Utilities	3	3	0%
Earnings	29	25	16%

*Source: Company data and Credit Suisse***FortisBC**

Segmented earnings at FortisBC were flat compared to the same period last year. See Exhibit 4 for selected highlights.

Flat energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q4 2008	Q4 2007	chg y/y
Energy deliveries (GWh)	842	839	0%
Revenue (C\$/MWh)	78.38	72.71	8%
Energy supply costs (C\$/MWh)	27.32	22.65	21%
Operating expenses (C\$/MWh)	21.38	23.84	-10%
Gross margin (C\$/MWh)	29.69	26.22	13%
Earnings (C\$millions)	7	7	0%

*Source: Company data and Credit Suisse***FortisAlberta**

Largely the result of higher revenue and increased future income tax recoveries associated with the Alberta Electric System Operator (AESO) charges deferral account, segmented earnings at FortisAlberta increased by approximately 83% compared to the same period last year. See the table below for selected highlights.

Modest energy delivery growth in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q4 2008	Q4 2007	chg y/y
Energy deliveries (GWh)	4,068	4,002	2%
Revenue (C\$/MWh)	19.17	16.99	13%
Operating expenses (C\$/MWh)	8.36	8.00	5%
Gross margin (C\$/MWh)	10.82	9.00	20%
Earnings (C\$millions)	11	6	83%

*Source: Company data and Credit Suisse***Newfoundland Power**

Earnings in this segment decreased by roughly 11% this period compared to the same period last year. Worth noting the increase in earnings was attributed to a shift in the quarterly distribution of annual purchased power expense which decreased earnings by approximately C\$2m. Exhibit 6 below contains selected highlights for Newfoundland Power.

Slightly increased NP energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q4 2008	Q4 2007	chg y/y
Energy deliveries (GWh)	1,412	1,384	2%
Revenue (C\$/MWh)	98.44	95.38	3%
Energy supply costs (C\$/MWh)	66.57	63.58	5%
Operating expenses (C\$/MWh)	8.50	10.12	-16%
Gross margin (C\$/MWh)	23.37	21.68	8%
Earnings (C\$millions)	8	9	-11%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter were flat compared to the same quarter last year. Yet, the Q4 2007 figure includes C\$2m impact of the receipt of refunds. See the table below for selected highlights.

Other Canadian utilities showing declining energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q4 2008	Q4 2007	chg y/y
Energy deliveries (GWh)	543	554	-2%
Revenue (C\$/MWh)	119.71	119.13	0%
Energy supply costs (C\$/MWh)	81.03	77.62	4%
Operating expenses (C\$/MWh)	12.89	14.44	-11%
Gross margin (C\$/MWh)	25.78	27.08	-5%
Earnings (C\$millions)	3	3	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment decreased by roughly 11% compared to the same quarter last year. The C\$8m Q4 2008 earnings figure contains a C\$1m positive impact from Caribbean Utilities associate with the change in the utility's fiscal year end.

The company stated that:

"In January 2009, the PUC amended the Final Decision on Belize Electricity's 2008/2009 rate application (the "Amendment"), effective for the period from January 1, 2009 through June 30, 2009. The Amendment provides for an increase in the VAD component of the average electricity rate to allow Belize Electricity to earn a targeted allowed ROA of 12 per cent but reduces the reference cost of power component of the average electricity rate, due to an overall decline in the cost of power. The Amendment, therefore, allows for an overall decrease in the average electricity rate from BZ44.1 cents per kWh to BZ38.7 cents per kWh. The Amendment also provides for a lower regulated asset value upon which the ROA is calculated, while increasing operating expenses by the same amount, and reduces depreciation, taxes and fees and the related revenue requirement."

"Changes made in electricity legislation by the Government of Belize and the PUC, and the June 2008 Final Decision and Amendment, which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. The judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely outcome of the proceedings is indeterminable at this time."

Belize situation requires ongoing monitoring

See the table below for selected highlights.

Robust energy delivery growth in the Caribbean

Exhibit 8: Selected Caribbean Electric Utilities performance highlights (unadjusted)

	Q4 2008	Q4 2007	chg y/y
Energy deliveries (GWh)	361	272	33%
Revenue (C\$/MWh)	440.44	279.41	58%
Energy supply costs (C\$/MWh)	301.94	154.41	96%
Operating expenses (C\$/MWh)	55.40	36.76	51%
Gross margin (C\$/MWh)	83.10	88.24	-6%
Earnings (C\$millions)	8	9	-11%

Source: Company data and Credit Suisse

Notably, as a result of the regulator's Final Decision on Belize Electricity's 2008/2009 rate application, that company

“does not meet certain debt covenant financial ratios related to loans with the International Bank for Reconstruction and Development and the Caribbean Development Bank... The Company has informed the lenders of the defaults and has requested appropriate waivers. Belize Electricity is also in default of certain debt covenants which have resulted in Belize Electricity being prohibited from incurring new indebtedness or declaring dividends.

In November 2008, First Caribbean Bank withdrew its credit facility with Belize Electricity, requiring the Company to repay approximately BZ\$4 million outstanding under the facility. Scotiabank has also put Belize Electricity on notice that it may not renew its BZ\$5.1 million credit facility with the Company if conditions do not show signs of improvement. As at December 31, 2008, the Scotiabank credit facility was undrawn. A continuation of lower energy supply costs should provide Belize Electricity with some liquidity relief in the near term.”

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment increased by 14% from the current quarter compared to the same quarter last year. The improvement can partly be attributed increased production and lower finance charges drive by the refinancing in November 2007. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights

(unadjusted)

	Q4 2008	Q4 2007	chg y/y
Energy deliveries (GWh)	312	303	3%
Revenue (C\$/MWh)	64.10	62.71	2%
Energy supply costs (C\$/MWh)	3.21	6.60	-51%
Operating expenses (C\$/MWh)	9.62	9.90	-3%
Gross margin (C\$/MWh)	51.28	46.20	11%
Earnings (C\$millions)	8	7	14%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$4 million which is nearly a 50% decrease over last year's quarterly earnings. REVPAR slightly decreased to C\$72.86 from C\$73.84 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was flat at 96.8% versus last year.

Corporate

Corporate expenses decreased to C\$20 million from C\$22 million in Q4 2007. The decrease was primarily related to lower finance charges, resulting from lower net credit facility borrowings and a higher corporate tax recovery.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) a consideration of credit markets; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$904 million for the twelve months in 2008, of which C\$862 million was for its regulated utilities. Fortis now projects that capital expenditures for 2009 will exceed C\$1 billion, a roughly 15% increase from 2008. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). In addition, Fortis continues to forecast

Ongoing organic growth

a capital plan of more than C\$4.5 billion over the next five years. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. Due to the large capital investment opportunity, we continue to believe that capital market access is critical to Fortis. Given the company's recent common equity issue, we do not forecast a specific common equity funding requirement until 2010 (See note titled "*Shoring up the balance sheet*" published on 2 December 2008 for details on the equity issuance.)

With the significant current capital market dislocations, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. Given the valuation of selected real estate assets, we believe any such monetisation of these assets would likely be favourable for the stock. Additionally, given the recent acquisitions, Fortis Properties continues to increase in scale and scope, which may make it much more attractive for acquisition or monetisation. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

A consideration of credit markets

For the infrastructure sector, we have several of concerns about credit market conditions for the foreseeable future. Some of those concerns include:

- The ability to access to credit markets on reasonable terms;
- Placing debt at the appropriate duration for utility assets;
- Regulatory acceptance of potentially meaningfully higher interest costs;
- The credit raters potentially changing the thresholds for credit metrics;
- Concentration of credit risk with certain financial institutions; and,
- Will the regulatory direction align appropriately with the capital market's expectations.

Many issues related to the direction of credit markets

With respect to capital structure, Fortis has clearly stated objectives:

"To help ensure access to capital, the Corporation targets a consolidated long-term capital structure containing approximately 40 per cent equity, including preference shares, and 60 per cent debt, as well as investment-grade ratings."

In addition, the company usually raises debt at the subsidiary level “to ensure regulatory transparency, tax efficiency and financial flexibility.” We are witnessing some signs of improvement in the functioning of capital markets. Yet, we have not really witnessed any major challenges for the higher quality, long-dated infrastructure and regulated utilities in accessing the capital markets.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated “The Corporation continues to pursue acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.” Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,139.74	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,

Fortis possesses a number of absolute and relative advantages over some other competitors

■ Bought deal financing commonly employed in Canada.

Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Under the existing capital market conditions, we believe clear limitations exist for the typical Fortis strategy. Capital market conditions are demonstrating some signs of improved functioning. Yet, we do not believe the market would likely positively respond to large scale acquisition financing at this time.

We also continue to believe that Fortis may be able to acquire hydro electric generation assets from resources companies that are willing to divest non-core assets. Please see our notes titled "*Provincial power play?*" and "*Potential power plant purchase*" published on 16 December 2008 and 4 December 2008 respectively. (See our note titled "*Expanding spreads?*" published on 12 January 2009 that discusses debt issuances by infrastructure companies in Canada and the US.)

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition. Our 2009 earnings estimate is C\$1.57 and we introduce our 2010 estimate at C\$1.64. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2010 earnings; a 1.52x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Maintain Neutral rating and
C\$27.50 target price

Companies Mentioned (Price as of 05 Feb 09)
Fortis Inc. (FTS.TO, C\$23.64, NEUTRAL, TP C\$27.50)

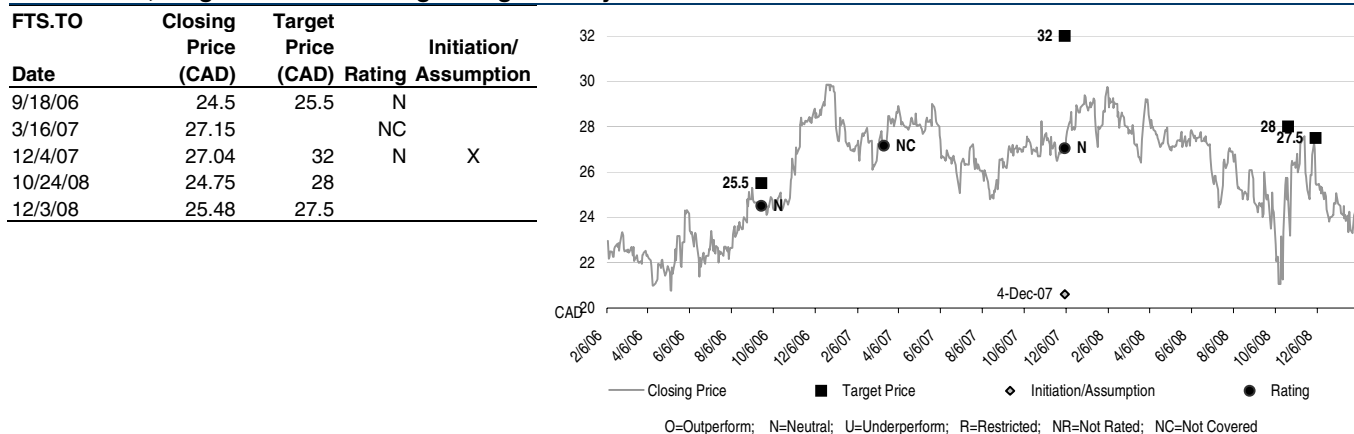
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.0x our 2010 EPS (earnings per share) estimate of C\$1.64 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 9.9x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (22 Apr 09, C\$)	22.70
Target price (C\$)	27.50 ¹
52-week price range	27.96 - 21.05
Market cap. (C\$ m)	3,840.09
Enterprise value (C\$ m)	10,228.81

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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FORECAST REDUCTION

Earnings adjustment

- **Selected revisions:** After reviewing the current business environment and operating conditions, we made several revisions to our Fortis financial model. Those revisions included:
 - Our Q1 2009 EPS estimate declining from C\$0.61 to C\$0.59;
 - A reduced 2009 EPS estimate from C\$1.57 to C\$1.51; and,
 - Our 2010 estimate declining from C\$1.64 to C\$1.59.
- **A variety of reasons:** The adjustments were made for a number of reasons, including: a reduced outlook for the company's hotel business; and, selected weakness in a variety of power markets. Additional commentary is contained in our Q1 earnings preview "*The quarter and beyond*".

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.59	0.27	0.21	0.44
2010E	0.62	0.28	0.23	0.46

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.51	1.59
Prev. EPS (C\$)	—	1.57	1.64
P/E (x)	14.6	15.1	14.3
P/E rel. (%)	—	177.4	190.4
Revenue (C\$ m)	3,903.0	3,363.3	3,508.6
EBITDA (C\$ m)	1,048.0	1,085.1	1,142.8
OCFPS (C\$)	3.83	3.27	3.43
P/OCF (x)	6.4	6.9	6.6
EV/EBITDA (current)	9.4	9.4	9.2
Net debt (C\$ m)	5,468	5,883	6,112
ROIC (%)	27.72	20.56	20.37
Number of shares (m)	169.17	IC (12/09E, C\$ m)	10,575.38
BV/share (current, C\$)	17.6	EV/IC (x)	0.97
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%)	4.6

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 22 Apr 09)
 Fortis Inc. (FTS.TO, C\$22.70, NEUTRAL, TP C\$27.50)

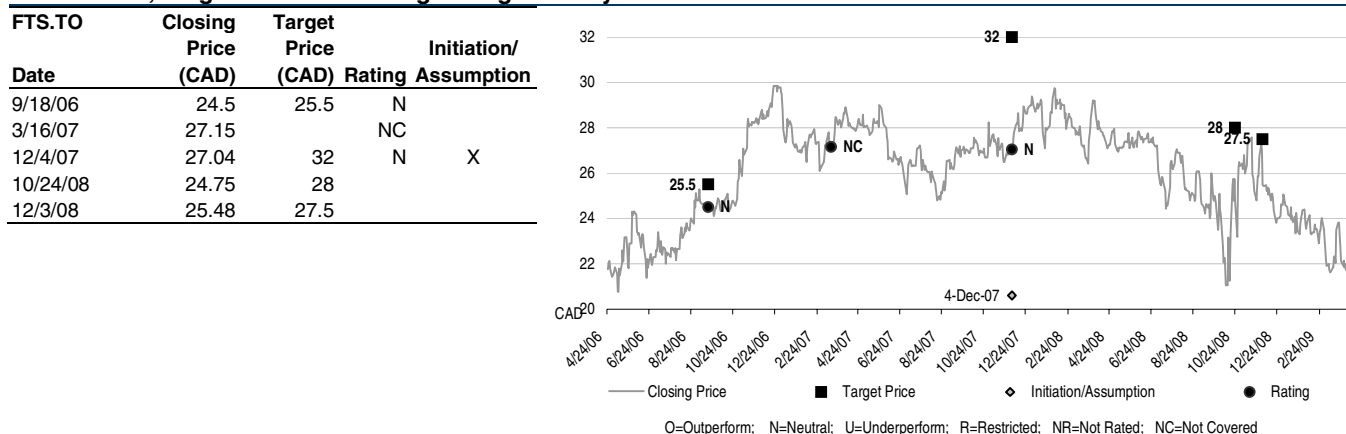
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

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Restricted

2%

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.5x our 2010 EPS (earnings per share) estimate of C\$1.59 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Costly Caribbean

Rating	NEUTRAL*
Price (30 Apr 09, C\$)	22.15
Target price (C\$)	27.50 ¹
52-week price range	27.96 - 21.05
Market cap. (C\$ m)	3,747.05
Enterprise value (C\$ m)	10,056.06

*Stock ratings are relative to the relevant country index.

¹Target price is for 12 months.

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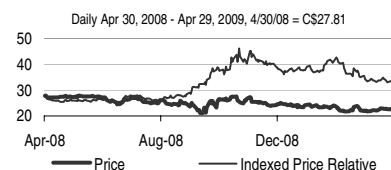
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- **A miss:** Fortis reported Q1 2009 headline EPS (FD) of C\$0.52 and our view of a comparable EPS (FD) of C\$0.51 arising from a minor adjustments to Fortis Turks and Caicos. The adjusted EPS missed both our C\$0.59 and the Street's C\$0.573 estimates and was below the C\$0.53-C\$0.59 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively weak financial performance from both of the Properties and Caribbean operations.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1bn for 2009 and C\$4.5bn over the next five years. Roughly three-quarters of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations.
- **Wary of M&A in current market conditions:** Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Under the existing capital market conditions, we believe clear limitations exist for the typical Fortis strategy. Capital market conditions are demonstrating some signs of improved functioning. Yet, we do not believe the market would likely positively respond to large scale acquisition financing at this time.
- **Valuation:** After some changes to our financial model, we have reduced our 2009 and 2010 earnings estimates from C\$1.51 to C\$1.42 and from C\$1.59 to C\$1.56, respectively. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 04/29/09 the Canada S&P/TSX Composite Index index closed at 9416.31

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.26	0.21	0.44
2010E	0.61	0.27	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.42	1.56
Prev. EPS (C\$)	—	1.51	1.59
P/E (x)	14.3	15.7	14.2
P/E rel. (%)	169.5	184.2	189.2
Revenue (C\$ m)	3,903.0	3,465.8	3,495.8
EBITDA (C\$ m)	1,048.0	1,061.6	1,130.0
OCFPS (C\$)	3.83	3.47	3.38
P/OCF (x)	6.4	6.4	6.6
EV/EBITDA (current)	9.3	9.5	9.1
Net debt (C\$ m)	5,468	5,803	6,038
ROIC (%)	27.72	20.94	19.53
Number of shares (m)	169.17	IC (12/09E, C\$ m) 11,065.03	
BV/share (current, C\$)	17.6	EV/IC (x) 0.91	
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$) 1.04	
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%) 4.7	

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Earnings miss

Fortis reported Q1 2009 headline EPS (FD) of C\$0.52 and our view of a comparable EPS (FD) of C\$0.51 arising from a minor adjustments to Fortis Turks and Caicos. The adjusted EPS missed both our C\$0.59 and the Street's C\$0.573 estimates and was below the C\$0.53-C\$0.59 range. As usual, a substantial amount of organic utility growth continues across various Fortis assets. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2009	Q1 2008	chg y/y
Regulated Gas Utilities - Canadian	58	58	0%
Regulated Electric Utilities - Canadian	37	33	12%
Regulated Electric Utilities - Caribbean	6	7	-14%
Non-regulated - Fortis Generation	6	6	0%
Non-regulated - Fortis Properties	2	3	-33%
Corporate and other	(17)	(16)	-6%
Net earnings applicable to common shares	92	91	1%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

This segment consists of Terasen Gas which was acquired on 17 May 2007. Those that have followed the Terasen assets for an extended time frame would likely generally agree with the company's assessment that "[d]ue to seasonality of the business, virtually all of the earnings of the Terasen Gas companies are generated in the first and fourth quarters". The earnings for this segment remained flat year-over-year.

Exhibit 2: Regulated gas utilities – Canadian earnings contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q1 2009	Q1 2008	chg y/y
Terasen Gas	58.0	58.0	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q1 2009	Q1 2008	chg y/y
FortisBC	14	12	17%
FortisAlberta	12	11	9%
Newfoundland Power	6	6	0%
Other Cdn Electric Utilities	5	4	25%
Earnings	37	33	12%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC were up roughly 17% compared to the same period last year mainly due to increased in electricity rates and customer growth. See Exhibit 4 for selected highlights.

Increased energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q1 2009	Q1 2008	chg y/y
Energy deliveries (GWh)	903	875	3%
Revenue (C\$/MWh)	79.73	75.43	6%
Energy supply costs (C\$/MWh)	24.36	24.00	2%
Operating expenses (C\$/MWh)	18.83	18.29	3%
Gross margin (C\$/MWh)	36.54	33.14	10%
Earnings (C\$millions)	14	12	17%

Source: Company data and Credit Suisse

FortisAlberta

Largely the result of increase in customer distribution rates and load and customer growth, segmented earnings at FortisAlberta increased by approximately 9% compared to the same period last year. See the table below for selected highlights.

Flat energy delivery growth in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q1 2009	Q1 2008	chg y/y
Energy deliveries (GWh)	4,152	4,138	0%
Revenue (C\$/MWh)	19.03	17.64	8%
Operating expenses (C\$/MWh)	8.19	7.97	3%
Gross margin (C\$/MWh)	10.84	9.67	12%
Earnings (C\$millions)	12	11	9%

Source: Company data and Credit Suisse

Newfoundland Power

Earnings in this segment remained flat this period compared to the same period last year. Exhibit 6 below contains selected highlights for Newfoundland Power.

Slightly increased NP energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q1 2009	Q1 2008	chg y/y
Energy deliveries (GWh)	1,763	1,716	3%
Revenue (C\$/MWh)	95.86	95.57	0%
Energy supply costs (C\$/MWh)	72.04	71.10	1%
Operating expenses (C\$/MWh)	7.94	8.16	-3%
Gross margin (C\$/MWh)	15.88	16.32	-3%
Earnings (C\$millions)	6	6	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter increased 25% compared to the same quarter last year. Earnings were higher primarily due to higher basic electricity rates and electricity sales. See the table below for selected highlights.

Other Canadian utilities showing an increase in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q1 2009	Q1 2008	chg y/y
Energy deliveries (GWh)	616	599	3%
Revenue (C\$/MWh)	113.64	116.86	-3%
Energy supply costs (C\$/MWh)	76.30	81.80	-7%
Operating expenses (C\$/MWh)	11.36	11.69	-3%
Gross margin (C\$/MWh)	25.97	23.37	11%
Earnings (C\$millions)	5	4	25%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment (unadjusted) decreased by roughly 14% compared to the same quarter last year. The C\$6m Q1 2009 earnings figure contains a C\$1m one-time favourable appeal judgment at Fortis Turks and Caicos. The earnings figure also includes C\$1m favourable adjustment to energy supply costs “associated with a change in the methodology for accruing unbilled fuel factor revenue at Fortis Turks and Caicos “

The company stated that:

“In February 2009, the PUC amended the Final Decision on Belize Electricity’s 2008/2009 Rate Application (the “Amendment”), effective for the period from January 1, 2009 through June 30, 2009. The Amendment provides for an increase in the VAD component of the average electricity rate to allow Belize Electricity to earn a targeted allowed ROA of 12 per cent but reduces the reference cost of power component of the average electricity rate, due to an overall decline in the cost of power. The Amendment, therefore, allows for an overall decrease in the average electricity rate from BZ44.1 cents per kWh to BZ37.5 cents per kWh. The Amendment also provides for a lower regulated asset value upon which the allowed ROA is calculated, while increasing operating expenses by the same amount, and reduces depreciation, taxes and fees and the related revenue requirement.”

“Changes made in electricity legislation by the Government of Belize and the PUC, and the June 2008 Final Decision and Amendment, which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. The judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. However, the Supreme Court of Belize has approved an injunction against the Amendment until Belize Electricity’s appeal of the June 2008 Final Decision is heard in court.”

“In April 2009, Belize Electricity filed its Annual Tariff Review Application for the annual tariff period from July 1, 2009 to June 30, 2010 (“2009/2010 Rate Application”) proposing a 6 per cent decrease in the average electricity rate, as well as a reversal of the BZ\$36 million charge, described above. The PUC has not accepted the 2009/2010 Rate Application on the grounds that an Annual Tariff Review Proceeding is not in effect.”

Belize situation requires ongoing monitoring

See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights (unadjusted)

	Q1 2009	Q1 2008	chg y/y
Energy deliveries (GWh)	247	258	-4%
Revenue (C\$/MWh)	336.03	290.70	16%
Energy supply costs (C\$/MWh)	186.23	155.04	20%
Operating expenses (C\$/MWh)	56.68	42.64	33%
Gross margin (C\$/MWh)	93.12	93.02	0%
Earnings (C\$millions)	6	7	-14%

Source: Company data and Credit Suisse

Robust energy delivery
growth in the Caribbean

Notably, as a result of the regulator's Final Decision on Belize Electricity's 2008/2009 rate application, that company

"does not meet certain debt covenant financial ratios related to loans totalling \$9 million (BZ\$14 million), as at March 31, 2009, with the International Bank for Reconstruction and Development and the Caribbean Development Bank. The Company has informed the lenders of the defaults and has requested appropriate waivers. Belize Electricity is also in default of certain debt covenants, which has resulted in the utility being prohibited from incurring new indebtedness or declaring dividends."

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment were flat from the current quarter compared to the same quarter last year. The positive impact from F/X and Belize was offset by the impact of lower production and prices in Upper New York State and Ontario. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights (unadjusted)

	Q1 2009	Q1 2008	chg y/y
Energy deliveries (GWh)	257	288	-11%
Revenue (C\$/MWh)	62.26	65.97	-6%
Energy supply costs (C\$/MWh)	3.89	6.94	-44%
Operating expenses (C\$/MWh)	15.56	13.89	12%
Gross margin (C\$/MWh)	42.80	45.14	-5%
Earnings (C\$millions)	6	6	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$2 million which is nearly a 33% decrease over last year's quarterly earnings. REVPAR decreased to C\$64.40 from C\$67.82 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was slightly down at 96.0% versus last year's 96.6%.

Corporate

Corporate expenses increased to C\$17 million from C\$16 million in Q1 2008. The increase was primarily related to higher preference share dividends due to the issuance of First Preference Shares, Series G, partially offset by lower finance charges.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$219 million for the three months in 2009, of which C\$207 million was for its regulated utilities. Fortis maintains that capital expenditures for 2009 will be approximately C\$1 billion, a roughly 11% increase from 2008. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). In addition, Fortis continues to forecast a capital plan of more than C\$4.5 billion over the next five years. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. Due to the large capital investment opportunity, we continue to believe that capital market access is critical to Fortis. Given the company's recent common equity issue, we do not forecast a specific common equity funding requirement until 2010 (See note titled "*Shoring up the balance sheet*" published on 2 December 2008 for details on the equity issuance.)

Ongoing organic growth

With the significant current capital market dislocations, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Across much of the Canadian regulated infrastructure sector, we believe there are some notable opportunities for greater returns. Recently, the Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008) determined that an after-tax weighted average cost of capital (ATWACC) approach would be utilized to calculate a revenue requirement (for greater details please refer to our March 19, 2009 note "*Regulatory round-up*"). The decision is clearly important for TQM, however, we believe the decision will have a broader impact. In our view, most of the infrastructure and utility asset regulators assets across the country will need to re-visit the methodologies established for allowable returns. Positively, a few of the regulators have already started various processes to canvass opinions on allowed returns. Ultimately, we view regulators moving away from a very mechanical approach that lasted for well more than a decade and shifting towards an approach that should help ensure an appropriate level of returns.

Specifically for Fortis, we believe the company's regulatory schedule is relatively well positioned to benefit from potential changes in regulatory regimes. Without delving into too much detail, we highlight selected regulatory timelines, including:

- Terasen will be filing a rate application in the summer of 2009 with the expectation for a cost-of-capital and rate decision before the end of the year;
- FortisBC will likely adopt a methodology similar to the decision for Terasen;
- A decision for FortisAlberta's Q2 2009 filing will be expected around Q3, but will be impacted by the ongoing Generic Cost of Capital Proceeding;
- Newfoundland Power will file an application later in 2009 with a potential for changed returns in 2010; and,
- In Ontario, the review process for returns is ongoing consultative process.

Based upon the TQM decision, we could see a potential increase in returns of 100-200 bps. Moreover, the standards relating to required equity levels within assets may become somewhat more liberal. Yet, we believe that purely regulated monopoly utilities providing essential services are likely to face a variety of financial threshold tests or deemed equity requirements. Frankly, from a regulatory perspective, deemed equity requirements are administratively simpler and very transparent. Therefore, we do not necessarily believe the TQM decision will be adopted in a rather explicit fashion by other regulators. The spirit and the intent of the decision to provide fair and reasonable returns in the context of the market conditions will clearly be upheld in our opinion. That type of regulatory movement may give Fortis some interesting cash flow and earnings upside into 2010 that is not currently in our forecasts.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation continues to pursue acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfound land
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfound land and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,139.74	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Under the existing capital market conditions, we believe clear limitations exist for the typical Fortis strategy. Capital market conditions are demonstrating some signs of improved functioning. Yet, we do not believe the market would likely positively respond to large scale acquisition financing at this time.

We also continue to believe that Fortis may be able to acquire hydro electric generation assets from resources companies that are willing to divest non-core assets. Please see our notes titled "Provincial power play?" and "Potential power plant purchase" published on 16 December 2008 and 4 December 2008 respectively. (See our note titled "Expanding spreads?" published on 12 January 2009 that discusses debt issuances by infrastructure companies in Canada and the US.)

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance

Maintain Neutral rating and C\$27.50 target price

of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which seems somewhat unlikely at this time. After some changes to our financial model, we have reduced our 2009 and 2010 earnings estimates from C\$1.51 to C\$1.42 and from C\$1.59 to C\$1.56, respectively. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Companies Mentioned (Price as of 30 Apr 09)

Fortis Inc. (FTS.TO, C\$22.15, NEUTRAL, TP C\$27.50)

Disclosure Appendix

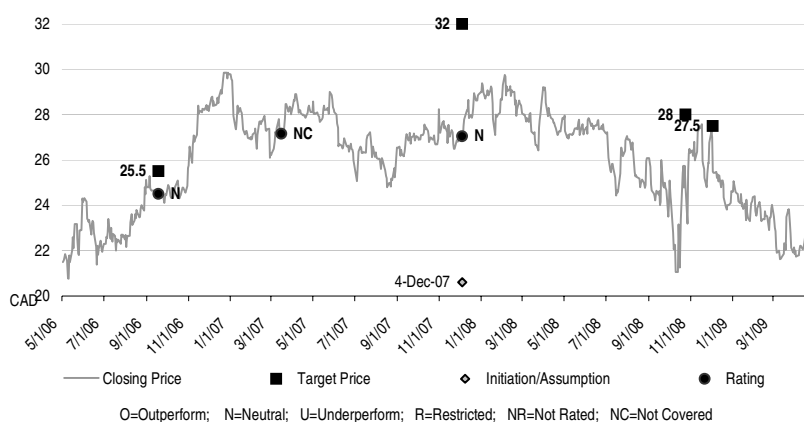
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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (CAD)	Target Price (CAD)	Initiation/ Rating Assumption
9/18/06	24.5	25.5	N
3/16/07	27.15		NC
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	



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Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

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Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

*The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.5x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

See the Companies Mentioned section for full company names.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Rating	NEUTRAL*
Price (12 Jun 09, C\$)	25.25
Target price (C\$)	27.50 ¹
52-week price range	27.75 - 21.05
Market cap. (C\$ m)	4,271.47
Enterprise value (C\$ m)	10,580.47

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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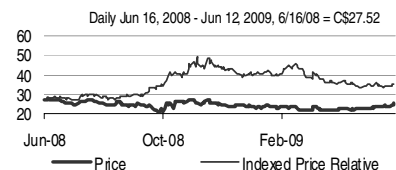
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Extending an empire?

- **Potential opportunity:** We believe a smaller scale opportunity may develop for the Fortis Properties business. Earlier today, the privately held Extended Stay Hotels (ESH) filed for bankruptcy protection in New York. ESH is the operator of a chain of mid-priced extended stay hotels in Canada and the US. Specifically related to Fortis, we believe the company could be interested in ESH's three Canadian hotel properties located in St. John's, Newfoundland, Ottawa, Ontario and Vaughan, Ontario. There are limited details available at this time, however, we would not regard any potential transaction for these properties as being material.
- **Hotels and hospitality:** Over the years, Fortis steadily and opportunistically has purchased several hotel properties across Canada and across several brands. Obviously, any possibilities with the three Canadian ESH properties are relatively minor in the context of a potentially complex restructuring. Yet, the small scale of the Canadian properties to the ESH restructuring may provide a compelling value proposition to Fortis and the court process.
- **Wary of M&A in current market conditions:** Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Clearly, capital market conditions are demonstrating signs of improved functioning. Thus, the typical Fortis acquisition strategy is much more palatable in the existing capital markets.
- **Valuation:** Our rating and C\$27.50 target price is obtained utilizing multiple valuation methodologies, including: a roughly 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 06/12/09 the Canada S&P/TSX Composite Index index closed at 10644.96

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.26	0.21	0.44
2010E	0.61	0.27	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.42	1.56
Prev. EPS (C\$)	—	—	—
P/E (x)	16.3	17.8	16.2
P/E rel. (%)	146.4	159.1	163.4
Revenue (C\$ m)	3,903.0	3,465.8	3,495.8
EBITDA (C\$ m)	1,048.0	1,061.6	1,130.0
OCFPS (C\$)	3.83	3.47	3.38
P/OCF (x)	6.4	7.3	7.5
EV/EBITDA (current)	9.8	10.0	9.6
Net debt (C\$ m)	5,468	5,803	6,038
ROIC (%)	27.72	20.94	19.53
Number of shares (m)	169.17	IC (12/09E, C\$ m) 11,065.03	
BV/share (current, C\$)	17.6	EV/IC (x) 0.96	
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$) 1.04	
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%) 4.1	

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 12 Jun 09)
 Fortis Inc. (FTS.TO, C\$25.25, NEUTRAL, TP C\$27.50)

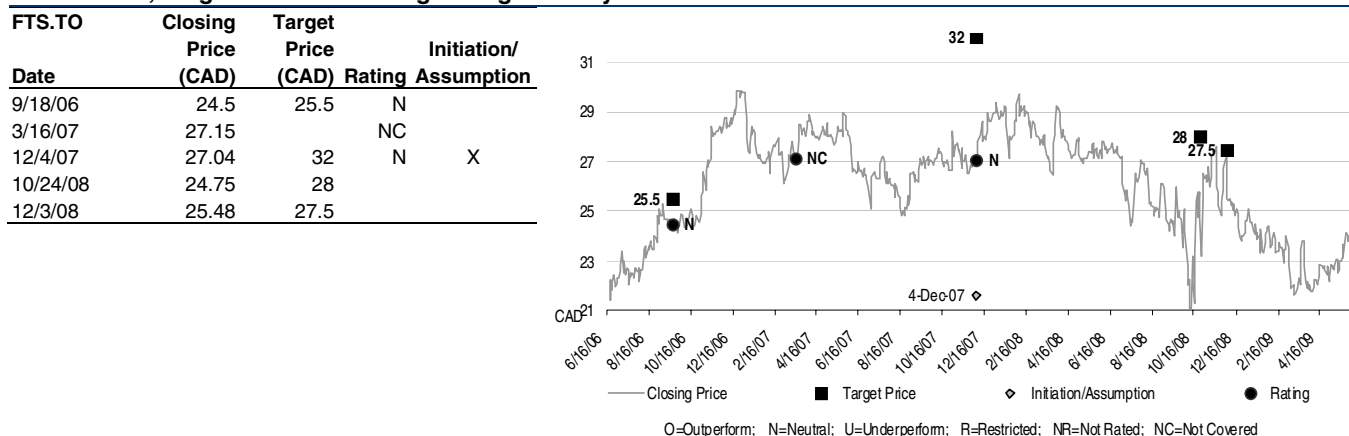
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional index; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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Neutral/Hold*	43%	(59% banking clients)
Underperform/Sell*	20%	(47% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.5x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Rating	NEUTRAL*
Price (22 Jun 09, C\$)	25.21
Target price (C\$)	27.50 ¹
52-week price range	27.58 - 21.05
Market cap. (C\$ m)	4,264.70
Enterprise value (C\$ m)	10,573.71

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

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Ongoing Ontario growth

- **Owning Ontario:** Fortis announced wholly owned subsidiary, FortisOntario Inc. entered into an agreement with Brookfield Renewable Power Inc., a Brookfield Asset Management subsidiary, to purchase all of the issued and outstanding shares of Great Lakes Power Distribution Inc. (GLPD). Based upon past GLPD disclosures, the purchase price of roughly C\$68 million, subject to adjustments, equates to approximately the book value of the asset base excluding a rate mitigation accrual. The closing of the transaction is subject to the approval of the Ontario Energy Board and Competition Act.
- **Selected details:** GLPD serves roughly 12,000 customers in the District of Algoma in northern Ontario. The utility's assets include more than 1,800 km of distribution lines with peak loads of approximately 40MW. Notably, the deal does not include the northern Ontario-based transmission lines owned by Brookfield Infrastructure Partners. We view this transaction positively as Fortis continues to gradually grow its Canadian regulated asset base.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. The company's ability to successfully acquire and integrate selected assets has clearly aided corporate growth. Clearly, capital market conditions are demonstrating signs of improved functioning. Thus, the typical Fortis acquisition strategy is much more palatable in the existing capital markets.
- **Valuation:** Our rating and C\$27.50 target price is obtained utilizing multiple valuation methodologies, including: a roughly 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 06/22/09 the Canada S&P/TSX Composite Index index closed at 9834.18

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.26	0.21	0.44
2010E	0.61	0.27	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.42	1.56
Prev. EPS (C\$)	—	—	—
P/E (x)	16.2	17.8	16.2
P/E rel. (%)	142.0	113.9	130.6
Revenue (C\$ m)	3,903.0	3,465.8	3,495.8
EBITDA (C\$ m)	1,048.0	1,061.6	1,130.0
OCFPS (C\$)	3.83	3.47	3.38
P/OCF (x)	6.4	7.3	7.5
EV/EBITDA (current)	9.8	10.0	9.6
Net debt (C\$ m)	5,468	5,803	6,038
ROIC (%)	27.72	20.94	19.53
Number of shares (m)	169.17	IC (12/09E, C\$ m)	11,065.03
BV/share (current, C\$)	17.6	EV/IC (x)	0.96
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%)	4.1

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 22 Jun 09)

Brookfield Asset Management (BAM, \$16.93, NEUTRAL [V], TP \$18.00)

Brookfield Infrastructure Partners LP (BIP, \$11.92, NEUTRAL, TP \$14.00)

Fortis Inc. (FTS.TO, C\$25.21, NEUTRAL, TP C\$27.50)

Disclosure Appendix

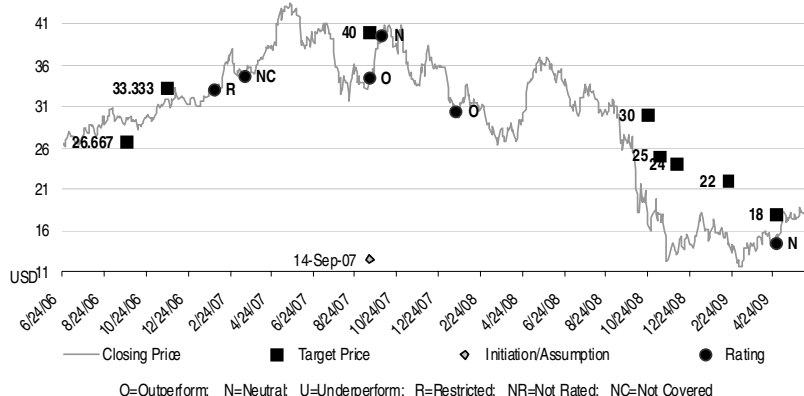
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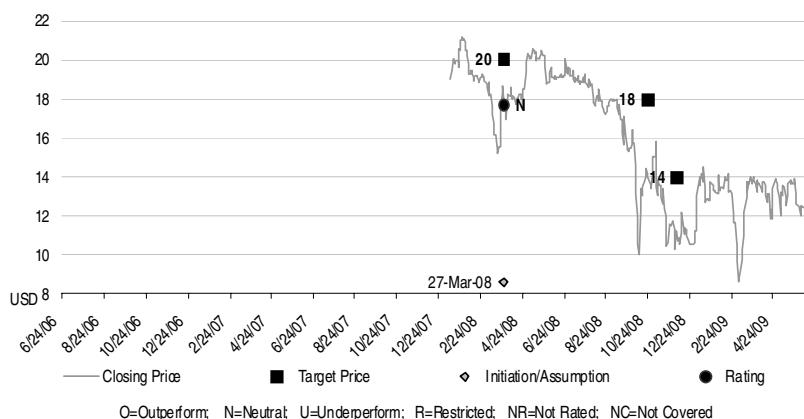
3-Year Price, Target Price and Rating Change History Chart for BAM

BAM	Closing Price	Target Price	Initiation/
Date	(US\$)	(US\$)	Rating Assumption
9/25/06	29.367	26.667	
11/22/06	31.887	33.333	
1/27/07	33.133		R
3/16/07	34.773		NC
9/14/07	34.45	40	O X
10/2/07	39.55		N
1/18/08	30.33		O
10/22/08	18.09	30	
11/10/08	18.04	25	
12/5/08	13.31	24	
2/17/09	14.36	22	
4/27/09	14.37	18	N



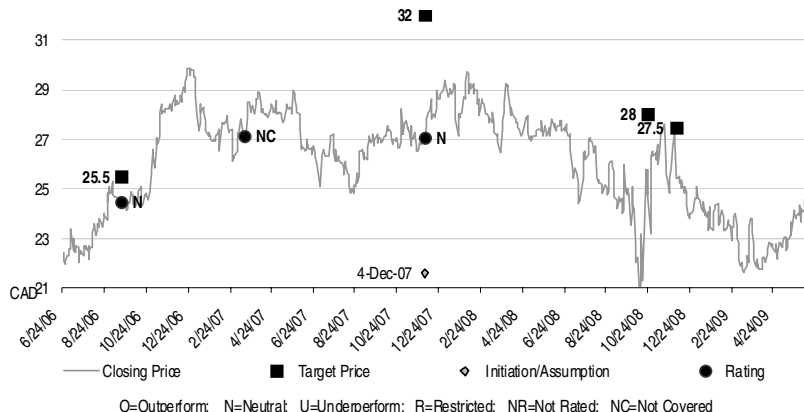
3-Year Price, Target Price and Rating Change History Chart for BIP

BIP	Closing Price	Target Price	Initiation/
Date	(US\$)	(US\$)	Rating Assumption
3/27/08	17.69	20	N X
10/22/08	14.17	18	
12/5/08	10.7	14	



3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price (CAD)	Target Price (CAD)	Initiation/ Rating	Assumption
9/18/06	24.5	25.5	N	
3/16/07	27.15		NC	
12/4/07	27.04	32	N	X
10/24/08	24.75	28		
12/3/08	25.48	27.5		



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional index; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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Neutral/Hold*	42%	(59% banking clients)
Underperform/Sell*	20%	(47% banking clients)
Restricted	2%	

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Price Target: (12 months) for (BAM)

Method: We obtain our US\$18 target price for Brookfield Asset Management by the net asset value (NAV) approach. Our NAV includes roughly an implied 7.5% capitalization rate on commercial properties; a 10x cash flow multiple on hydroelectric generation assets; and, an 8x multiple on net fee income.

Risks: The US\$18 target price of Brookfield Asset Management faces a number of risks, including: underlying investment value; increasing competition; potential taxation changes; credit and counterparty risks; regulation; interest rate movements; foreign exchange; and, selected energy market dynamics.

Price Target: (12 months) for (BIP)

Method: We obtain our 12-month US\$14.00 target price for Brookfield Infrastructure Partners LP by using multiple valuation methods, including: a targeted cash-on-cash yield of 7.5%; a 10.2x multiple applied to our forecasted Adjusted Net Operating Income (ANOI) of the underlying infrastructure limited partnership; and a 50% discount to our longer-term BIP timberland net asset value (NAV) estimate because of ongoing capital market volatility, a fundamental re-pricing of risk and lackluster forest products pricing.

Risks: There are a number of risk to Brookfield Infrastructure Partners LP's achievement of our US\$14.00 target price: increasing competitive environment for infrastructure assets; BAM dependency; interest rate movements; access to capital markets; regulatory; taxation; credit and counterparty risk; commodity prices; energy market dynamics; environmental legislation; foreign exchange; infestations and disease; weather; and, labour shortage/strikes.

Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.5x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (05 Aug 09, C\$)	25.63
Target price (C\$)	27.50 ¹
52-week price range	27.58 - 21.05
Market cap. (C\$ m)	4,335.75
Enterprise value (C\$ m)	10,477.25

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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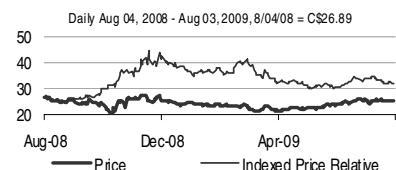
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FORECAST INCREASE

Ongoing organic growth

- **Earnings beat:** Fortis reported Q2 2009 headline and comparable EPS (FD) of C\$0.31. The EPS exceeded both our C\$0.26 and the Street's C\$0.267 estimates and was above the C\$0.21-C\$0.29 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively strong financial performance from all segments except Newfoundland Power, the Caribbean operations and corporate versus our expectations.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be more than C\$1bn for 2009 (which is C\$50m more than what was disclosed at year-end 2008) and roughly C\$5bn over the next five years. Approximately 70% of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations. Additionally, roughly 25% of the total amount is planned to be spent at the Terasen Gas entities.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets.
- **Valuation:** After the quarter we have increased our 2009 earnings estimates from C\$1.42 to C\$1.47. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 08/03/09 the Canada S&P/TSX Composite Index index closed at 10787.15

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.31	0.21	0.44
2010E	0.61	0.27	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.47	1.56
Prev. EPS (C\$)	—	1.42	—
P/E (x)	16.5	17.5	16.4
P/E rel. (%)	128.8	99.6	118.3
Revenue (C\$ m)	3,903.0	3,547.6	3,573.0
EBITDA (C\$ m)	1,048.0	1,071.1	1,138.6
OCFPS (C\$)	3.83	4.29	3.45
P/OCF (x)	6.4	6.0	7.4
EV/EBITDA (current)	9.8	9.8	9.4
Net debt (C\$ m)	5,468	5,650	5,884
ROIC (%)	27.72	21.97	20.34
Number of shares (m)	169.17	IC (12/09E, C\$ m)	10,909.81
BV/share (current, C\$)	17.6	EV/IC (x)	0.96
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%)	4.1

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Earnings beat

Fortis reported Q2 2009 headline and comparable EPS (FD) of C\$0.31. The EPS exceeded both our C\$0.26 and the Street's C\$0.267 estimates and was above the C\$0.21-C\$0.29 range. As usual, a substantial amount of organic utility growth continues across various Fortis assets. This research note is divided into three parts: (a) results; (b) outlook; and (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2009	Q2 2008	chg y/y
Regulated Gas Utilities - Canadian	14	12	17%
Regulated Electric Utilities - Canadian	39	26	50%
Regulated Electric Utilities - Caribbean	7	(5)	240%
Non-regulated - Fortis Generation	3	7	-57%
Non-regulated - Fortis Properties	8	7	14%
Corporate and other	(18)	(18)	0%
Net earnings applicable to common shares	53	29	83%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The earnings for this segment increased by roughly 17% year-over-year due mainly to a lower effective corporate income tax rate, lower finance charges due to lower borrowing rates and lower borrowing under the credit facilities.

Exhibit 2: Regulated gas utilities – Canadian earnings contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2009	Q2 2008	chg y/y
Terasen Gas	14.0	12.0	17%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2009	Q2 2008	chg y/y
FortisBC	7	7	0%
FortisAlberta	17	7	143%
Newfoundland Power	11	10	10%
Other Cdn Electric Utilities	4	2	100%
Earnings	39	26	50%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC were up roughly flat compared to the same period last year. See Exhibit 4 for selected highlights.

Flat energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q2 2009	Q2 2008	chg y/y
Energy deliveries (GWh)	675	673	0%
Revenue (C\$/MWh)	81.48	78.75	3%
Energy supply costs (C\$/MWh)	19.26	17.83	8%
Operating expenses (C\$/MWh)	25.19	25.26	0%
Gross margin (C\$/MWh)	37.04	35.66	4%
Earnings (C\$millions)	7	7	0%

Source: Company data and Credit Suisse

FortisAlberta

Largely the result of increase in customer distribution rates and load and customer growth coupled with lower corporate income taxes, segmented earnings at FortisAlberta increased by approximately 143% compared to the same period last year. See the table below for selected highlights.

Flat energy delivery growth in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q2 2009	Q2 2008	chg y/y
Energy deliveries (GWh)	3,765	3,768	0%
Revenue (C\$/MWh)	21.51	19.90	8%
Operating expenses (C\$/MWh)	8.23	8.49	-3%
Gross margin (C\$/MWh)	13.28	11.41	16%
Earnings (C\$millions)	17	7	143%

Source: Company data and Credit Suisse

Newfoundland Power

Earnings in this segment increased by 10% this period compared to the same period last year. The increased earning was mainly due to lower amortization costs and lower corporate income tax rate that were slightly offset by a decrease in electricity sales. Exhibit 6 below contains selected highlights for Newfoundland Power.

Slight decreased in NP energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q2 2009	Q2 2008	chg y/y
Energy deliveries (GWh)	1,177	1,183	-1%
Revenue (C\$/MWh)	101.10	101.44	0%
Energy supply costs (C\$/MWh)	59.47	59.17	1%
Operating expenses (C\$/MWh)	11.05	10.99	1%
Gross margin (C\$/MWh)	30.59	31.28	-2%
Earnings (C\$millions)	11	10	10%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings (unadjusted) for the quarter increased 100% compared to the same quarter last year. After considering the C\$2m after-tax one-time charge at FortisOntario in Q2 2008, earnings were flat comparing Q2 2009 to Q2 2008. See the table below for selected highlights.

Other Canadian utilities showing a decrease in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q2 2009	Q2 2008	chg y/y
Energy deliveries (GWh)	483	508	-5%
Revenue (C\$/MWh)	130.43	120.08	9%
Energy supply costs (C\$/MWh)	82.82	78.74	5%
Operating expenses (C\$/MWh)	14.49	13.78	5%
Gross margin (C\$/MWh)	33.13	27.56	20%
Earnings (C\$millions)	4	2	100%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment (unadjusted) increased by roughly 240% compared to the same quarter last year. The -C\$5m Q2 2008 earnings figure contains a C\$13m one-time charge relating to disallowed previously incurred fuel and purchased power costs at Belize Electricity. The earnings figure in Q2 2008 also includes C\$1m favourable foreign currency translation. On an adjusted basis Q2 2009 earnings for this segment were roughly C\$2m lower than the same quarter last year.

The company stated that:

“In February 2009, the PUC amended the Final Decision on Belize Electricity’s 2008/2009 Rate Application (the “Amendment”), effective for the period from January 1, 2009 through June 30, 2009. The Amendment provides for an increase in the VAD component of the average electricity rate to allow Belize Electricity to earn a targeted allowed ROA of 12 per cent but reduces the reference COP component of the average electricity rate, due to an overall decline in the cost of power. The Amendment, therefore, allows for an overall decrease in the average electricity rate from BZ44.1 cents per kWh to BZ37.5 cents per kWh. The Amendment also provides for a lower regulated asset value upon which the allowed ROA is calculated, while increasing operating expenses by the same amount, and reduces depreciation, taxes and fees and the related revenue requirement.”

“Changes made in electricity legislation by the Government of Belize and the PUC, and the June 2008 Final Decision and Amendment, which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. The judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. However, the Supreme Court of Belize has approved an injunction against the Amendment until Belize Electricity’s appeal of the June 2008 Final Decision has been heard in court, which is currently scheduled for October 2009. In addition, Belize Electricity’s appeal of the Supreme Court of Belize’s previous decision to uphold certain changes made in electricity legislation by the Government of Belize and the PUC was dismissed in June 2009.”

“In April 2009, Belize Electricity filed its Annual Tariff Review Application for the annual tariff period from July 1, 2009 to June 30, 2010 (“2009/2010 Rate Application”) proposing a 6 per cent decrease in the average electricity rate, as well as a reversal of the BZ\$36 million charge described above. The PUC has not accepted the 2009/2010 Rate Application on the grounds that an Annual Tariff Review Proceeding is not in effect.”

“The Minister of Public Utilities of Belize recently issued a statutory instrument purporting to declare providers of electricity generation and water services, including BECOL, as public utility providers within the meaning of the Public Utilities Commission Act as of May 1, 2009. Fortis is currently

Belize situation requires ongoing monitoring

assessing the statutory instrument and its impact on previously negotiated and PUC-approved power purchase agreements.”

See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights (unadjusted)

	Q2 2009	Q2 2008	chg y/y
Energy deliveries (GWh)	293	276	6%
Revenue (C\$/MWh)	279.86	282.61	-1%
Energy supply costs (C\$/MWh)	153.58	231.88	-34%
Operating expenses (C\$/MWh)	47.78	43.48	10%
Gross margin (C\$/MWh)	78.50	7.25	983%
Earnings (C\$millions)	7	(5)	240%

Source: Company data and Credit Suisse

Notably, as a result of the regulator's Final Decision on Belize Electricity's 2008/2009 rate application, that company

“does not meet certain debt covenant financial ratios related to loans totalling \$8 million (BZ\$14 million), as at June 30, 2009, with the International Bank for Reconstruction and Development and the Caribbean Development Bank. The Company has informed the lenders of the defaults and has requested appropriate waivers.”

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment were lower by 57% from the current quarter compared to the same quarter last year. The decrease was primarily related to the loss in earnings from the expiration of the power-for-water agreement related to the Rankine facility and the lower power pricing in Upper New York State and Ontario. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights (unadjusted)

	Q2 2009	Q2 2008	chg y/y
Energy deliveries (GWh)	141	312	-55%
Revenue (C\$/MWh)	63.83	70.51	-9%
Energy supply costs (C\$/MWh)	-	6.41	-100%
Operating expenses (C\$/MWh)	14.18	12.82	11%
Gross margin (C\$/MWh)	49.65	51.28	-3%
Earnings (C\$millions)	3	7	-57%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$8 million which is nearly a 14% increase over last year's quarterly earnings. REVPAR decreased to C\$83.15 from C\$87.54 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was slightly down at 95.9% versus last year's 96.7%.

Corporate

Corporate expenses remained flat at C\$18 million in Q2 2009.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Energy delivery growth in the Caribbean

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$277 million for the three months in 2009, of which C\$267 million was for its regulated utilities. Fortis maintains that capital expenditures for 2009 will be more than C\$1 billion, a roughly 11% increase from 2008. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). In addition, Fortis continues to forecast a capital plan of approximately C\$5 billion over the next five years. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. The release contained a slight, but meaningful, change in language relating to the capital program. With respect to the capital program, Fortis stated that "substantially all of which will be funded at the subsidiary level." While we did not foresee any immediate capital need nor one in the near future, we believe this statement provides greater confidence with the balance sheet and cash flow generation capabilities of the company's existing assets.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Across much of the Canadian regulated infrastructure sector, we believe there are some notable opportunities for greater returns. Recently, the Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008) determined that an after-tax weighted average cost of capital (ATWACC) approach would be utilized to calculate a revenue requirement (for greater details please refer to our March 19, 2009 note "*Regulatory round-up*"). The decision is clearly important for TQM, however, we believe the decision will have a broader impact. In our view, most of the infrastructure and utility asset regulators assets across the country will need to re-visit the methodologies established for allowable returns. Positively, a few of the regulators have already started various processes to canvass opinions on allowed returns. Ultimately, we view regulators moving away from a very mechanical approach that

lasted for well more than a decade and shifting towards an approach that should help ensure an appropriate level of returns.

Specifically for Fortis, we believe the company's regulatory schedule is relatively well positioned to benefit from potential changes in regulatory regimes. Without delving into too much detail, we highlight selected regulatory timelines, including:

- In the months of May and June, the Terasen gas utilities filed various applications with the British Columbia Utilities Commission;
- FortisBC will likely adopt a methodology similar to the decision for Terasen;
- In June FortisAlberta filed a comprehensive two-year distribution revenue requirement application for 2010 and 2011;
- In the months of May and June, Newfoundland Power filed application for a general rates and the utility's capital budget; and,
- In Ontario, the review process for returns is ongoing consultative process.

Based upon the TQM decision, we could see a potential increase in returns of 100-200 bps. Moreover, the standards relating to required equity levels within assets may become somewhat more liberal. Yet, we believe that purely regulated monopoly utilities providing essential services are likely to face a variety of financial threshold tests or deemed equity requirements. Frankly, from a regulatory perspective, deemed equity requirements are administratively simpler and very transparent. Therefore, we do not necessarily believe the TQM decision will be adopted in a rather explicit fashion by other regulators. The spirit and the intent of the decision to provide fair and reasonable returns in the context of the market conditions will clearly be upheld in our opinion. That type of regulatory movement may give Fortis some interesting cash flow and earnings upside into 2010 that is not currently in our forecasts.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation continues to pursue acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in the United States and Canada. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets.

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which seems somewhat unlikely at this time. After the quarter, we have increased our 2009 earnings estimates from C\$1.42 to C\$1.47. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target: C\$27.50

Companies Mentioned (Price as of 05 Aug 09)
Fortis Inc. (FTS.TO, C\$25.63, NEUTRAL, TP C\$27.50)

Disclosure Appendix

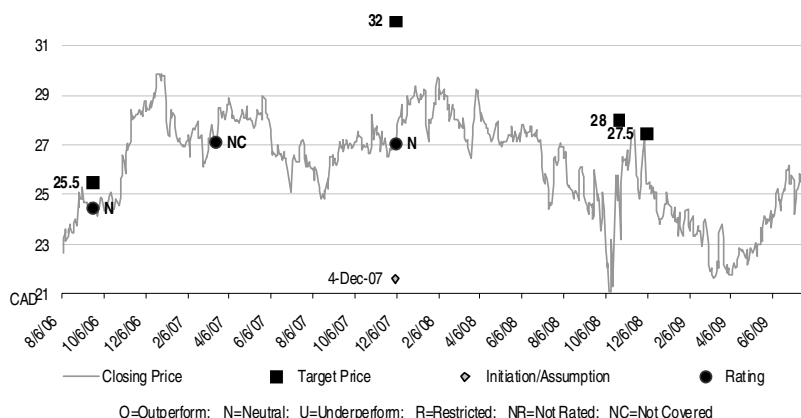
Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (CAD)	Target Price (CAD)	Initiation/ Rating Assumption
9/18/06	24.5	25.5	N
3/16/07	27.15		NC
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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Global Ratings Distribution		
Outperform/Buy*	37%	(57% banking clients)
Neutral/Hold*	43%	(58% banking clients)
Underperform/Sell*	19%	(49% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.5x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (05 Aug 09, C\$)	25.63
Target price (C\$)	27.50 ¹
52-week price range	27.58 - 21.05
Market cap. (C\$ m)	4,335.75
Enterprise value (C\$ m)	10,477.25

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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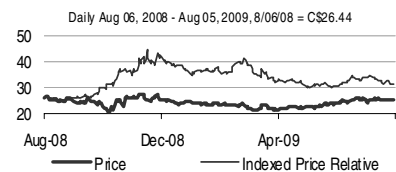
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COMMENT

Pondering a potential Portland purchase?

- **Portland purchase?:** We believe the conditions for another potential Fortis utility acquisition are coming into place. Recently, Portland General Electric Company (POR.N) announced a substantial guidance revision for 2009 from US\$1.80 to US\$1.90 to US\$1.35 to US\$1.45 per diluted share. As expected, the revision resulted in the shares falling by 6.5% on July 22nd. In our view, Portland's earnings revision may provide an interesting opportunity for Fortis to finally make a notable move into the US utility market. We do not believe a transaction is imminent, however, many of the conditions are in place for the acquisitive Canadian utility to make a bold move.
- **Accretive acquisition:** Based upon our financial analysis, we believe Portland General would make an interesting acquisition for Fortis on an earnings accretive basis. Similar to a number of past Fortis deals, the company would need to issue a substantial amount of equity or, more likely, subscription receipts on a bought deal basis. Strategically, we consider Portland as an interesting, albeit not perfect, fit for Fortis. Finally, in our view, it is only a matter of time before Fortis becomes active with US-based M&A.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets.
- **Valuation:** Our rating and C\$27.50 target price is obtained utilizing multiple valuation methodologies, including: a roughly 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 08/05/09 the Canada S&P/TSX Composite Index index closed at 11046.93

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.31	0.21	0.44
2010E	0.61	0.27	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.47	1.56
Prev. EPS (C\$)	—	—	—
P/E (x)	16.5	17.5	16.4
P/E rel. (%)	128.5	99.4	118.0
Revenue (C\$ m)	3,903.0	3,547.6	3,573.0
EBITDA (C\$ m)	1,048.0	1,071.1	1,138.6
OCFPS (C\$)	3.83	4.29	3.45
P/OCF (x)	6.4	6.0	7.4
EV/EBITDA (current)	9.8	9.8	9.4
Net debt (C\$ m)	5,468	5,650	5,884
ROIC (%)	27.72	21.97	20.34
Number of shares (m)	169.17	IC (12/09E, C\$ m)	10,909.81
BV/share (current, C\$)	17.6	EV/IC (x)	0.96
Net debt (current, C\$ m)	5,468.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (current, %)	64.2	Dividend yield (%)	4.1

Source: Company data, Credit Suisse estimates.

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After the recent substantial negative earnings guidance revision by Portland General, we believe the conditions for another potential Fortis utility acquisition are coming into place. In our view, Portland's earnings revision may provide an interesting opportunity for Fortis to finally make a notable move into the US utility market. We do not believe a transaction is imminent, however, many of the conditions are in place for the acquisitive Canadian utility to make a bold move. Strategically, we consider Portland as an interesting, albeit not perfect, fit for Fortis. Finally, in our view, it is only a matter of time before Fortis becomes active with US-based M&A.

This research note is divided into three parts: (a) Possibly Portland?; (b) Outlook; and, (c) Valuation.

Possibly Portland?

Historically, Fortis has been very adept at acquisitions. As examples, the Canadian-based Aquila asset acquisition in 2003 and the Terasen Gas deal in 2007 highlight some of the company's bold moves. Barring any dramatic restructuring by government-owned utilities, we believe the Canadian utility market is largely lacking for substantial acquisition focused growth opportunities. As a result, we continue to believe Fortis has steadily shifted focus on the US market. Clearly, potential acquisition opportunities are much more abundant in the US than in Canada. Yet, the Fortis acquisition strategy can benefit from several factors, including: (a) a stronger Canadian dollar; (b) favourable financing markets for both debt and equity; (c) an index uplift; (d) improved rates of return in the US versus those allowed in Canada; and, (e) at times, a substantial valuation advantage.

Synergies are not typically a large component of utility M&A, however, there is a strategic logic to have a certain degree of proximity among assets. Therefore, our Fortis US-based M&A focus traditionally centered on two regions: (a) the Pacific Northwest; and, (b) the US Northeast. Additional traits that we look for in potential acquisitions include:

- Predominately regulated electric or gas distribution utility assets;
- Other than hydroelectric generation, somewhat limited exposure to generation assets, especially the direct ownership of fossil fuel assets;
- Above average utility growth often caused by previous under investment;
- Acquisitions that are either friendly or conducted via an auction process; and,
- A relatively favourable regulatory environment.

From our perspective, Portland matches some, but not all, of the above criteria. In our view, a potentially compelling financial case exists for Fortis to contemplate the acquisition of Portland General Electric. This portion of our research note highlights three areas:

- (1) A brief Portland background;
- (2) A collection of utility assets; and,
- (3) Preliminary financial analysis.

A brief Portland background

As a starting point, Portland General Electric is a NYSE-listed vertically integrated electric utility headquartered in Portland, Oregon. Several years ago, after a rather brief period of ownership by Enron, the utility re-entered the capital markets by way of an initial public offering. In our view, an interesting part of the Portland General Electric investment at the time of the IPO was the steady growth in regulated utility capital. As described below, such growth continues and would clearly be attractive from a Fortis perspective.

Recently, Portland General Electric announced a substantial negative revision to previous 2009 earnings guidance from US\$1.80 to US\$1.90 to US\$1.35 to US\$1.45 per diluted

A history of acquisitions

Fewer opportunities in Canada than the US market

PGE lowered 2009 guidance

share. From the Portland General Electric press release, we understand some of the key items for the guidance reduction to include:

- Margin compression from “the impacts on retail load from the economic recession, primarily in the industrial sector”;
- “Power originally intended to meet forecasted load was sold into a declining electricity market”;
- The extension of an already planned maintenance outage at the Colstrip coal plant;
- Extended maintenance at the Boardman coal plant;
- Weaker than expected hydroelectric results; and,
- As a result of weaker net income, a mandated increase customer refunds.

Multiple reasons for PORs
guidance revision

In the guidance revision press release, Portland General Electric stated,

“Oregon's economy continues to be impacted by the national recession. Retail loads are down, primarily because our industrial customers' electricity use has declined by more than we projected just three months ago. In addition, lower prices in the wholesale energy market have made it difficult to offset lost revenue with the sale of excess power. These issues, combined with an extended outage at the Colstrip plant, have led us to reduce our full-year earnings guidance”.

The guidance revision caused the stock to close at US\$18.56 on the day of announcement from the open of US\$19.86, a roughly 6.5% drop. In the context of the current economic and market downturn, we do not believe the market should be substantially surprised by a significant negative guidance revision. Yet, such revisions often cast a rather negative light upon existing management teams and can lead to groups of disenchanted shareholders. At this time, the stock continues to trade fairly range bound and closed at US\$18.50 on 5 August 2009. Given these factors, we believe the negative guidance revision provides the potential for a compelling M&A opportunity.

Potential for longer-term
disenchantment with the
stock post revision

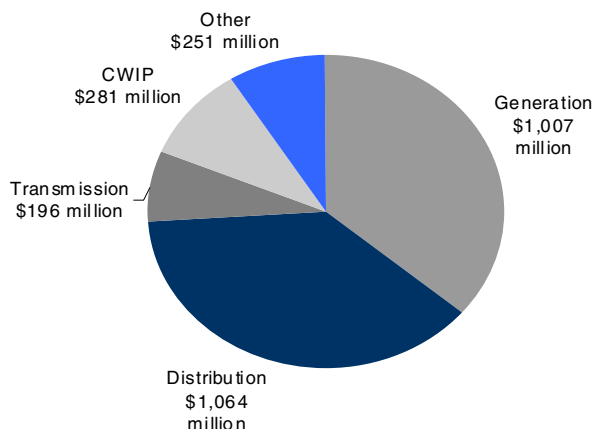
A collection of utility assets

Portland General Electric's utility assets have some notable attributes, including:

- The company is a vertically integrated electric utility in the State of Oregon;
- Roughly 815,000 retail customers are served with an average annual customer growth of 1.5% and an average load growth of 1.4% since the end of 2003;
- A combination of generation assets across fuel types and purchased power contracts with a total nameplate capacity of 4,455 MW;
- Ownership of roughly 1,643 miles of transmission lines and 24,000 miles of distribution lines;
- A regulatory environment offering a 10% allowed return on equity on a deemed equity base of 50% with 50% debt in the capital structure;
- As per a May 2009 presentation, net utility plant of roughly US\$2.8 billion; and,
- Approximately US\$1.1bn of already identified regulated utility capital investments from 2009-2013 to drive rate base growth.

Our starting point for considering a potential Portland purchase is the utility's asset values. The figures in Exhibit 1 were obtained and replicated from a recent Portland General Electric presentation.

Exhibit 1: Asset value
in millions, unless otherwise stated



Source: Company data and Credit Suisse

Obviously, the critical issue for any regulated utility investment is the regulatory regime. In light of our preliminary analysis on a potential transaction, we do not see it as necessary to engage in a robust discussion of Portland General Electric's regulatory environment. To provide some background for the regulatory environment, we highlight selected attributes of the regulatory framework addressed in a recent corporate presentation, including:

- Portland General Electric operates with a regulated deemed capital structure of 50% equity and 50% debt;
- There utility has an allowed 10% return on equity;
- Various cost adjustment mechanisms exist for power expenses;
- The framework intends to allow the recovery of fixed revenue requirements as a result of lower sales resulting from energy efficiency and conservation efforts; and,
- By 2025, Portland will be required to serve 25% of retail load from renewable sources.

Given the history of utility ownership and various acquisitions and attempted acquisitions in the State of Oregon, we believe any potential transaction would need to demonstrate a clear net benefit, comply with existing legislation and be politically palatable. Moreover, in our view, any such transaction must be friendly in nature. From our perspective, each of these objectives could be achieved by Fortis, however, there are clearly other states and regulatory environments that lack the unique history of Oregon's utility sector.

From a Fortis perspective, we consider selected attributes of Oregon's utility regulation to be attractive. Despite the potential attraction to facets of the regulatory environment, parts of Portland General Electric's asset base do not entirely fit with a typical Fortis acquisition strategy. Namely, the company's generation portfolio and exposure to fossil fuels is not all that attractive for a typical Fortis deal. At the end of 2008, Exhibit 2 highlights generation capacity owned or under contract to Portland General Electric over several fuel types and Exhibit 3 illustrates the source as a percentage of retail load. From our perspective, the abundance of coal, natural gas and oil fired generation capacity is not a perfect fit for Fortis. Thus, if a transaction were to occur, then some potential may exist for selected divestitures.

Historical issues in Oregon may make other jurisdictions more attractive for acquisitions

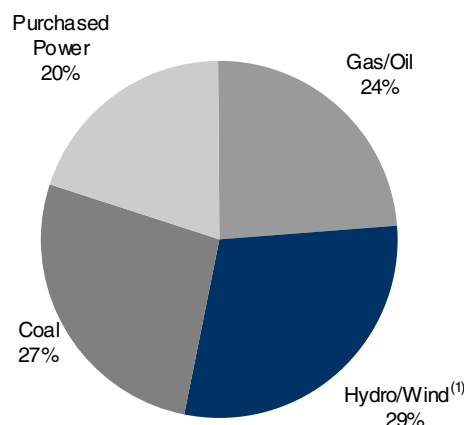
Some of POR's generation exposure is not a good fit for Fortis

Exhibit 2: Generation capacity (end of 2008)

	Physical Capacity (MW)	% of Total Capacity
Hydro		
Deschutes River Projects	298	6.7%
Clackamas/Willamette River	191	4.3%
Hydro Contracts	695	15.6%
	1,184	26.6%
Natural Gas/Oil		
Beaver Units 1-8	529	11.9%
Coyote Springs	233	5.2%
Port Westward	413	9.3%
	1,175	26.4%
Coal		
Boardman	374	8.4%
Colstrip	296	6.6%
	670	15.0%
Wind		
Wind Contracts	35	0.1%
Biglow Canyon Phase I	46	1.0%
	81	1.8%
Net Purchased Power		
Short-/Long-term	1,345	30.2%
Total	4,455	100.0%

Source: Company data and Credit Suisse

Exhibit 3: 2008 power sources as a % of retail load



Source: Company data and Credit Suisse

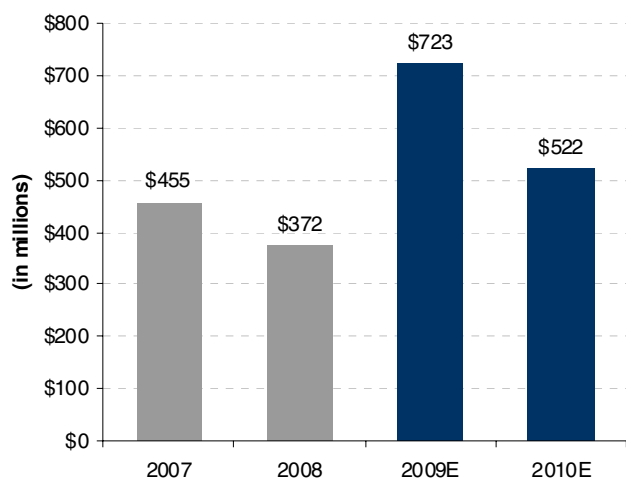
Similar to other Fortis markets, Portland General Electric believes “long-term retail load is expected to grow consistently while selected long-term power purchase contracts expire, driving the need for additional generation capacity”. That growth potential combined with renewable portfolio standards may translate into an even more compelling investment than the simple near-term pro-forma financial statements reveal.

Similar to the large organic growth embedded within a number of the wholly-owned Fortis utilities, Portland General Electric has significant near-term rate base growth. Exhibit 4 illustrates Portland’s historical and forecast capital expenditures. As one would expect for regulated assets, capital expenditures have a strong (if not virtually perfect) relationship to the growth in average rate base (see Exhibit 5). As per a recent Portland General Electric presentation, the company expects to fund new capital investments “through cash from operations and issuances of debt and equity with a targeted capital structure of 50/50”. We view this approach very similar to methods typically used by Fortis.

Considerable potential rate base growth

Exhibit 4: PGE capital expenditure

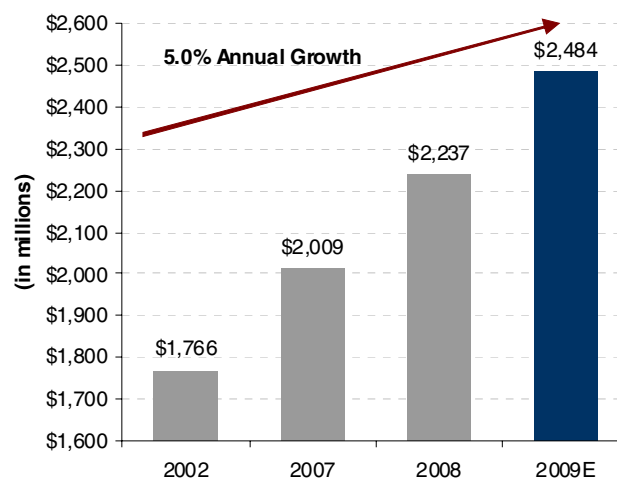
US\$ in millions, unless otherwise stated



Source: Company data and Credit Suisse

Exhibit 5: PGE average rate base

US\$ in millions, unless otherwise stated



Source: Company data and Credit Suisse

One example of Portland's organic growth is the Biglow Canyon Wind Farm in Columbia Gorge (eastern Oregon). The three phase project will have a total installed capacity of 450MW and will cost roughly US\$1.0 billion (see Exhibit 6). According to company data, the completion of this wind project will bring its "load served by renewables" to roughly 11%. Renewable power other than hydroelectric investment has not been an area of focus for Fortis. Subject to regulatory regime, the allocation of capital to renewable power can be very favourable.

Renewable power potential

Exhibit 6: Biglow Canyon Wind Farm

US\$ in millions, unless otherwise stated

	Phase I	Phase II	Phase III
Nameplate Capacity	125 MW, 76 turbines	150 MW, 65 turbines	175 MW, 76 turbines
MW per unit	1.65 Megawatts	2.3 Megawatts	2.3 Megawatts
Cost (w/AFDC)	\$255 million	\$326 million	\$433 million
Online date	December 2007	End of 2009	End of 2010
Vendor	Vestas	Siemens	Siemens

Source: Company data and Credit Suisse

Preliminary financials analysis

At present, Portland General Electric's market value is roughly US\$1.4 billion and the company has US\$1.4 billion in debt for a total enterprise value of roughly US\$2.8 billion. Based upon consensus figures and publicly available information, we note the following:

- Based on 5 August 2009 close of US\$18.50 per share, forward P/E ratio based on Bloomberg estimates are 13.3x and 10.3x for 2009 and 2010 respectively; and,
- On an EV/EBITDA basis, using consensus forecast for 2009 and 2010 results in 6.0x and 5.4x multiple.

Based upon our earnings forecasts, Fortis is trading at a 17.4x and 16.4x P/E multiple for 2009 and 2010, respectively. In terms of EV/EBITDA, Fortis is trading at 9.8x and 9.4x, respectively, on our 2009 and 2010 estimates. Given these trading multiples, a Fortis led acquisition should be accretive in many scenarios. Some of our baseline assumptions for the hypothetical Fortis acquisition of Portland General Electric, include:

Multiple accretive

- Fortis pays a 25% premium to the current trading price equating to US\$23.13 for each Portland General Electric share;
- Via the bought deal market, Fortis is able to issue 78m subscription receipts or shares at price of C\$24.10 a share for a 6% discount to market;
- The total gross proceeds from the equity financing would be roughly C\$1.87bn; and,
- Fortis could close the deal by the end of 2009 which may be viewed aggressively.

Large equity issuance required

In Exhibit 7 and Exhibit 8, we provide financial statements for a potential Fortis-Portland transaction. Notably, the Portland General Electric statements are based, in part, upon Bloomberg consensus estimates and have been converted into Canadian dollars. Roughly calculated, Portland's regulated earnings streams correspond to the adapted Bloomberg estimates. Pro-forma financials reflect the simple combination of the companies with an entirely equity financed deal.

Exhibit 7: Hypothetical 2010e combined earnings

C\$ in millions, unless otherwise stated

	FTS	POR	Pro Forma
2010e Income Statement			
Sales	\$3,573	\$2,002	\$5,575
EBITDA	\$1,139	\$569	\$1,718
EBITDA margin	31.9%	28.4%	30.8%
Depreciation	<u>\$344</u>	<u>\$257</u>	<u>\$601</u>
EBIT	\$795	\$312	\$1,117
Interest	\$391	\$127	\$520
Other	\$5	\$0	\$5
EBT	\$399	\$185	\$592
Taxes	\$115	\$50	\$167
Minority interest	<u>\$14</u>	<u>\$0</u>	<u>\$14</u>
Net income	\$270	\$136	\$411
Fully-diluted EPS	\$1.56	\$1.80	\$1.63

Source: Bloomberg, Company data and Credit Suisse estimates

Under a variety of our assumptions, an almost entirely equity financed transaction could be roughly 4% earnings accretive on a per share basis for Fortis in the first full year post closing. We do not believe a FTS-POR deal is imminent, however, we believe some aspects of a transaction could be quite compelling. At these current levels, a potential transaction may also be viewed as rather opportunistic from a Fortis perspective. Given the history of PGE, we believe there clearly would be considerable regulatory resistance and scrutiny with any kind of transaction. Finally, in our view, almost any successful M&A transaction in the utilities sector should be friendly and have both regulatory and local political support.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$277 million for the three months in 2009, of which C\$267 million was for its regulated utilities. Fortis maintains that capital expenditures for 2009 will be more than C\$1 billion, a roughly 11% increase from 2008. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). In addition, Fortis continues to forecast a capital plan of approximately C\$5 billion over the next five years. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. The release contained a slight, but meaningful, change in language relating to the capital program. With respect to the capital program, Fortis stated that "substantially all of which will be funded at the subsidiary level." While we did not foresee any immediate capital need nor one in the near future, we believe this statement provides greater confidence with the balance sheet and cash flow generation capabilities of the company's existing assets.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving

Exhibit 8: Hypothetical combined balance sheet

C\$ in millions, unless otherwise stated

	FTS	POR	Pro Forma
Opening Balance Sheet			
Cash and cash equivalents	\$137	\$64	\$201
Other current assets	<u>\$849</u>	<u>\$917</u>	<u>\$1,766</u>
Total current assets	\$986	\$981	\$1,967
Tangible long-term assets	\$8,918	\$4,028	\$12,946
Intangible long-term assets	<u>\$1,833</u>	<u>\$803</u>	<u>\$2,887</u>
Total assets	\$11,737	\$5,812	\$17,801
Short-term debt	\$355	\$205	\$560
Other current liabilities	<u>\$944</u>	<u>\$636</u>	<u>\$1,580</u>
Total current liabilities	\$1,299	\$840	\$2,139
Long-term debt	\$5,208	\$1,549	\$6,787
Other long-term liabilities	<u>\$1,626</u>	<u>\$1,725</u>	<u>\$3,351</u>
Total liabilities	\$8,133	\$4,114	\$12,277
Minority interest	\$137	\$0	\$137
Shareholders' equity	\$3,467	\$1,698	\$5,387

Source: Company data and Credit Suisse estimates

An entirely equity financed deal translates into roughly 4% earnings accretion

Ongoing organic growth

a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Opportunities for improved capital efficiency

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Across much of the Canadian regulated infrastructure sector, we believe there are some notable opportunities for greater returns. Recently, the Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008) determined that an after-tax weighted average cost of capital (ATWACC) approach would be utilized to calculate a revenue requirement (for greater details please refer to our March 19, 2009 note "*Regulatory round-up*"). The decision is clearly important for TQM, however, we believe the decision will have a broader impact. In our view, most of the infrastructure and utility asset regulators assets across the country will need to re-visit the methodologies established for allowable returns. Positively, a few of the regulators have already started various processes to canvass opinions on allowed returns. Ultimately, we view regulators moving away from a very mechanical approach that lasted for well more than a decade and shifting towards an approach that should help ensure an appropriate level of returns.

Specifically for Fortis, we believe the company's regulatory schedule is relatively well positioned to benefit from potential changes in regulatory regimes. Without delving into too much detail, we highlight selected regulatory timelines, including:

- In the months of May and June, the Terasen gas utilities filed various applications with the British Columbia Utilities Commission;
- FortisBC will likely adopt a methodology similar to the decision for Terasen;
- In June FortisAlberta filed a comprehensive two-year distribution revenue requirement application for 2010 and 2011;
- In the months of May and June, Newfoundland Power filed application for a general rates and the utility's capital budget; and,
- In Ontario, the review process for returns is ongoing consultative process.

Based upon the TQM decision, we could see a potential increase in returns of 100-200 bps. Moreover, the standards relating to required equity levels within assets may become somewhat more liberal. Yet, we believe that purely regulated monopoly utilities providing essential services are likely to face a variety of financial threshold tests or deemed equity requirements. Frankly, from a regulatory perspective, deemed equity requirements are administratively simpler and very transparent. Therefore, we do not necessarily believe the

TQM decision will be adopted in a rather explicit fashion by other regulators. The spirit and the intent of the decision to provide fair and reasonable returns in the context of the market conditions will clearly be upheld in our opinion. That type of regulatory movement may give Fortis some interesting cash flow and earnings upside into 2010 that is not currently in our forecasts.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation continues to pursue acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in the United States and Canada. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 9 below for select Fortis M&A transactions).

Exhibit 9: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,

Fortis possesses a number of absolute and relative advantages over some other competitors

- Bought deal financing commonly employed in Canada.

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets.

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which seems somewhat unlikely at this time. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.53x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target Price: C\$27.50

Companies Mentioned (Price as of 05 Aug 09)

Fortis Inc. (FTS.TO, C\$25.63, NEUTRAL, TP C\$27.50)

Portland General Electric (POR, \$18.50)

Disclosure Appendix

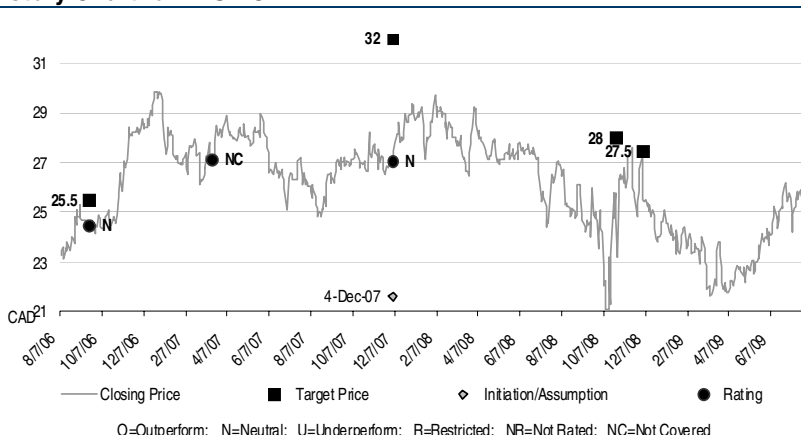
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(CAD)	(CAD)	Rating Assumption
9/18/06	24.5	25.5	N
3/16/07	27.15		NC
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	



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universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$27.50 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.5x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$27.50 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (04 Nov 09, C\$)	25.40
Target price (C\$)	27.50 ¹
52-week price range	27.58 - 21.62
Market cap. (C\$ m)	4,334.56
Enterprise value (C\$ m)	10,294.56

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

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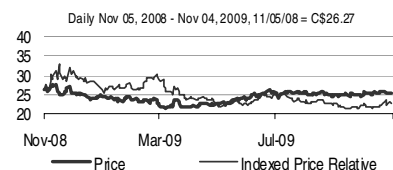
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RESULTS

Quarterly consistency

- **Earnings review:** Fortis reported Q3 2009 headline and comparable EPS (FD) of C\$0.21. The EPS was inline with both our and the Street's C\$0.21 estimates and was within the C\$0.19-C\$0.24 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. In our view, Fortis delivered a relatively strong consistent financial performance from all segments, aside from some minor quarterly issues at Terasen Gas. The results illustrate the company's ongoing capital plan execution and management of regulatory relationships.
- **Significant organic growth continues:** As expected, Fortis continued to provide a rather robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be more than C\$1bn for 2009 (which is C\$50m more than what was disclosed at year-end 2008) and roughly C\$5bn over the next five years. Approximately 70% of that amount is expected to come from electric utilities which are largely centered on the growth of FortisAlberta, FortisBC and the Caribbean operations. Additionally, roughly 25% of the total amount is planned to be spent at the Terasen Gas entities.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets.
- **Valuation:** We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.54x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 11/04/09 the Canada S&P/TSX Composite Index index closed at 11071.2

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.31	0.21	0.44
2010E	0.61	0.28	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., C\$)	1.55	1.47	1.56
Prev. EPS (C\$)	—	—	—
P/E (x)	16.4	17.3	16.2
P/E rel. (%)	123.3	97.3	115.9
Revenue (C\$ m)	3,903.0	3,609.9	3,571.8
EBITDA (C\$ m)	1,048.0	1,070.1	1,138.1
OCFPS (C\$)	3.83	3.95	3.45
P/OCF (x)	6.4	6.4	7.4
EV/EBITDA (current)	9.8	9.8	9.4
Net debt (C\$ m)	5,468	5,694	5,927
ROIC (%)	27.72	22.65	20.30
Number of shares (m)	170.65	IC (12/09E, C\$ m)	10,925.29
BV/share (current, C\$)	16.6	EV/IC (x)	0.96
Net debt (current, C\$ m)	5,604.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (current, %)	64.4	Dividend yield (%)	4.1

Source: Company data, Credit Suisse estimates.

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Earnings inline

Fortis reported Q3 2009 headline and comparable EPS (FD) of C\$0.21. The EPS was inline with both our and the Street's C\$0.21 estimates and was within the C\$0.19-C\$0.24 range. As usual, a substantial amount of organic utility growth continues across various Fortis assets. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2009	Q3 2008	chg y/y
Regulated Gas Utilities - Canadian	(3)	1	-400%
Regulated Electric Utilities - Canadian	36	38	-5%
Regulated Electric Utilities - Caribbean	7	7	0%
Non-regulated - Fortis Generation	4	9	-56%
Non-regulated - Fortis Properties	9	9	0%
Corporate and other	(17)	(15)	-13%
Net earnings applicable to common shares	36	49	-27%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 400% year-over-year due mainly to a 27.2% (8,370 TJ) drop in gas volumes to core customers. The drop in gas volume was due to warmer-than-normal weather during the third quarter. Adjusted for the C\$5.5m tax reduction in Q3 2008, Q3 2009 earnings was C\$1.5m higher.

Exhibit 2: Regulated gas utilities – Canadian earnings contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q3 2009	Q3 2008	chg y/y
Terasen Gas	(3.0)	1.0	-400%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in the table below.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q3 2009	Q3 2008	chg y/y
FortisBC	8	8	0%
FortisAlberta	16	17	-6%
Newfoundland Power	7	8	-13%
Other Cdn Electric Utilities	5	5	0%
Earnings	36	38	-5%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC were flat compared to the same period last year. See Exhibit 4 for selected highlights.

Increase energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q3 2009	Q3 2008	chg y/y
Energy deliveries (GWh)	720	697	3%
Revenue (C\$/MWh)	79.17	74.61	6%
Energy supply costs (C\$/MWh)	20.83	17.22	21%
Operating expenses (C\$/MWh)	23.61	22.96	3%
Gross margin (C\$/MWh)	34.72	34.43	1%
Earnings (C\$millions)	8	8	0%

Source: Company data and Credit Suisse

FortisAlberta

Largely the result of customer growth, increase in customer distribution rates, and higher net transmission revenue; segmented adjusted earnings at FortisAlberta increased by approximately C\$3.5m compared to the same period last year (excluding C\$4.5m recovery of future income taxes for Q3 2008). See the table below for selected highlights.

Slight increase in energy delivery in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q3 2009	Q3 2008	chg y/y
Energy deliveries (GWh)	3,819	3,748	2%
Revenue (C\$/MWh)	22.26	19.74	13%
Operating expenses (C\$/MWh)	8.64	8.27	4%
Gross margin (C\$/MWh)	13.62	11.47	19%
Earnings (C\$millions)	16	17	-6%

Source: Company data and Credit Suisse

Newfoundland Power

Earnings in this segment decreased by 13% this period compared to the same period last year. The decreased earnings were mainly due to higher operating expense and higher amortization costs that were slightly offset by lower corporate income tax rate. Exhibit 6 below contains selected highlights for Newfoundland Power.

Slight decreased in NP energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q3 2009	Q3 2008	chg y/y
Energy deliveries (GWh)	885	897	-1%
Revenue (C\$/MWh)	105.08	104.79	0%
Energy supply costs (C\$/MWh)	56.50	56.86	-1%
Operating expenses (C\$/MWh)	13.56	12.26	11%
Gross margin (C\$/MWh)	35.03	35.67	-2%
Earnings (C\$millions)	7	8	-13%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Segmented earnings for the quarter were flat compared to the same quarter last year. See the table below for selected highlights.

Other Canadian utilities showing a decrease in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q3 2009	Q3 2008	chg y/y
Energy deliveries (GWh)	514	532	-3%
Revenue (C\$/MWh)	134.24	124.06	8%
Energy supply costs (C\$/MWh)	89.49	82.71	8%
Operating expenses (C\$/MWh)	13.62	13.16	4%
Gross margin (C\$/MWh)	31.13	28.20	10%
Earnings (C\$millions)	5	5	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat compared to the same quarter last year. There is an ongoing situation with Belize Electricity that does require a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

Belize situation requires ongoing monitoring

“[t]he judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. However, the Supreme Court of Belize has approved an injunction against the Amendment until Belize Electricity’s appeal of the June 2008 Final Decision has been heard in court, which commenced early October 2009, but after considering some preliminary matters the trial judge postponed the case for a date to be determined. In addition, Belize Electricity’s appeal of the Supreme Court of Belize’s previous decision to uphold certain changes made in electricity legislation by the Government of Belize and the PUC was dismissed in June 2009.”

See the table below for selected highlights.

Exhibit 8: Selected Caribbean Electric Utilities performance highlights (unadjusted)

	Q3 2009	Q3 2008	chg y/y
Energy deliveries (GWh)	312	304	3%
Revenue (C\$/MWh)	285.26	315.79	-10%
Energy supply costs (C\$/MWh)	163.46	197.37	-17%
Operating expenses (C\$/MWh)	41.67	39.47	6%
Gross margin (C\$/MWh)	80.13	78.95	1%
Earnings (C\$millions)	7	7	0%

Energy delivery growth in the Caribbean

Source: Company data and Credit Suisse

Notably, as a result of the regulator’s Final Decision on Belize Electricity’s 2008/2009 rate application, that company

“does not meet certain debt covenant financial ratios related to loans totalling \$7 million (BZ\$13 million), as at September 30, 2009, with the International Bank for Reconstruction and Development and the Caribbean Development Bank. The Company has informed the lenders of the defaults.”

Non-regulated – Fortis Generation

This segment includes non-regulated generation assets located in Belize, Ontario, Central Newfoundland, British Columbia and Upper New York State. Earnings for the segment were lower by 56% from the current quarter compared to the same quarter last year. The decrease was primarily related to the loss in earnings from the expiration of the power-for-water agreement related to the Rankine facility and the lower power pricing in Upper New York State and reduced Belize production. See the table below for selected highlights.

Exhibit 9: Selected non-regulated – Fortis Generation performance highlights (unadjusted)

	Q3 2009	Q3 2008	chg y/y
Energy deliveries (GWh)	98	305	-68%
Revenue (C\$/MWh)	91.84	68.85	33%
Energy supply costs (C\$/MWh)	10.20	6.56	56%
Operating expenses (C\$/MWh)	20.41	9.84	107%
Gross margin (C\$/MWh)	61.22	52.46	17%
Earnings (C\$millions)	4	9	-56%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$9 million which is the same as last year's quarterly earnings. REVPAR decreased to C\$89.02 from C\$93.64 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was slightly down at 96.2% versus last year's 96.6%.

Corporate

Corporate expenses increased to C\$17 million in Q3 2009 from C\$15m in Q3 2008.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$267 million, of which C\$258 million was spent at regulated utilities. Fortis maintains that capital expenditures for 2009 will be more than C\$1 billion, a roughly 11% increase from 2008. The bulk of this amount will be invested in the company's regulated utility segments. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). In addition, Fortis continues to forecast a capital plan of approximately C\$5 billion over the next five years. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck. Fortis stated the capital program should allow rate base growth of 6%-7% per annum which "should drive growth in earnings and dividends."

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Across much of the Canadian regulated infrastructure sector, we believe there are some notable opportunities for greater returns. Recently, the Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008) determined that an after-tax weighted average cost of capital (ATWACC) approach would be utilized to calculate a revenue requirement (for greater details please refer to our March 19, 2009 note "*Regulatory round-up*"). The decision is clearly important for TQM, however, we believe the decision will have a broader impact. In our view, most of the infrastructure and utility asset regulators assets across the country will need to re-visit the methodologies established for allowable returns. Positively, a few of the regulators have already started various processes to canvass opinions on allowed returns. Ultimately, we view regulators moving away from a very mechanical approach that lasted for well more than a decade and shifting towards an approach that should help ensure an appropriate level of returns.

Specifically for Fortis, we believe the company's regulatory schedule is relatively well positioned to benefit from potential changes in regulatory regimes. Without delving into too much detail, we highlight selected regulatory timelines, including:

- In the months of May and June, the Terasen gas utilities filed various applications with the British Columbia Utilities Commission;
- FortisBC will likely adopt a methodology similar to the decision for Terasen. FortisBC, in August 2009 applied for and received BCUC approval for a 2.2% increase in customer rates effected September 2009. In October the utility filed its Preliminary 2010 Revenue Requirements.
- In June FortisAlberta filed a comprehensive two-year distribution revenue requirement application for 2010 and 2011;
- In September, Newfoundland Power filed a revised 2010 General Rate Application for and in November the utility's capital budget for 2010 was approved by the PUB; and,
- In Ontario, the review process for returns is undergoing a consultative process.

Based upon the TQM decision, we could see a potential increase in returns of 100-200 bps. Moreover, the standards relating to required equity levels within assets may become somewhat more liberal. Yet, we believe that purely regulated monopoly utilities providing essential services are likely to face a variety of financial threshold tests or deemed equity requirements. Frankly, from a regulatory perspective, deemed equity requirements are administratively simpler and very transparent. Therefore, we do not necessarily believe the TQM decision will be adopted in a rather explicit fashion by other regulators. The spirit and the intent of the decision to provide fair and reasonable returns in the context of the market conditions will clearly be upheld in our opinion. That type of regulatory movement may give Fortis some interesting cash flow and earnings upside into 2010 and 2011 that is not currently in our forecasts.

Potential future regulatory positives

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation continues to pursue acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in the United States and Canada. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which seems somewhat unlikely at this time. We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.54x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target: C\$27.50

Companies Mentioned (Price as of 04 Nov 09)
 Fortis Inc. (FTS.TO, C\$25.40, NEUTRAL, TP C\$27.50)

Disclosure Appendix

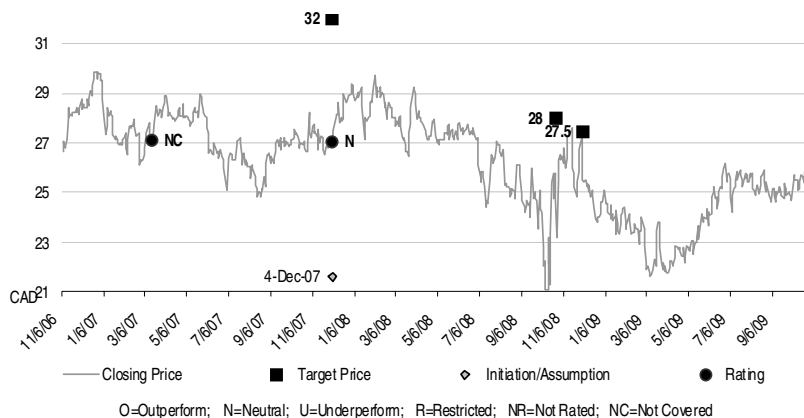
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (CAD)	Target Price (CAD)	Initiation/ Rating Assumption
3/16/07	27.15		NC
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	



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*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Rating	NEUTRAL*
Price (08 Jan 10, C\$)	28.70
Target price (C\$)	27.50 ¹
52-week price range	28.86 - 21.62
Market cap. (C\$ m)	4,897.71
Enterprise value (C\$ m)	10,857.71

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

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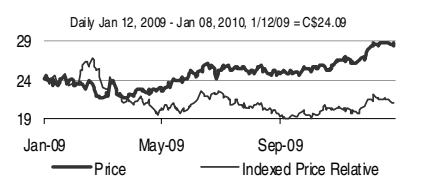
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Delivering delightful dividend

- **Dividend delight:** Fortis Inc. announced the declaration of a C\$0.28/share quarterly dividend for each FTS common share payable on 1 March 2010 for shareholders of record at the close of business on 5 February 2010. This amount represents a 7.7% increase from 2009 quarterly dividend of C\$0.26 per share. Additionally, Fortis stated the increase "extends the Corporation's record of annual common share dividend payment increases to 37 consecutive years". From our perspective, past and ongoing annual dividend growth is partly the result of a skillful combination of acquisitions and a large capital program within Fortis' regulated utilities.
- **Capital raise:** Subsequent to the dividend increase, the company announced the offering of 10m Series H First Preference Shares priced at C\$25 per share for total gross proceeds of C\$250m. The preferred shares will have an initial fixed dividend of 4.25% per year until 1 June 2015. The dividend yield going forward will be reset every five years at 1.45% over the five-year Canada bond yield. The company stated that the net proceeds will be used "to repay borrowings under the Corporation's committed credit facility and to inject additional equity into a regulated subsidiary."
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets.
- **Valuation:** We retain our C\$27.50 target price which is obtained utilizing multiple valuation methodologies, including: a 17.5x P/E multiple of 2010 earnings; a 1.54x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 01/08/10 the Canada S&P/TSX Composite Index index closed at 11953.83

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.31	0.21	0.44
2010E	0.61	0.28	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj.) (C\$)	1.55	1.47	1.56
Prev. EPS (C\$)	—	—	—
P/E (x)	18.5	19.5	18.3
P/E rel. (%)	129.7	102.4	121.9
Revenue (C\$ m)	3,903.0	3,609.9	3,571.8
EBITDA (C\$ m)	1,048.0	1,070.1	1,138.1
OCFPS (C\$)	3.83	3.95	3.45
P/OCF (x)	6.4	7.3	8.3
EV/EBITDA (current)	10.4	10.3	9.9
Net debt (C\$ m)	5,468	5,694	5,927
ROIC (%)	27.72	22.65	20.30
Number of shares (m)	170.65	IC (12/09E, C\$ m)	10,925.29
BV/share (current, C\$)	16.6	EV/IC (x)	1.0
Net debt (current, C\$ m)	5,604.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (%) (current,	64.4	Dividend yield (%)	3.6

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 08 Jan 10)
 Fortis Inc. (FTS.TO, C\$28.70, NEUTRAL, TP C\$27.50)

Disclosure Appendix

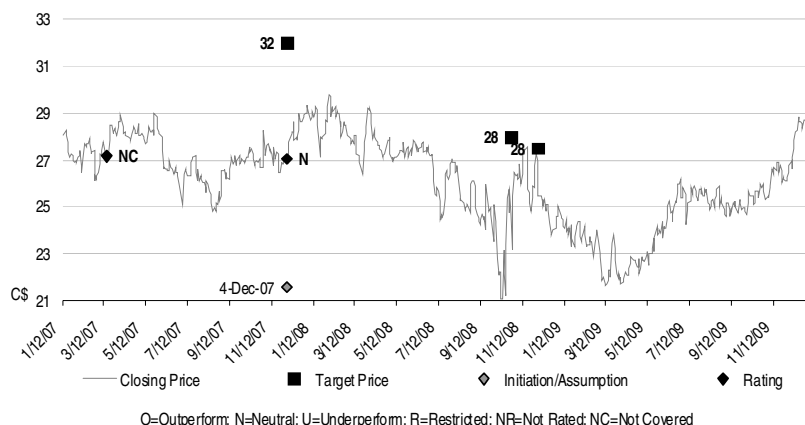
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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (22 Jan 10, C\$)	28.39
Target price (C\$)	(from 27.50) 30.00 ¹
52-week price range	28.86 - 21.62
Market cap. (C\$ m)	4,844.81
Enterprise value (C\$ m)	10,804.81

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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INCREASE TARGET PRICE

Target price change

- **Taking up target:** As discussed in our 25 January research note "*Canadian Infrastructure: Re-visiting valuation*", we reassessed our Fortis valuation and target price.
- **Valuation:** We increase our target price to C\$30.00 from the previous C\$27.50. Our C\$30.00 target price is obtained utilizing multiple valuation methodologies, including: a 19.2x P/E multiple of 2010 earnings; a 1.69x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 01/22/10 the Canada S&P/TSX Composite Index index closed at 11343.43

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.31	0.21	0.44
2010E	0.61	0.28	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj.) (C\$)	1.55	1.47	1.56
Prev. EPS (C\$)	—	—	—
P/E (x)	18.3	19.3	18.1
P/E rel. (%)	134.5	106.2	126.4
Revenue (C\$ m)	3,903.0	3,609.9	3,571.8
EBITDA (C\$ m)	1,048.0	1,070.1	1,138.1
OCFPS (C\$)	3.83	3.95	3.45
P/OCF (x)	6.4	7.3	8.2
EV/EBITDA (current)	10.3	10.3	9.9
Net debt (C\$ m)	5,468	5,694	5,941
ROIC (%)	27.72	22.65	20.30
Number of shares (m)	170.65	IC (12/09E, C\$ m)	10,925.29
BV/share (current, C\$)	16.6	EV/IC (x)	1.0
Net debt (current, C\$ m)	5,604.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (%) (current)	64.4	Dividend yield (%)	3.7

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 22 Jan 10)
 Fortis Inc. (FTS.TO, C\$28.39, NEUTRAL, TP C\$30.00)

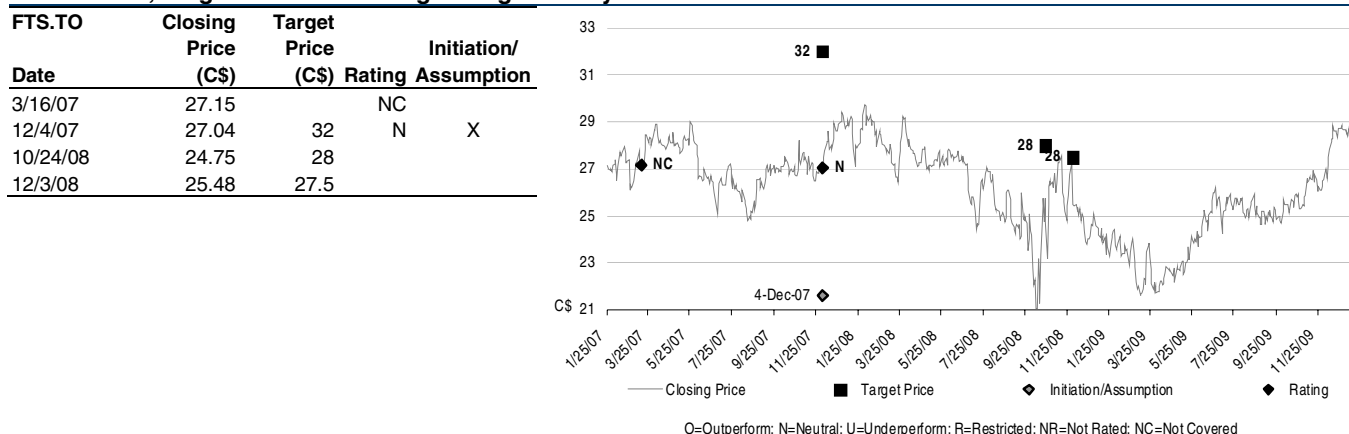
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

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Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 19.2x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.4x our EBITDA estimate.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (29 Jan 10, C\$)	27.70
Target price (C\$)	30.00 ¹
52-week price range	28.86 - 21.62
Market cap. (C\$ m)	4,727.06
Enterprise value (C\$ m)	10,687.06

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

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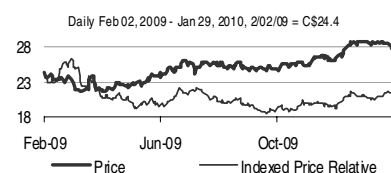
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FORECAST INCREASE

Earnings revision

- **Earnings revisions:** For several reasons, we made a number of revisions to our Fortis financial model. Our changes focused on several changes ahead of the forthcoming Q4 results. The most significant change was an increase to our Q4 2009 EPS estimate from C\$0.44 to C\$0.50; and (b) a revision in our 2009 EPS estimate from C\$1.47 to C\$1.53. For greater details, please refer to our Q4 2009 earnings preview entitled "*Closing out 2009: Q4 earnings preview*".

Share price performance



On 01/29/10 the Canada S&P/TSX Composite Index index closed at 11094.31

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	0.55	0.28	0.26	0.45
2009E	0.51	0.31	0.21	0.50
2010E	0.61	0.28	0.23	0.45

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj.) (C\$)	1.55	1.53	1.56
Prev. EPS (C\$)	—	1.47	—
P/E (x)	17.8	18.1	17.7
P/E rel. (%)	134.2	101.8	126.1
Revenue (C\$ m)	3,903.0	3,623.1	3,571.8
EBITDA (C\$ m)	1,048.0	1,083.3	1,138.1
OCFPS (C\$)	3.83	4.02	3.45
P/OCF (x)	6.4	7.1	8.0
EV/EBITDA (current)	10.2	10.0	9.8
Net debt (C\$ m)	5,468	5,682	5,929
ROIC (%)	27.72	22.64	20.30
Number of shares (m)	170.65	IC (12/09E, C\$ m)	10,925.29
BV/share (current, C\$)	16.6	EV/IC (x)	1.00
Net debt (current, C\$ m)	5,604.0	Dividend (current, C\$)	1.04
Net debt/tot. cap. (%) (current)	64.4	Dividend yield (%)	3.8

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 29 Jan 10)
Fortis Inc. (FTS.TO, C\$27.70, NEUTRAL, TP C\$30.00)

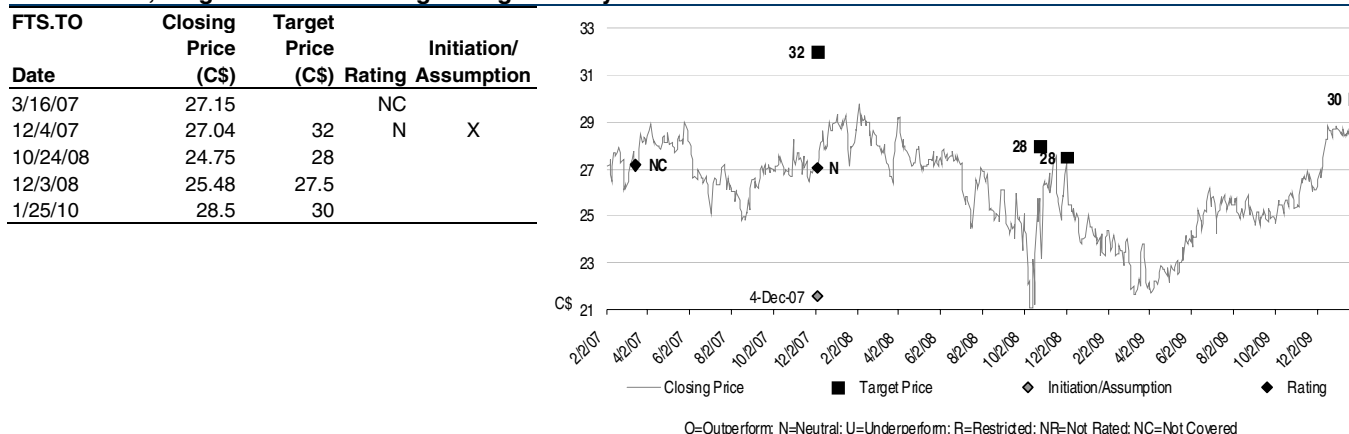
Disclosure Appendix

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 19.2x our 2010 EPS (earnings per share) estimate of C\$1.56 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.4x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$30.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
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Target price (C\$)	30.00 ¹
52-week price range	28.86 - 21.62
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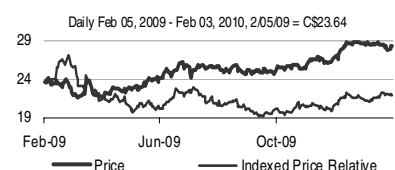
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FORECAST INCREASE

A modest miss

- **Earnings review:** Fortis reported Q4 2009 EPS (FD) of C\$0.46 that missed both our C\$0.50 estimate and an identical Street view (within a C\$0.44-C\$0.55 range). Several items required adjustment, however, collectively, those factors largely offset each other. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. Despite the quarterly miss, our Fortis focus is largely upon the continuing significant regulated capital plan and the positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be nearly C\$1.1bn for 2010 and about C\$5bn over the next five years. Roughly 70% of the total amount is targeted to come from electric utilities and 27% allocated to the Terasen Gas entities.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for various acquisition opportunities.
- **Valuation:** We made several changes to our financial model largely related to regulated returns. As a result, we revised our EPS estimates for 2010 from C\$1.56 to C\$1.70. Our 2011 and 2012 estimates are C\$1.80 and C\$1.88 respectively. Our C\$30.00 target price and Neutral rating are obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2011 earnings; a 1.62x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 02/03/10 the Canada S&P/TSX Composite Index index closed at 11390.46

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.51	0.31	0.21	0.46
2010E	0.68	0.29	0.24	0.50
2011E	0.69	0.31	0.26	0.54

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (C\$)	1.49	1.70	1.80	1.88
Prev. EPS (C\$)	—	1.56	—	—
P/E (x)	18.6	16.3	15.4	14.8
P/E rel. (%)	101.1	116.9	130.8	137.2
Revenue (C\$ m)	3,637.0	3,868.1	4,039.5	4,192.7
EBITDA (C\$ m)	1,065.0	1,177.8	1,251.4	1,310.1
OCFPS (C\$)	3.42	3.59	3.76	3.94
P/OCF (x)	8.4	7.7	7.4	7.1
EV/EBITDA (current)	10.4	9.6	9.3	9.1
Net debt (C\$ m)	5,830	6,051	6,389	6,693
ROIC (%)	22.69	22.07	21.92	21.83
Number of shares (m)	170.90	IC (12/10E, C\$ m)		11,612.99
BV/share (current, C\$)	17.2	EV/IC (x)		0.97
Net debt (current, C\$ m)	5,830.0	Dividend (current, C\$)		1.12
Net debt/tot. cap. (%) (current,	64.6	Dividend yield (%)		4.0

Source: Company data, Credit Suisse estimates.

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Fortis reported Q4 2009 EPS (FD) of C\$0.46 that missed both our C\$0.50 estimate and an identical Street view (within a C\$0.44-C\$0.55 range). Several items required adjustment, however, collectively, those factors largely offset each other. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. Despite the quarterly miss, our Fortis focus is largely upon the continuing significant regulated capital plan and the positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

An earnings miss

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2009	Q4 2008	chg y/y
Regulated Gas Utilities - Canadian	48	47	2%
Regulated Electric Utilities - Canadian	37	29	28%
Regulated Electric Utilities - Caribbean	7	8	13%
Non-regulated - Fortis Generation	3	8	-63%
Non-regulated - Fortis Properties	5	4	25%
Corporate and other	(19)	(20)	5%
Net earnings applicable to common shares	81	76	7%

Source: Company data and Credit Suisse

Several items required adjustment, however, collectively, those factors largely offset each other. Those items included:

- C\$10m of favourable cumulative retroactive impact associated with increased ROEs at FortisAlberta and Terasen Gas for all of 2009;
- A favourable one-time C\$3m corporate tax adjustment at FortisOntario; and,
- Approximately C\$5m of unfavourable costs relating to Whistler appliance conversions, however, this amount may possibly be recovered in future rate base applications.

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment increased modestly by 2% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 7,400 during Q4 for a total of 939,600 at the end of 2009;
- The amount of additions declined versus Q4 2008 partially evidencing the slowdown in construction and weaker housing markets; and,
- Sales volumes across customer classes declined as did transportation volumes.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q4 2009	Q4 2008	chg y/y
Terasen Gas	48.0	47.0	2%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q4 2009	Q4 2008	chg y/y
FortisBC	8	7	14%
FortisAlberta	15	11	36%
Newfoundland Power	8	8	0%
Other Cdn Electric Utilities	6	3	100%
Earnings	37	29	28%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by 14% compared to the same period last year. See Exhibit 4 for selected highlights.

Increase energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q4 2009	Q4 2008	chg y/y
Energy deliveries (GWh)	859	842	2%
Revenue (C\$/MWh)	80.33	78.38	2%
Energy supply costs (C\$/MWh)	25.61	27.32	-6%
Operating expenses (C\$/MWh)	22.12	21.38	3%
Gross margin (C\$/MWh)	32.60	29.69	10%
Earnings (C\$millions)	8	7	14%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility increased by 36% comparing Q4 2009 versus the prior period which was largely the result of an increased capital base and improved regulated returns. See Exhibit 5 for selected highlights.

Slight increase in energy delivery in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q4 2009	Q4 2008	chg y/y
Energy deliveries (GWh)	4,129	4,068	1%
Revenue (C\$/MWh)	20.83	19.17	9%
Operating expenses (C\$/MWh)	8.23	8.36	-1%
Gross margin (C\$/MWh)	12.59	10.82	16%
Earnings (C\$millions)	15	11	36%

Source: Company data and Credit Suisse

Newfoundland Power

While this segment's earnings generation was flat comparing Q4 2009 versus Q4 2008, however, energy deliveries were up by 4% (see Exhibit 6).

Notable increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q4 2009	Q4 2008	chg y/y
Energy deliveries (GWh)	1,474	1,412	4%
Revenue (C\$/MWh)	99.05	98.44	1%
Energy supply costs (C\$/MWh)	67.16	66.57	1%
Operating expenses (C\$/MWh)	8.82	8.50	4%
Gross margin (C\$/MWh)	23.07	23.37	-1%
Earnings (C\$millions)	8	8	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

Largely related to a one-time favourable tax adjustment at FortisOntario, this segment's earnings were up 100% from Q4 2008 to Q4 2009. Excluding that favourable tax item, the segment's earnings were flat. The roughly 7% increase in energy deliveries was the result of the Algoma Power Inc. acquisition (previously Great Lakes Power Distribution Inc.). Without that acquisition, energy deliveries actually decreased by 1.3% quarter over quarter and 1.5% year over year. Exhibit 7 contains selected highlights.

Discouraging and declining energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q4 2009	Q4 2008	chg y/y
Energy deliveries (GWh)	582	543	7%
Revenue (C\$/MWh)	132.30	119.71	11%
Energy supply costs (C\$/MWh)	85.91	81.03	6%
Operating expenses (C\$/MWh)	18.90	12.89	47%
Gross margin (C\$/MWh)	27.49	25.78	7%
Earnings (C\$millions)	6	3	100%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 13% compared to the same quarter last year. Aside from some regulatory matters discussed below, economic conditions were clearly reflected with a 20% decline in energy deliveries. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

Belize situation requires ongoing monitoring

"[t]he judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. The Supreme Court of Belize issued an injunction against the Amendment until Belize Electricity's appeal of the June 2008 Final Decision has been heard in court. The court appeal of the June 2008 Final Decision was called in early October 2009 but after considering some preliminary matters the trial judge postponed the case for a date to be determined. In addition, Belize Electricity's appeal of the Supreme Court of Belize's previous decision to uphold certain changes made in electricity legislation by the Government of Belize and the PUC was dismissed in June 2009."

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q4 2009	Q4 2008	chg y/y
Energy deliveries (GWh)	290	364	-20%
Revenue (C\$/MWh)	293.10	436.81	-33%
Energy supply costs (C\$/MWh)	172.41	299.45	-42%
Operating expenses (C\$/MWh)	44.83	54.95	-18%
Gross margin (C\$/MWh)	75.86	82.42	-8%
Earnings (C\$millions)	7	8	-13%

Source: Company data and Credit Suisse

Also of note in Belize was the November 2009 Comision Federal de Electricidad (CFE) cancelation of a power supply contract with Belize Electricity for reasons of force majeure. CFE continues to supply Belize Electricity when power is available, however, enough in country generation exists without the external supply.

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland and Upper New York State. Earnings for the segment were lower by 63% from the current quarter compared to the same quarter last year. The decrease was primarily related to the loss in earnings from the expiration of the power-for-water agreement related to the Rankine facility and the lower power pricing in Upper New York State and reduced Belize production. See the table below for selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q4 2009	Q4 2008	chg y/y
Energy deliveries (GWh)	87	312	-72%
Revenue (C\$/MWh)	57.47	64.10	-10%
Energy supply costs (C\$/MWh)	-	3.21	-100%
Operating expenses (C\$/MWh)	34.48	9.62	259%
Gross margin (C\$/MWh)	22.99	51.28	-55%
Earnings (C\$millions)	3	8	-63%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$5m up from C\$4m in Q4 2008. REVPAR decreased to C\$68.87 from C\$72.86 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was slightly down at 96.2% versus last year's 96.8%.

Corporate

Corporate expenses declined to C\$19 million in Q4 2009 from C\$20m in Q4 2008.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

For 2009, Fortis had gross capital expenditures of C\$1.024bn of which C\$888m focused on regulated utilities. In 2010, Fortis guided to C\$1.098bn of gross capital expenditures with C\$974m of that total amount being allocated toward regulated utilities. The company continues to expect consolidated gross capital expenditures to approach C\$5bn with 70% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 27% of the total capex amount. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. Regardless of approach, we believe there are some rather simple ways for Fortis to increase existing returns.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been

positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example and most recently, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.5%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGW) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.9% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "The Corporation continues to pursue acquisitions for profitable growth, focusing on strategic opportunities to acquire regulated natural gas and electric utilities in the United States, Canada and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy." Given the success of Fortis in past transactions, as measured in terms of financials, share

price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. At this time, we made several

Rating: Neutral

Target: C\$30.00

adjustments to our financial model largely related to regulated returns. Accordingly, we revised our EPS estimate for 2010 and officially introduce a 2011 and 2012 estimates. Specifically, our old number was C\$1.56 and our revised number is C\$1.70 for 2010. Our 2011 and 2012 estimates are C\$1.80 and C\$1.88 respectively. Our target price of C\$30.00 and Neutral rating are obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2011 earnings; a 1.62x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Companies Mentioned (Price as of 04 Feb 10)

Fortis Inc. (FTS.TO, C\$27.76, NEUTRAL, TP C\$30.00)

Disclosure Appendix

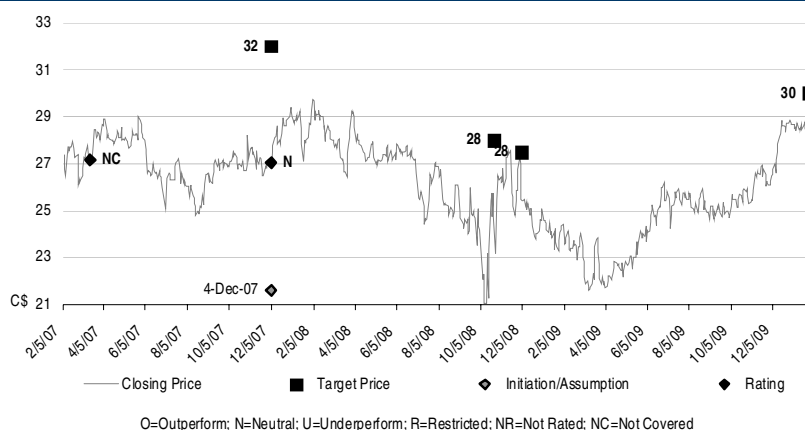
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
3/16/07	27.15		NC
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	



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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.0x our 2011 EPS (earnings per share) estimate of C\$1.80 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 9.8x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$30.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Shifting estimates

Rating	NEUTRAL*
Price (23 Apr 10, C\$)	28.43
Target price (C\$)	30.00 ¹
52-week price range	29.12 - 22.15
Market cap. (C\$ m)	4,858.69
Enterprise value (C\$ m)	11,394.32

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

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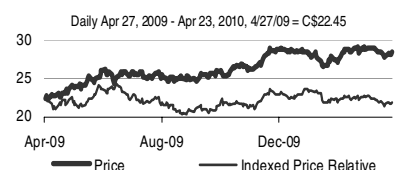
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- **Earnings shifts:** For several reasons, we made a number of revisions to our Fortis Inc. financial model. Our changes focused on several changes ahead of the forthcoming Q1 results. We have not changed our annual earnings estimates, however, the dispersion of net earnings has changed through the quarters. The most significant change was a shift in earnings estimate for Q1 2010 from C\$0.69 to C\$0.60 and for Q4 2010 from C\$0.50 to C\$0.54. For greater details, please refer to our Q1 2010 earnings preview entitled "*Starting out 2010: Q1 earnings preview*".

Share price performance



On 04/23/10 the Canada S&P/TSX Composite Index index closed at 12239.64

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.51	0.31	0.21	0.46
2010E	0.60	0.31	0.25	0.54
2011E	0.69	0.31	0.26	0.54

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (C\$)	1.49	1.70	1.80	1.88
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.1	16.7	15.8	15.1
P/E rel. (%)	96.4	111.5	124.7	130.8
Revenue (C\$ m)	3,637.0	3,868.1	4,039.5	4,192.7
EBITDA (C\$ m)	1,065.0	1,177.8	1,251.4	1,310.1
OCFPS (C\$)	3.42	3.59	3.76	3.94
P/OCF (x)	8.4	7.9	7.6	7.2
EV/EBITDA (current)	10.5	9.7	9.4	9.2
Net debt (C\$ m)	5,830	6,051	6,389	6,693
ROIC (%)	22.69	22.07	21.92	21.83
Number of shares (m)	170.90	IC (12/10E, C\$ m)		11,612.99
BV/share (current, C\$)	17.2	EV/IC (x)		0.98
Net debt (current, C\$ m)	5,830.0	Dividend (current, C\$)		1.12
Net debt/tot. cap. (%) (current)	64.6	Dividend yield (%)		3.9

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 23 Apr 10)
 Fortis Inc. (FTS.TO, C\$28.43, NEUTRAL, TP C\$30.00)

Disclosure Appendix

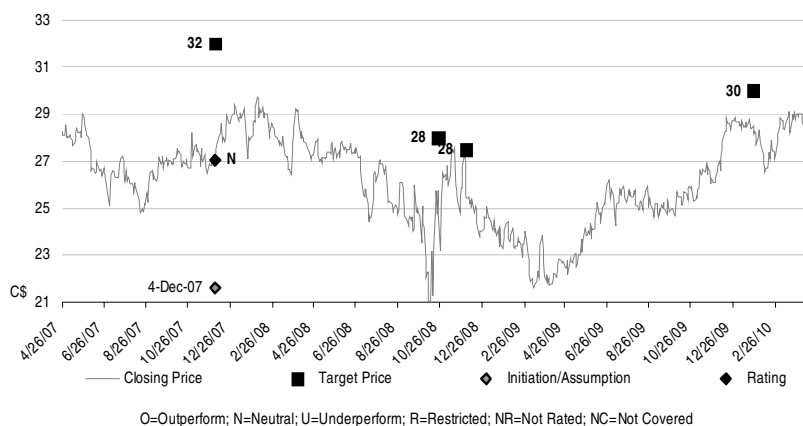
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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Assumption
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

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Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Neutral/Hold*	42%	(60% banking clients)
Underperform/Sell*	13%	(55% banking clients)
Restricted	2%	

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Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.0x our 2011 EPS (earnings per share) estimate of C\$1.80 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 9.8x our EBITDA estimate.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating	NEUTRAL*
Price (30 Apr 10, C\$)	28.05
Target price (C\$)	30.00 ¹
52-week price range	29.12 - 22.15
Market cap. (C\$ m)	4,829.34
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*Stock ratings are relative to the relevant country benchmark.
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Research Analysts

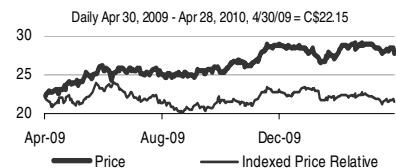
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Continuing capital expenditures

- **Earnings review:** Fortis reported Q1 2010 EPS (FD) of C\$0.56 that missed our C\$0.60 estimate and that of the Street's view of C\$0.586 and the low end of the C\$0.55-C\$0.68 range. The miss versus ours was based on several factors such as lower earnings from Newfoundland Power and the Caribbean. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. Despite the slight quarterly miss, our focus is largely upon the company's continuing significant regulated capital plan and the positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be nearly C\$1.1bn for 2010 and about C\$5bn over the next five years. Roughly 70% of the total amount is targeted to come from regulated electric utilities and 27% allocated to the Terasen Gas entities.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for various acquisition opportunities.
- **Valuation:** As a result of the quarter, we revised our EPS estimates for 2010 from C\$1.70 to C\$1.68. Our C\$30.00 target price and Neutral rating are obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2011 earnings; a 1.63x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 04/28/10 the Canada S&P/TSX Composite Index index closed at 12076.89

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.51	0.31	0.21	0.46
2010E	0.56	0.32	0.25	0.54
2011E	0.69	0.31	0.27	0.53

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (C\$)	1.49	1.68	1.80	1.88
Prev. EPS (C\$)	—	1.70	—	—
P/E (x)	18.8	16.7	15.6	14.9
P/E rel. (%)	95.4	112.1	123.3	129.3
Revenue (C\$ m)	3,637.0	3,658.0	3,928.2	4,077.5
EBITDA (C\$ m)	1,065.0	1,152.3	1,227.8	1,286.7
OCFPS (C\$)	3.42	3.86	3.75	3.92
P/OCF (x)	8.4	7.3	7.5	7.1
EV/EBITDA (current)	10.5	9.8	9.5	9.3
Net debt (C\$ m)	5,830	5,734	6,077	6,387
ROIC (%)	22.69	20.75	21.34	21.23
Number of shares (m)	172.17	IC (12/10E, C\$ m)		11,523.93
BV/share (current, C\$)	17.3	EV/IC (x)		0.98
Net debt (current, C\$ m)	5,573.0	Dividend (current, C\$)		1.12
Net debt/tot. cap. (%) (current)	63.4	Dividend yield (%)		4.0

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Fortis reported Q1 2010 EPS (FD) of C\$0.56 that missed our C\$0.60 estimate and that of the Street's view of C\$0.586 and the low end of the C\$0.55-C\$0.68 range. The miss versus ours was based on several factors such as lower earnings from Newfoundland Power and the Caribbean. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. Despite the slight quarterly miss, our Fortis focus is largely upon the continuing significant regulated capital plan and the positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

An earnings miss

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2010	Q1 2009	chg y/y
Regulated Gas Utilities - Canadian	73	58	26%
Regulated Electric Utilities - Canadian	40	37	8%
Regulated Electric Utilities - Caribbean	4	6	-33%
Non-regulated - Fortis Generation	2	6	-67%
Non-regulated - Fortis Properties	2	2	0%
Corporate and other	(21)	(17)	-24%
Net earnings applicable to common shares	100	92	9%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment increased by roughly 26% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 1,566 during Q1 2010 versus net addition of 2,256 during Q1 2009;
- The amount of additions declined versus Q1 2009 due to customer disconnections because of warmer weather and the growth of multi-family housing where natural gas is use less compared to single-family housing; and,
- Sales volumes across customer classes declined as did transportation volumes.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q1 2010	Q1 2009	chg y/y
Terasen Gas	73.0	58.0	26%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q1 2010	Q1 2009	chg y/y
FortisBC	14	14	0%
FortisAlberta	14	12	17%
Newfoundland Power	7	6	17%
Other Cdn Electric Utilities	5	5	0%
Earnings	40	37	8%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC was flat compared to the same period last year. See Exhibit 4 for selected highlights.

Decrease energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q1 2010	Q1 2009	chg y/y
Energy deliveries (GWh)	820	903	-9%
Revenue (C\$/MWh)	87.80	79.73	10%
Energy supply costs (C\$/MWh)	25.61	24.36	5%
Operating expenses (C\$/MWh)	20.73	18.83	10%
Gross margin (C\$/MWh)	41.46	36.54	13%
Earnings (C\$millions)	14	14	0%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility increased by approximately 17% comparing Q1 2010 versus the prior period which was largely the result of an increased capital base and improved regulated returns. See Exhibit 5 for selected highlights.

Slight decrease in energy delivery in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q1 2010	Q1 2009	chg y/y
Energy deliveries (GWh)	4,109	4,152	-1%
Revenue (C\$/MWh)	21.17	19.03	11%
Operating expenses (C\$/MWh)	8.52	8.19	4%
Gross margin (C\$/MWh)	12.66	10.84	17%
Earnings (C\$millions)	14	12	17%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings generation increased by roughly 17% comparing Q1 2010 versus Q1 2009. Energy deliveries were up slightly by approximately 2% (see Exhibit 6).

Slight increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q1 2010	Q1 2009	chg y/y
Energy deliveries (GWh)	1,795	1,763	2%
Revenue (C\$/MWh)	99.16	95.86	3%
Energy supply costs (C\$/MWh)	72.98	72.04	1%
Operating expenses (C\$/MWh)	8.91	7.94	12%
Gross margin (C\$/MWh)	17.27	15.88	9%
Earnings (C\$millions)	7	6	17%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

The roughly 3% increase in energy deliveries was the result of the Algoma Power Inc. acquisition (previously Great Lakes Power Distribution Inc.). Without that acquisition, energy deliveries actually decreased by 6.2% year over year. Exhibit 7 contains selected highlights.

Increased in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q1 2010	Q1 2009	chg y/y
Energy deliveries (GWh)	632	616	3%
Revenue (C\$/MWh)	129.75	115.26	13%
Energy supply costs (C\$/MWh)	83.86	76.30	10%
Operating expenses (C\$/MWh)	17.41	12.99	34%
Gross margin (C\$/MWh)	28.48	25.97	10%
Earnings (C\$millions)	5	5	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by roughly 33% compared to the same quarter last year. Notably, energy deliveries increased by 4% on a year-over-year comparison. Aside from some regulatory matters discussed below, economic conditions may have stabilized/improved with a “relatively strong winter tourist season experienced in the Turks and Caicos Islands in 2010”. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

“Changes made in electricity legislation by the Government of Belize and the PUC, and the PUC’s June 2008 Final Decision on Belize Electricity’s 2008/2009 Rate Application and the PUC’s amendment to the June 2008 Final Decision (the “Amendment”), which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. The judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. In 2009, the Supreme Court of Belize issued an injunction against the Amendment until Belize Electricity’s appeal of the June 2008 Final Decision has been heard in court. The court appeal of the June 2008 Final Decision was called in early October 2009 but, after considering some preliminary matters, the trial judge postponed the case for a date to be determined.”

Belize situation requires ongoing monitoring

“In April 2010, Belize Electricity filed its annual tariff review proceeding application for the annual tariff period from July 1, 2010 through June 30, 2011. The application requests changes to various components of the electric rate, while maintaining the average electricity rate at BZ44.1 cents per kWh.”

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q1 2010	Q1 2009	chg y/y
Energy deliveries (GWh)	256	247	4%
Revenue (C\$/MWh)	296.88	336.03	-12%
Energy supply costs (C\$/MWh)	175.78	186.23	-6%
Operating expenses (C\$/MWh)	46.88	56.68	-17%
Gross margin (C\$/MWh)	74.22	93.12	-20%
Earnings (C\$millions)	4	6	-33%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland and Upper New York State. Earnings for the segment were lower by 67% from the current quarter compared to the same quarter last year. The decrease was primarily related to the loss in earnings from the expiration of the power-for-water agreement related to the Rankine facility and the reduced Belize production. See the table below for selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q1 2010	Q1 2009	chg y/y
Energy deliveries (GWh)	64	257	-75%
Revenue (C\$/MWh)	78.13	62.26	25%
Energy supply costs (C\$/MWh)	-	3.89	-100%
Operating expenses (C\$/MWh)	31.25	15.56	101%
Gross margin (C\$/MWh)	46.88	42.80	10%
Earnings (C\$millions)	2	6	-67%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$2m which is similar to earnings in Q1 2009. REVPAR decreased to C\$62.93 from C\$64.40 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was slightly down at 95.8% versus last year's 96.0%.

Corporate

Corporate expenses increased to C\$21 million in Q1 2010 from C\$17m in Q1 2009.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$188 million, of which C\$182 million was spent at regulated utilities. Fortis maintains that capital expenditures for 2010 will be approximately C\$1.1 billion, a roughly 7% increase from 2008's C\$1.024 billion. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2010-2014) approaching C\$5bn with 70% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 27% of the total capex amount. Three percent is expected to be at the non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note “*Regulatory round-up*”). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power’s allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company’s growth strategy. For instance, the company’s most recent Management Discussion and Analysis stated “The Corporation continues to pursue acquisitions for profitable growth, focusing on strategic opportunities to acquire regulated electric and natural gas electric utilities in the United States, Canada and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.” Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company’s current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis’ holding to roughly 38%.
12/1/2002	Delta St John’s Hotel and conference centre	CAD 25.90	Hotel in downtown St. John’s, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John’s, Newfoundland
9/18/2001	Portfolio of properties in St. John’s	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn’t own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John’s, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;

- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. At this time, we made several adjustments to our financial model after the quarter. Accordingly, we revised our EPS estimate for 2010 to C\$1.68 from C\$1.70. Our target price of C\$30.00 and Neutral rating are obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2011 earnings; a 1.63x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target: C\$30.00

Companies Mentioned (Price as of 30 Apr 10)

Fortis Inc. (FTS.TO, C\$28.05, NEUTRAL, TP C\$30.00)

Disclosure Appendix

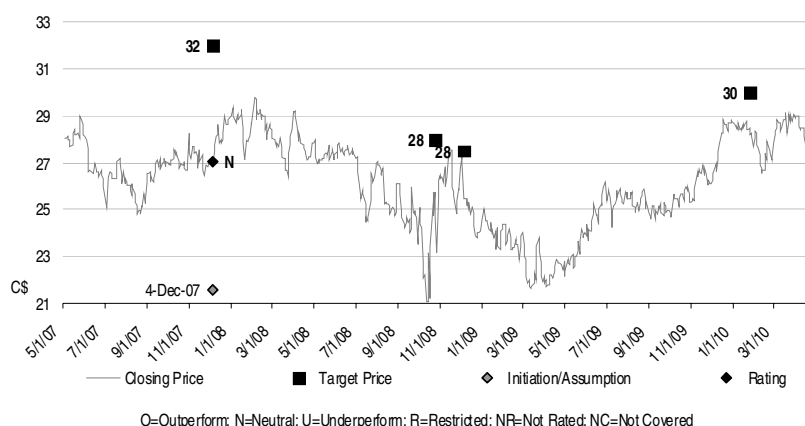
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I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Underperform/Sell*	13%	(54% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.0x our 2011 EPS (earnings per share) estimate of C\$1.80 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 9.8x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$30.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

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Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

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Important Regional Disclosures

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Rating	NEUTRAL*
Price (04 Aug 10, C\$)	28.84
Target price (C\$)	30.00 ¹
52-week price range	29.41 - 24.63
Market cap. (C\$ m)	4,965.35
Enterprise value (C\$ m)	11,405.00

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Ongoing organic growth

- **Earnings review:** Fortis reported Q2 2010 EPS (FD) of C\$0.32 that met our and the Street's C\$0.32 estimate and within the C\$0.30-C\$0.34 range. In our view, Fortis continues to make steady progress in delivering a relatively consistent and predictable set of financial results from a largely regulated asset base. Accordingly, we do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus our analytical efforts on the ongoing significant regulated capital plan along with the positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1.1bn for 2010 and about C\$5bn over the next five years. Roughly 71% of the total amount is targeted to come from regulated electric utilities and 27% allocated to the Terasen Gas entities.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for various acquisition opportunities.
- **Valuation:** As a result of the quarter, we slightly revised our EPS estimates for 2011 and 2012 to C\$1.79 and C\$1.87 respectively from C\$1.80 and C\$1.88. Our C\$30.00 target price and Neutral rating are obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2011 earnings; a 1.62x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 07/30/10 the Canada S&P/TSX Composite Index index closed at 11713.43

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.51	0.31	0.21	0.46
2010E	0.56	0.32	0.25	0.54
2011E	0.69	0.31	0.26	0.53

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (C\$)	1.49	1.68	1.79	1.87
Prev. EPS (C\$)	—	—	1.80	1.88
P/E (x)	19.4	17.2	16.1	15.4
P/E rel. (%)	101.6	119.2	131.7	138.1
Revenue (C\$ m)	3,637.0	3,731.7	3,928.2	4,077.5
EBITDA (C\$ m)	1,065.0	1,160.6	1,227.8	1,286.7
OCFPS (C\$)	3.42	4.15	3.74	3.91
P/OCF (x)	8.4	6.9	7.7	7.4
EV/EBITDA (current)	10.6	9.8	9.6	9.4
Net debt (C\$ m)	5,830	5,716	6,061	6,371
ROIC (%)	22.69	21.32	21.26	21.15
Number of shares (m)	172.17	IC (12/10E, C\$ m)		11,571.09
BV/share (current, C\$)	17.4	EV/IC (x)		0.99
Net debt (current, C\$ m)	5,671.0	Dividend (current, C\$)		1.12
Net debt/tot. cap. (%) (current)	63.6	Dividend yield (%)		3.9

Source: Company data, Credit Suisse estimates.

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Fortis reported Q2 2010 EPS (FD) of C\$0.32 that met our and the Street's C\$0.32 estimate and within the C\$0.30-C\$0.34 range. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. Our focus is largely upon the company's continuing significant regulated capital plan and the positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Meeting expectations

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2010	Q2 2009	chg y/y
Regulated Gas Utilities - Canadian	17	14	21%
Regulated Electric Utilities - Canadian	40	39	3%
Regulated Electric Utilities - Caribbean	7	7	0%
Non-regulated - Fortis Generation	3	3	0%
Non-regulated - Fortis Properties	8	8	0%
Corporate and other	(20)	(18)	-11%
Net earnings applicable to common shares	55	53	4%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment increased by roughly 21% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 1,829 during H1 2010 versus net addition of 1,068 during H1 2009;
- The amount of customer additions increased versus H1 2009 due to lower customer disconnections because of cooler weather and the growth of multi-family housing; and,
- Sales volumes increased for the Core-Residential and Commercial and decreased for the Industrial segment. Transportation volumes as increased.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q2 2010	Q2 2009	chg y/y
Terasen Gas	17.0	14.0	21%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment consists of operating companies such as FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2010	Q2 2009	chg y/y
FortisBC	8	7	14%
FortisAlberta	17	17	0%
Newfoundland Power	11	11	0%
Other Cdn Electric Utilities	4	4	0%
Earnings	40	39	3%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by 14% compared to the same period last year. The increase was due to a 6.0% increase in customer electricity rates starting in January 2010 and increased in PBR incentive adjustments and pole-attachment revenue. See Exhibit 4 for selected highlights.

Slight decrease in energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q2 2010	Q2 2009	chg y/y
Energy deliveries (GWh)	670	675	-1%
Revenue (C\$/MWh)	88.06	81.48	8%
Energy supply costs (C\$/MWh)	19.40	19.26	1%
Operating expenses (C\$/MWh)	28.36	25.19	13%
Gross margin (C\$/MWh)	40.30	37.04	9%
Earnings (C\$millions)	8	7	14%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were flat comparing Q2 2010 versus the prior period. See Exhibit 5 for selected highlights.

Slight decrease in energy delivery in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q2 2010	Q2 2009	chg y/y
Energy deliveries (GWh)	3,724	3,765	-1%
Revenue (C\$/MWh)	24.70	21.51	15%
Operating expenses (C\$/MWh)	9.67	8.23	17%
Gross margin (C\$/MWh)	15.04	13.28	13%
Earnings (C\$millions)	17	17	0%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings generation was flat when comparing Q2 2010 versus Q2 2009. Energy deliveries were up by approximately 4% (see Exhibit 6).

Increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q2 2010	Q2 2009	chg y/y
Energy deliveries (GWh)	1,220	1,177	4%
Revenue (C\$/MWh)	103.28	101.10	2%
Energy supply costs (C\$/MWh)	61.48	59.47	3%
Operating expenses (C\$/MWh)	12.30	11.05	11%
Gross margin (C\$/MWh)	29.51	30.59	-4%
Earnings (C\$millions)	11	11	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

The roughly 11% increase in energy deliveries was the result of the Algoma Power Inc. acquisition (previously Great Lakes Power Distribution Inc.). Without that acquisition, energy deliveries increased by 2.9% year over year. Exhibit 7 contains selected highlights.

Increased in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q2 2010	Q2 2009	chg y/y
Energy deliveries (GWh)	535	483	11%
Revenue (C\$/MWh)	140.19	134.58	4%
Energy supply costs (C\$/MWh)	85.98	82.82	4%
Operating expenses (C\$/MWh)	20.56	18.63	10%
Gross margin (C\$/MWh)	33.64	33.13	2%
Earnings (C\$millions)	4	4	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat compared to the same quarter last year. Notably, energy deliveries increased by 6% on a year-over-year basis. Aside from some regulatory matters discussed below, economic conditions may have stabilized/improved with a “[i]mproving tourism activity in the Turks and Caicos Islands”. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

“Changes made in electricity legislation by the Government of Belize and the PUC, and the PUC’s June 2008 Final Decision on Belize Electricity’s 2008/2009 Rate Application and the PUC’s amendment to the June 2008 Final Decision, which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. The judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. In response to an application from Belize Electricity, the Supreme Court of Belize issued an order in June 2010 prohibiting the PUC from carrying out any rate-setting review proceedings, changing any rates and taking any enforcement or penal steps against Belize Electricity until further order of the Supreme Court.”

Belize situation requires ongoing monitoring

“As a result of the regulatory’s Final Decision on Belize Electricity’s 2008/2009 Rate Application in June 2008, Belize Electricity does not meet certain debt covenant financial ratios related to loans with the International Bank for Reconstruction and Development and the Caribbean Development Bank totalling \$6 million (BZ\$11 million) as at June 30, 2010.”

Fortis Turks and Caicos, received on June 2010 notice from the Governor of the Turks and Caicos Islands that the company’s electricity rate review filing was not accepted, “because of concern of the impact that the proposed rate increase might have on key sectors of the Island’s economy.” The company stated that it is, “continuing discussions with the Government and has requested the Governor to appoint an outside, independent consultant to review the filing and the current rate setting mechanism and make recommendations regarding both.”

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q2 2010	Q2 2009	chg y/y
Energy deliveries (GWh)	307	290	6%
Revenue (C\$/MWh)	270.36	282.76	-4%
Energy supply costs (C\$/MWh)	153.09	151.72	1%
Operating expenses (C\$/MWh)	35.83	48.28	-26%
Gross margin (C\$/MWh)	81.43	82.76	-2%
Earnings (C\$millions)	7	7	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were flat from the current quarter compared to the same quarter last year. Energy deliveries decreased by 36% from Q2 2009 to Q2 2010 due to the expiration of the water rights of Rankine hydro facility and lower production in Upper New York State due to low rainfall. See the table below for selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q2 2010	Q2 2009	chg y/y
Energy deliveries (GWh)	90	141	-36%
Revenue (C\$/MWh)	88.89	63.83	39%
Energy supply costs (C\$/MWh)	11.11	7.09	57%
Operating expenses (C\$/MWh)	22.22	14.18	57%
Gross margin (C\$/MWh)	55.56	42.55	31%
Earnings (C\$millions)	3	3	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$8m which is similar to earnings in Q2 2009. REVPAR slightly increased to C\$83.77 from C\$83.15 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was slightly down at 94.8% versus last year's 95.9%.

Corporate

Corporate expenses increased to C\$20 million in Q2 2010 from C\$18m in Q2 2009.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$244 million, of which C\$237 million was spent at regulated utilities. Fortis maintains that capital expenditures for 2010 will be roughly C\$1.1 billion. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2010-2014) approaching C\$5bn with 71% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 27% of the total capex amount. Three percent is expected to be at the non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note “*Regulatory round-up*”). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power’s allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company’s growth strategy. For instance, the company’s most recent Management Discussion and Analysis stated “The Corporation continues to pursue acquisitions for profitable growth, focusing on strategic opportunities to acquire regulated electric and natural gas electric utilities in the United States, Canada and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.” Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company’s current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis’ holding to roughly 38%.
12/1/2002	Delta St John’s Hotel and conference centre	CAD 25.90	Hotel in downtown St. John’s, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John’s, Newfoundland
9/18/2001	Portfolio of properties in St. John’s	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn’t own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John’s, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;

- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

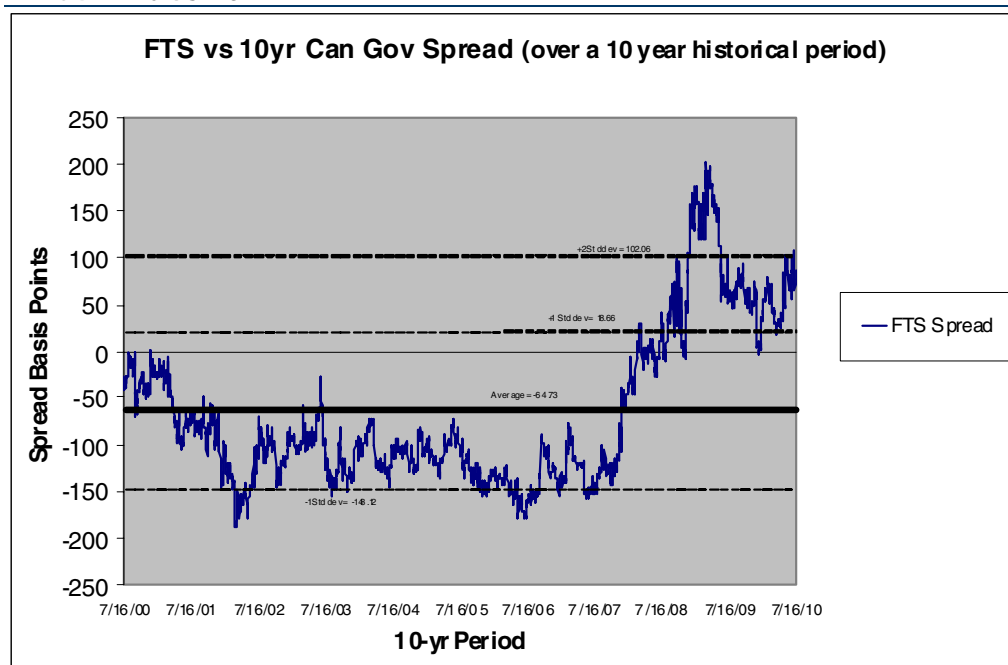
Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. At this time, we made several adjustments to our financial model after the quarter. Accordingly, we slightly revised our EPS estimate for 2011 and 2012 to C\$1.69 and C\$1.87 respectively from C\$1.70 and C\$1.88. We outline our valuation methodology below, however, we believe it is useful to consider the historic yield spread analysis for Fortis as previously published in the 27 July 2010 report "Canadian Equity Strategy: Delightful dividend deviations".

Rating: Neutral

Target: C\$30.00

Exhibit 11: Fortis Inc.



Source: Bloomberg and Credit Suisse

As illustrated above, at the time of that publication, the stock was trading nearly two-standard deviations wide from the historic dividend yield spread. Finally, our target price of C\$30.00 and Neutral rating are obtained utilizing multiple valuation methodologies. Our approaches include: a 17.0x P/E multiple of 2011 earnings; a 1.62x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Companies Mentioned (Price as of 04 Aug 10)
Fortis Inc. (FTS.TO, C\$28.84, NEUTRAL, TP C\$30.00)

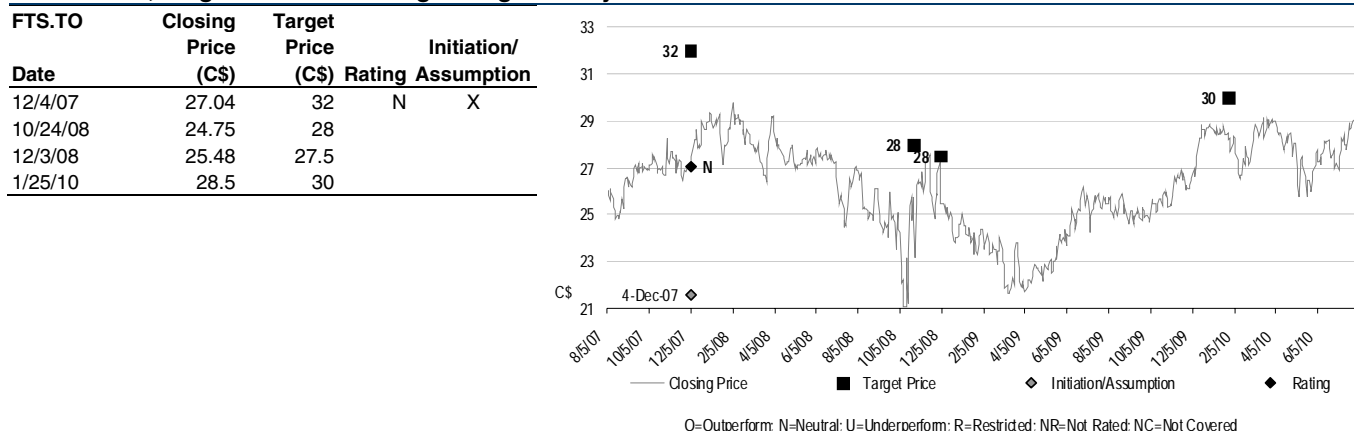
Disclosure Appendix

Important Global Disclosures

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.0x our 2011 EPS (earnings per share) estimate of C\$1.79 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 9.8x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$30.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

COMPANY UPDATE

Working Waneta

Rating	NEUTRAL*
Price (25 Aug 10, C\$)	29.16
Target price (C\$)	30.00 ¹
52-week price range	29.41 - 24.63
Market cap. (C\$ m)	5,020.45
Enterprise value (C\$ m)	11,460.09

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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- **Hydro highlights:** Fortis Inc. announced the development of a new 335MW hydroelectric facility (Waneta Expansion) situated near the Waneta Dam with Columbia Power Corporation and Columbia Basin Trust (both 100% owned by the Government of British Columbia). The total capital cost is expected to be roughly C\$900m with Fortis owning 51% of the Waneta Expansion and being responsible for operations. In our view, this investment is positive for several reasons, including the capacity shortfall issues at FortisBC.
- **Selected details:** Some highlights include: (a) the hydro facility will not be part of regulated rate base; (b) in-service date is expected to be in the spring of 2015; (c) target returns are anticipated to be higher than regulated assets; (d) under the Canal Plant Agreement, the Waneta Expansion will receive fixed energy and capacity payments based upon long-term hydrology which minimizes shorter-term hydrology risk; (e) BC Hydro will buy power under a long-term agreement and excess power, subject to regulatory approval, will be sold to FortisBC; (f) FTS consolidated capex over the next five years will increase by 10% to roughly C\$5.5b; and, (g) initially, credit facilities will fund the project, however, debt and equity will form the permanent financing.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for various acquisition opportunities.
- **Valuation:** Our C\$30.00 target price and Neutral rating are obtained utilizing multiple valuation methodologies, including: a 17.0x P/E multiple of 2011 earnings; a 1.62x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 08/25/10 the Canada S&P/TSX Composite Index index closed at 11648.12

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.51	0.31	0.21	0.46
2010E	0.56	0.32	0.25	0.54
2011E	0.69	0.31	0.26	0.53

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (C\$)	1.49	1.68	1.79	1.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.6	17.4	16.3	15.6
P/E rel. (%)	103.9	121.9	134.7	141.3
Revenue (C\$ m)	3,637.0	3,731.7	3,928.2	4,077.5
EBITDA (C\$ m)	1,065.0	1,160.6	1,227.8	1,286.7
OCFPS (C\$)	3.42	4.15	3.74	3.91
P/OCF (x)	8.4	7.0	7.8	7.5
EV/EBITDA (current)	10.6	9.9	9.6	9.4
Net debt (C\$ m)	5,830	5,716	6,061	6,371
ROIC (%)	22.69	21.32	21.26	21.15
Number of shares (m)	172.17	IC (12/10E, C\$ m)		11,571.09
BV/share (current, C\$)	17.4	EV/IC (x)		0.99
Net debt (current, C\$ m)	5,671.0	Dividend (current, C\$)		1.12
Net debt/tot. cap. (current, %)	63.6	Dividend yield (%)		3.8

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 25 Aug 10)
Fortis Inc. (FTS.TO, C\$29.16, NEUTRAL, TP C\$30.00)

Disclosure Appendix

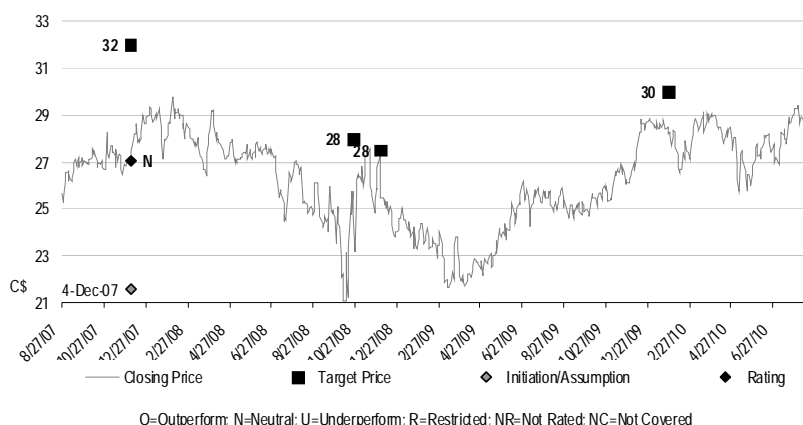
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Rating Assumption
12/4/07	27.04	32	N X
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	



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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$30.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow. Our target price implies a P/E (price/earnings) multiple of 17.0x our 2011 EPS (earnings per share) estimate of C\$1.79 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 9.8x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$30.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (05 Nov 10, C\$)	33.26
Target price (C\$)	(from 30.00) 32.00 ¹
52-week price range	33.26 - 25.40
Market cap. (C\$ m)	6,232.92
Enterprise value (C\$ m)	12,838.27

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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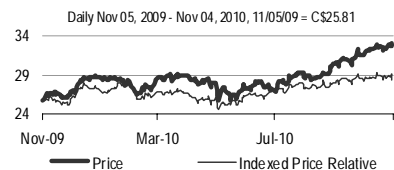
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INCREASE TARGET PRICE

Oodles of organic opportunity

- **Earnings review:** Fortis reported Q3 2010 headline EPS (FD) of C\$0.26 and a CS calculated adjusted figure of C\$0.25 for a regulatory reversal. The adjusted figure was largely in line with our C\$0.25 estimate, but higher than the Street's C\$0.241 view and within the C\$0.23-C\$0.26 range. In our view, Fortis continues to make steady progress in delivering a relatively consistent and predictable set of financial results from a largely regulated asset base. Accordingly, we do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1.1bn for 2010 and about C\$5.5bn over the next five years which is roughly C\$500m more than announced in Q2 2010 with 84% of that total amount going to utility activity.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for various acquisition opportunities.
- **Valuation:** In light of the current interest rate environment, we have slightly adjusted our target price to C\$32.00 from the previous C\$30.00. That target price is obtained utilizing multiple valuation methodologies, including: an 18.0x P/E multiple of 2011 earnings; a 1.76x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 11/04/10 the Canada S&P/TSX Composite Index index closed at 12878.79

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.51	0.31	0.21	0.46
2010E	0.56	0.32	0.25	0.54
2011E	0.70	0.30	0.26	0.53

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (C\$)	1.49	1.67	1.79	1.87
Prev. EPS (C\$)	—	1.68	—	—
P/E (x)	22.3	19.9	18.6	17.8
P/E rel. (%)	107.2	126.4	139.7	146.4
Revenue (C\$ m)	3,637.0	3,781.0	3,969.2	4,128.9
EBITDA (C\$ m)	1,065.0	1,178.0	1,229.0	1,290.4
OCFPS (C\$)	3.33	4.00	3.67	3.84
P/OCF (x)	8.6	8.3	9.1	8.7
EV/EBITDA (current)	11.8	10.9	10.7	10.5
Net debt (C\$ m)	5,830	5,882	6,231	6,546
ROIC (%)	5.36	5.27	5.12	5.18
Number of shares (m)	187.40	IC (12/10E, C\$ m)		11,687.63
BV/share (current, C\$)	18.8	EV/IC (x)		1.1
Net debt (current, C\$ m)	5,811.0	Dividend (current, C\$)		1.12
Net debt/tot. cap. (current, %)	59.4	Dividend yield (%)		3.4

Source: Company data, Credit Suisse estimates.

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Fortis reported Q3 2010 headline EPS (FD) of C\$0.26 and a CS calculated adjusted figure of C\$0.25 for a regulatory reversal. The adjusted figure was largely in line with our C\$0.25 estimate, but higher than the Street's C\$0.241 view and within the C\$0.23-C\$0.26 range. The adjusted figure excluded the C\$4m related to BCUC's approved reversal of certain cost overruns in Q4 2009. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. Our focus is largely upon the company's continuing significant regulated capital plan and the positive upward bias to regulated returns.

Meeting expectations

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2010	Q3 2009	chg y/y
Regulated Gas Utilities - Canadian	(5)	(3)	-67%
Regulated Electric Utilities - Canadian	43	36	19%
Regulated Electric Utilities - Caribbean	8	7	14%
Non-regulated - Fortis Generation	9	4	125%
Non-regulated - Fortis Properties	9	9	0%
Corporate and other	(19)	(17)	-12%
Net earnings applicable to common shares	45	36	25%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 67% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 3,460 during 9M 2010 versus net addition of 743 during 9M 2009;
- The amount of customer additions increased versus 9M 2009 due increased building activity, customer reconnections because of cooler weather in Q3 2010 versus Q3 2009; and,
- Sales volumes increased for both the Core-Residential and Commercial and for the Industrial segment. Transportation volumes also increased.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q3 2010	Q3 2009	chg y/y
Terasen Gas	(5.0)	(3.0)	67%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisBC, FortisAlberta, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q3 2010	Q3 2009	chg y/y
FortisBC	11	9	22%
FortisAlberta	19	15	27%
Newfoundland Power	8	7	14%
Other Cdn Electric Utilities	5	5	0%
Earnings	43	36	19%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by 22% compared to the same period last year. The increase was due to an increase in customer electricity rates starting in January 2010 and September 1 2010, and increased in PBR incentive adjustments and lower finance charges. See Exhibit 4 for selected highlights.

Slight decrease in energy deliveries in BC

Exhibit 4: Selected FortisBC performance highlights (unadjusted)

	Q3 2010	Q3 2009	chg y/y
Energy deliveries (GWh)	709	720	-2%
Revenue (C\$/MWh)	87.45	79.17	10%
Energy supply costs (C\$/MWh)	22.57	20.83	8%
Operating expenses (C\$/MWh)	23.98	22.22	8%
Gross margin (C\$/MWh)	40.90	36.11	13%
Earnings (C\$millions)	11	9	22%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were up by roughly 27% comparing Q3 2010 versus the prior period. The increase was primarily due to increase in electricity distribution rates due to increase in allowed ROE and equity component; continued growth in the system; and customer growth. See Exhibit 5 for selected highlights.

Slight decrease in energy delivery in Alberta

Exhibit 5: Selected FortisAlberta performance highlights (unadjusted)

	Q3 2010	Q3 2009	chg y/y
Energy deliveries (GWh)	3,778	3,819	-1%
Revenue (C\$/MWh)	28.85	22.00	31%
Operating expenses (C\$/MWh)	8.73	8.64	1%
Gross margin (C\$/MWh)	20.12	13.35	51%
Earnings (C\$millions)	19	15	27%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings generation was higher by roughly 14% when comparing Q3 2010 versus Q3 2009 due to increase in electricity rates starting January 1, 2010 and increased in electricity sales. Energy deliveries were up by approximately 3.5% (see Exhibit 6).

Increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q3 2010	Q3 2009	chg y/y
Energy deliveries (GWh)	916	885	4%
Revenue (C\$/MWh)	108.08	105.08	3%
Energy supply costs (C\$/MWh)	54.59	56.50	-3%
Operating expenses (C\$/MWh)	17.47	13.56	29%
Gross margin (C\$/MWh)	36.03	35.03	3%
Earnings (C\$millions)	8	7	14%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

The roughly 13% increase in energy deliveries was primarily the result of the Algoma Power Inc. acquisition and greater consumption at PEI and Ontario. Without the Algoma acquisition, energy deliveries increased by 5.8%. Exhibit 7 contains selected highlights.

Increased in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q3 2010	Q3 2009	chg y/y
Energy deliveries (GWh)	583	514	13%
Revenue (C\$/MWh)	149.23	136.19	10%
Energy supply costs (C\$/MWh)	97.77	89.49	9%
Operating expenses (C\$/MWh)	18.87	15.56	21%
Gross margin (C\$/MWh)	32.59	31.13	5%
Earnings (C\$millions)	5	5	0%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat compared to the same quarter last year. Energy deliveries increased by 1.9% on a year-over-year basis. Aside from some regulatory matters discussed below, economic conditions may have stabilized/improved with a “[i]mproving tourism activity in the Turks and Caicos Islands”. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

“Changes made in electricity legislation by the Government of Belize and the PUC, and the PUC’s June 2008 Final Decision on Belize Electricity’s 2008/2009 Rate Application and the PUC’s amendment to the June 2008 Final Decision, which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. The judicial process is ongoing with interim rulings, judgments and appeals. The timing or likely final outcome of the proceedings is indeterminable at this time. In response to an application from Belize Electricity, the Supreme Court of Belize issued an order in June 2010 prohibiting the PUC from carrying out any rate-setting review proceedings, changing any rates and taking any enforcement or penal steps against Belize Electricity until further order of the Supreme Court. The evidentiary portion of the trial of Belize Electricity’s appeal of the PUC’s June 2008 Final Decision was heard in October 2010. Closing arguments are expected to be completed in early December 2010 so that the case will be closed pending judgment of the Court”

Belize situation requires ongoing monitoring

“As a result of the regulatory’s Final Decision on Belize Electricity’s 2008/2009 Rate Application in June 2008, Belize Electricity does not meet certain debt covenant financial ratios related to loans with the International Bank for Reconstruction and Development and the Caribbean Development Bank totalling \$5 million (BZ\$10 million) as at September 30, 2010.”

Fortis Turks and Caicos, received on June 2010 notice from the Governor of the Turks and Caicos Islands that the company’s electricity rate review filing was not accepted, “because of concern of the impact that the proposed rate increase might have on key sectors of the Island’s economy.” The company stated that it is, “continuing discussions with the Government and has requested the Governor to appoint an outside, independent consultant to review the filing and the current rate setting mechanism and make recommendations regarding both.”

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q3 2010	Q3 2009	chg y/y
Energy deliveries (GWh)	318	312	2%
Revenue (C\$/MWh)	289.31	288.46	0%
Energy supply costs (C\$/MWh)	179.25	166.67	8%
Operating expenses (C\$/MWh)	37.74	44.87	-16%
Gross margin (C\$/MWh)	72.33	76.92	-6%
Earnings (C\$millions)	8	7	14%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 125% from the current quarter compared to the same quarter last year. Energy deliveries decreased by 37% from Q3 2009 to Q3 2010 due to higher rainfall and the commissioning of the Vaca hydroelectric facility in Belize. See the table below for selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q3 2010	Q3 2009	chg y/y
Energy deliveries (GWh)	134	98	37%
Revenue (C\$/MWh)	97.01	81.63	19%
Energy supply costs (C\$/MWh)	-	-	NA
Operating expenses (C\$/MWh)	14.93	20.41	-27%
Gross margin (C\$/MWh)	82.09	61.22	34%
Earnings (C\$millions)	9	4	125%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$9m which is similar to earnings in Q3 2009. REVPAR slightly increased to C\$89.54 from C\$89.02 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 93.7% versus last year's 96.2%.

Corporate

Corporate expenses increased to C\$19 million in Q3 2010 from C\$17m in Q3 2009.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$271 million, of which C\$262 million was spent at regulated utilities. Fortis maintains that capital expenditures for 2010 will be roughly C\$1.1 billion. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2011-2015) approaching C\$5.5bn with 63% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 21% of the total capex amount, and 16% is allocated to non-regulated operations. Three percent is expected to be at the non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note “*Regulatory round-up*”). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power’s allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company’s growth strategy. For instance, the company’s most recent Management Discussion and Analysis stated “Fortis continues to pursue acquisitions to build on this organic growth, focusing on regulated electric and natural gas utilities in the United States and Canada” Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company’s current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis’ holding to roughly 38%.
12/1/2002	Delta St John’s Hotel and conference centre	CAD 25.90	Hotel in downtown St. John’s, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John’s, Newfoundland
9/18/2001	Portfolio of properties in St. John’s	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn’t own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John’s, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;

- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "*Pondering a Portland purchase?*"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. At this time, we made several adjustments to our financial model. As a result of the quarter, we slightly revised our EPS estimates for 2010 to C\$1.67 from C\$1.68. In light of the current interest rate environment, we have slightly adjusted our target price to C\$32.00 from the previous C\$30.00. That target price is obtained utilizing multiple valuation methodologies, including: an 18.0x P/E multiple of 2011 earnings; a 1.76x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target: C\$32 up from C\$30

Companies Mentioned (Price as of 05 Nov 10)

Fortis Inc. (FTS.TO, C\$33.26, NEUTRAL, TP C\$32.00)

Disclosure Appendix

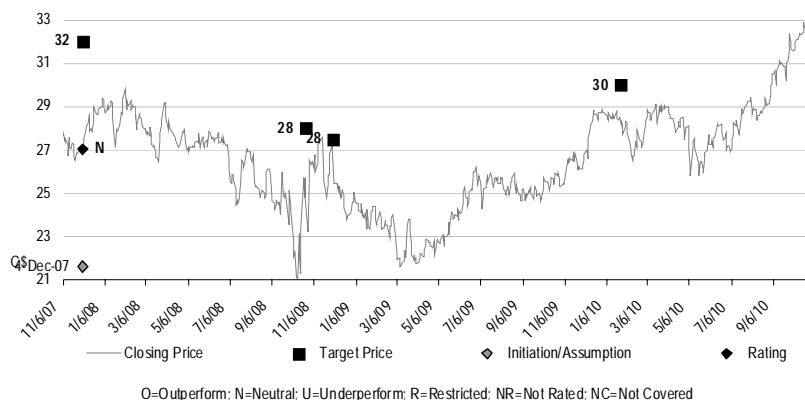
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating	Assumption
Date				
12/4/07	27.04	32	N	X
10/24/08	24.75	28		
12/3/08	25.48	27.5		
1/25/10	28.5	30		



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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$32.00 target. Our target price implies a P/E (price/earnings) multiple of 18.0x our 2011 EPS (earnings per share) estimate of C\$1.79 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (10 Feb 11, C\$)	33.81
Target price (C\$)	(from 32.00) 34.00 [†]
52-week price range	35.15 - 25.76
Market cap. (C\$ m)	5,896.22
Enterprise value (C\$ m)	13,138.19

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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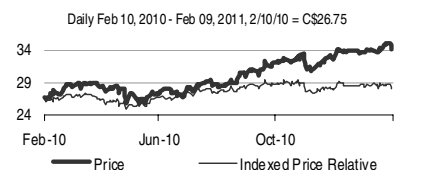
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INCREASE TARGET PRICE

Continuing capital control

- **Earnings review:** Fortis reported Q4 2010 headline EPS (FD) of C\$0.47 that missed our C\$0.54 estimate, the Street's C\$0.513 view and fell beneath the C\$0.48-C\$0.55 range. Against our numbers, the primary culprits looked to be timing issues at the regulated gas utilities, weakness at the Caribbean segment and our overly ambitious view on the Other Canadian Electric Utilities. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1.2bn for 2011 and about C\$5.5bn over the next five years with 83% of that total amount going to utility activity.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Given the current interest rate environment and looking ahead to 2012 estimates, we boosted our target price to C\$34.00 from the previous C\$32.00. That target price is obtained from multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 02/09/11 the Canada S&P/TSX Composite Index index closed at 13784.3

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.70	0.31	0.25	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.76	1.86	1.91
Prev. EPS (C\$)	—	1.79	1.87	—
P/E (x)	21.0	19.2	18.1	17.7
P/E rel. (%)	124.8	134.3	139.2	—
Revenue (C\$ m)	3,664.0	3,934.5	4,223.0	4,412.1
EBITDA (C\$ m)	1,150.0	1,232.3	1,327.3	1,400.1
OCFPS (C\$)	4.01	3.61	3.85	4.02
P/OCF (x)	8.5	9.4	8.8	8.4
EV/EBITDA (current)	10.9	10.7	10.4	9.6
Net debt (C\$ m)	5,914	6,508	7,119	7,601
ROIC (%)	6.15	5.90	5.97	5.92
Number of shares (m)	174.39	IC (12/11E, C\$ m)		9,809.51
BV/share (current, C\$)	19.4	EV/IC (x)		1.3
Net debt (current, C\$ m)	6,016.6	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	102.0	Dividend yield (%)		3.4

Source: Company data, Credit Suisse estimates.

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Fortis reported Q4 2010 headline EPS (FD) of C\$0.47 that missed our C\$0.54 estimate, the Street's C\$0.513 view and fell beneath the C\$0.48-C\$0.55 range. Against our numbers, the primary culprits looked to be timing issues at the regulated gas utilities, weakness at the Caribbean segment and our overly ambitious view the Other Canadian Electric Utilities. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

A modest miss

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2010	Q4 2009	chg y/y
Regulated Gas Utilities - Canadian	45	48	-6%
Regulated Electric Utilities - Canadian	41	38	8%
Regulated Electric Utilities - Caribbean	5	7	-29%
Non-regulated - Fortis Generation	5	2	150%
Non-regulated - Fortis Properties	7	5	40%
Corporate and other	(18)	(19)	5%
Net earnings applicable to common shares	85	81	5%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 6% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 9,400 during 2010 versus net addition of 8,200 during the full year 2009;
- The amount of customer additions increased versus 2009 due to increased building activity; and,
- Sales volumes for the quarter decreased for both the Core-Residential and Commercial and for the Industrial segment. Transportation volumes increased.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Terasen Gas	45.0	48.0	-6%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q4 2010	Q4 2009	chg y/y
FortisAlberta	17	15	13%
FortisBC	10	8	25%
Newfoundland Power	9	8	13%
Other Cdn Electric Utilities	5	7	-29%
Earnings	41	38	8%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were up by roughly 13% comparing Q4 2010 versus the prior period. The increase was primarily due to increase in electricity distribution rates due to continued growth in the system, customer growth and higher regulator-approved expenses recoverable from customers. See Exhibit 4 for selected highlights.

Increase in energy delivery in Alberta

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	4,255	4,129	3%
Revenue (C\$/MWh)	23.27	20.83	12%
Operating expenses (C\$/MWh)	8.70	8.23	6%
Gross margin (C\$/MWh)	14.57	12.59	16%
Earnings (C\$millions)	17	15	13%

Source: Company data and Credit Suisse

FortisBC

Segmented earnings at FortisBC increased by 25% compared to the same period last year. The increase was due to an increase in customer electricity rates starting in January 2010, increased in PBR incentive adjustments and lower corporate taxes. See Exhibit 5 for selected highlights.

Slight decrease in energy deliveries in BC

Exhibit 5: Selected FortisBC performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	847	859	-1%
Revenue (C\$/MWh)	86.19	80.33	7%
Energy supply costs (C\$/MWh)	27.15	25.61	6%
Operating expenses (C\$/MWh)	24.79	23.28	6%
Gross margin (C\$/MWh)	34.24	31.43	9%
Earnings (C\$millions)	10	8	25%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings generation was higher by roughly 13% when comparing Q4 2010 versus Q4 2009 due to increase in electricity rates starting January 1, 2010 and increased in electricity sales. Energy deliveries were up by approximately 1% (see Exhibit 6).

Slight increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	1,488	1,474	1%
Revenue (C\$/MWh)	102.15	99.05	3%
Energy supply costs (C\$/MWh)	68.55	67.16	2%
Operating expenses (C\$/MWh)	10.08	8.82	14%
Gross margin (C\$/MWh)	23.52	23.07	2%
Earnings (C\$millions)	9	8	13%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

The roughly 1% decrease in energy deliveries was primarily the result of lower average consumption in Ontario. Exhibit 7 contains selected highlights.

Slight decrease in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	578	582	-1%
Revenue (C\$/MWh)	150.52	135.74	11%
Energy supply costs (C\$/MWh)	102.08	85.91	19%
Operating expenses (C\$/MWh)	20.76	20.62	1%
Gross margin (C\$/MWh)	27.68	29.21	-5%
Earnings (C\$millions)	5	7	-29%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were down roughly 29% compared to the same quarter last year. Energy deliveries decreased by 7% on a year-over-year basis due to decreased air conditioning load because of lower average temperatures in the region. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

Awaiting a decision in Belize

“The evidentiary portion of the trial of Belize Electricity’s appeal of the PUC’s June 2008 Final Decision was heard in October 2010 with closing arguments completed in December 2010. A court decision on the matter is expected in the first quarter of 2011.”

Fortis Turks and Caicos, received on September 2010 “draft proposals and terms of reference from the Governor of the Turks and Caicos Islands (the “Governor”) to review the Company’s Electricity Rate Review filing.” The company stated that “[m]anagement has acknowledged the Governor’s proposed terms of reference and objectives, and has proposed that a jointly funded and identified outside independent consultant be engaged to conduct a review of the filing and current rate-setting mechanism and make recommendations regarding both.”

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	270	291	-7%
Revenue (C\$/MWh)	311.11	292.10	7%
Energy supply costs (C\$/MWh)	188.89	171.82	10%
Operating expenses (C\$/MWh)	48.15	44.67	8%
Gross margin (C\$/MWh)	74.07	75.60	-2%
Earnings (C\$millions)	5	7	-29%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 150% from the current quarter compared to the same quarter last year. Energy deliveries increased by 57% from Q4 2009 to Q4 2010 due to higher rainfall and the commissioning of the Vaca hydroelectric facility in Belize. See the table below for selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	137	87	57%
Revenue (C\$/MWh)	65.69	57.47	14%
Energy supply costs (C\$/MWh)	-	-	n/a
Operating expenses (C\$/MWh)	14.60	22.99	-36%
Gross margin (C\$/MWh)	51.09	34.48	48%
Earnings (C\$millions)	5	2	150%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$7m which is higher than Q4 2009 earnings of C\$5m. REVPAR slightly increased to C\$70.76 from C\$68.87 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 94.5% versus last year's 96.2%.

Corporate

Corporate expenses decreased to C\$18 million in Q4 2010 from C\$19m in Q4 2009.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$370 million, of which C\$288 million was spent at regulated utilities. Fortis guided that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2011-2015) approaching C\$5.5bn with 63% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 20% of the total capex amount, and 17% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach.

Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGV) and Terasen Gas Whistler Inc. (TGW) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "We will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada that will add value for our shareholders". Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and

skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsbey Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. At this time, we made several

Rating: Neutral

Target: C\$34, up from C\$32

adjustments to our financial model. As a result of the quarter, we slightly revised our EPS estimates for 2011 and 2012 to C\$1.76 and C\$1.86 from C\$1.79 and C\$1.87, respectively. Given the current interest rate environment and looking ahead to 2012 estimates, we boosted our target price to C\$34.00 from the previous C\$32.00. That target price is obtained from multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Companies Mentioned (Price as of 10 Feb 11)
Fortis Inc. (FTS.TO, C\$33.81, NEUTRAL, TP C\$34.00)

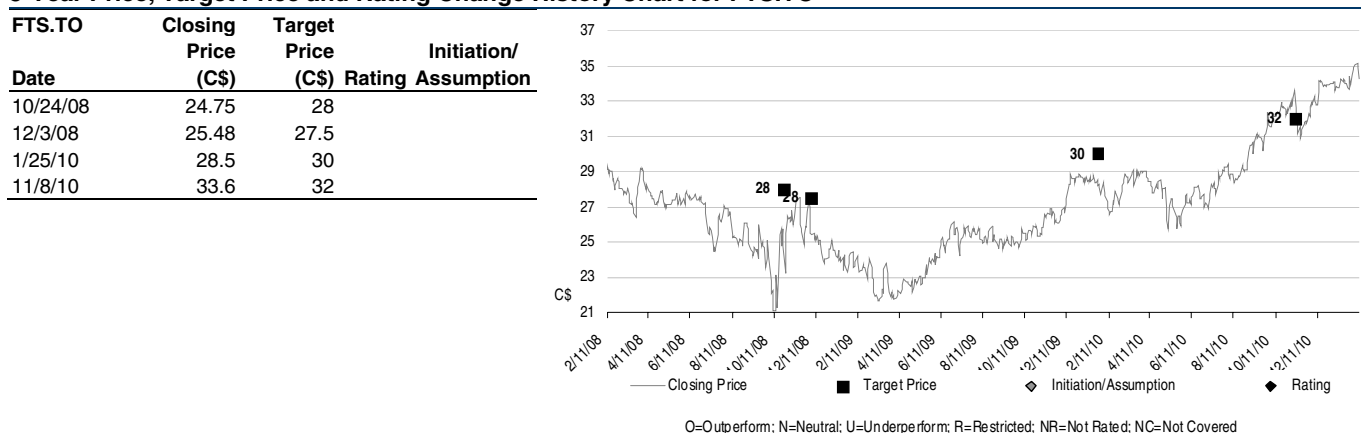
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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

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Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating **NEUTRAL***
Price (20 Apr 11, C\$) 31.93
Target price (C\$) 34.00[†]
52-week price range 35.15 - 25.76
Market cap. (C\$ m) 5,601.21
Enterprise value (C\$ m) 12,843.17

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

Research Analysts

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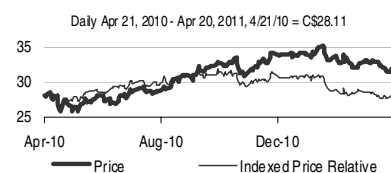
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PRE RESULTS COMMENT

Q1 earnings preview

- **Earnings revisions:** For several reasons, we made a number of revisions to our Fortis Inc. financial model. Our changes focused on several areas ahead of the forthcoming Q1 results. Specifically, our Q1 EPS estimate decreased from C\$0.70 to C\$0.64. Our full year EPS is unchanged at C\$1.76. For greater details, please refer to our Canadian Infrastructure Q1 2011 earnings preview entitled “*Starting the season: Q1 earnings preview*” (21 April 2011).

Share price performance



On 04/20/11 the Canada S&P/TSX Composite Index index closed at 13897.48

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.64	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.76	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.9	18.1	17.1	16.7
P/E rel. (%)	116.9	125.8	130.4	—
Revenue (C\$ m)	3,664.0	3,934.5	4,223.0	4,412.1
EBITDA (C\$ m)	1,150.0	1,232.3	1,327.3	1,400.1
OCFPS (C\$)	4.01	3.61	3.85	4.02
P/OCF (x)	8.5	8.9	8.3	7.9
EV/EBITDA (current)	10.6	10.4	10.1	9.4
Net debt (C\$ m)	5,914	6,508	7,119	7,601
ROIC (%)	6.15	5.90	5.97	5.92
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.3	EV/IC (x)		1.2
Net debt (current, C\$ m)	6,027.7	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	107.6	Dividend yield (%)		3.6

Source: Company data, Credit Suisse estimates.

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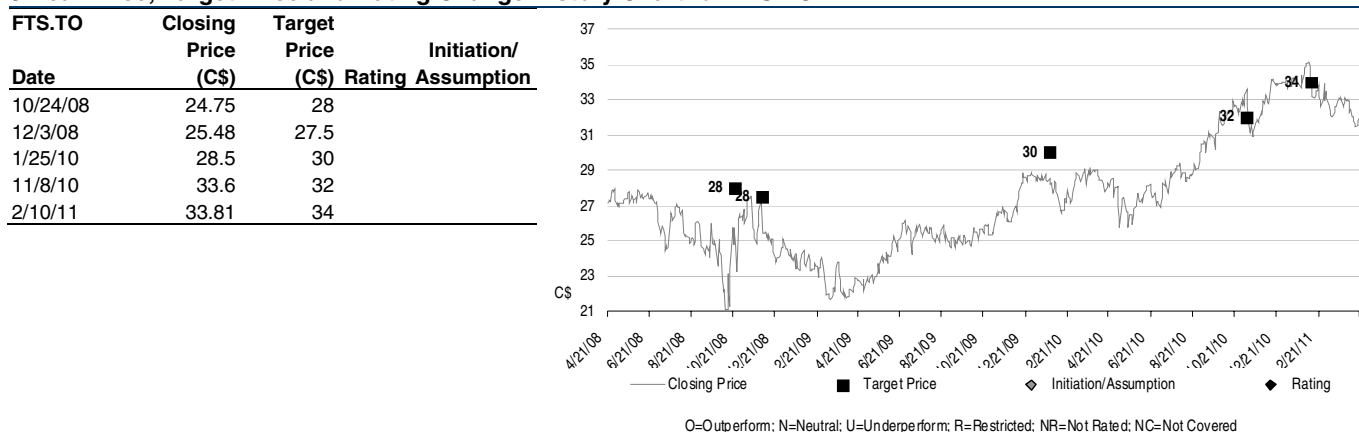
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Fortis Inc. (FTS.TO)

FORECAST INCREASE

Rating	NEUTRAL*
Price (04 May 11, C\$)	32.35
Target price (C\$)	34.00 ¹
52-week price range	35.15 - 25.76
Market cap. (C\$ m)	5,674.89
Enterprise value (C\$ m)	12,721.22

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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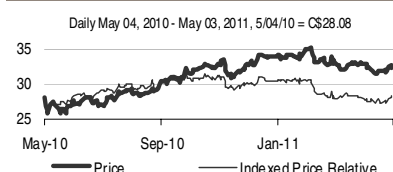
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Working the western front

- **Earnings review:** Fortis reported Q1 2011 headline EPS (FD) of C\$0.65 beating our C\$0.64 estimate, the Street's C\$0.624 view and exceeding the C\$0.59-C\$0.64 range. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1.2bn for 2011 and about C\$5.5bn over the next five years with 83% of that total amount going to utility activity.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 05/03/11 the Canada S&P/TSX Composite Index index closed at 13692.37

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	1.76	—	—
P/E (x)	20.1	18.2	17.4	16.9
P/E rel. (%)	118.1	126.4	131.9	—
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.9	8.4	8.0
EV/EBITDA (current)	10.7	10.5	10.2	9.5
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.6

Source: Company data, Credit Suisse estimates.

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Fortis reported Q1 2011 headline EPS (FD) of C\$0.65 beating our C\$0.64 estimate, the Street's C\$0.624 view and exceeding the C\$0.59-C\$0.64 range. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

A modest beat

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2011	Q1 2010	chg y/y
Regulated Gas Utilities - Canadian	76	73	4%
Regulated Electric Utilities - Canadian	53	40	33%
Regulated Electric Utilities - Caribbean	4	4	0%
Non-regulated - Fortis Generation	3	2	50%
Non-regulated - Fortis Properties	1	2	-50%
Corporate and other	(20)	(21)	5%
Net earnings applicable to common shares	117	100	17%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment increased by roughly 4% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 1,373 during Q1 2011 versus net addition of 1,566 during the Q1 2010;
- The amount of customer additions decreased versus Q1 2010 due to lower building activity; and,
- Sales volumes for the quarter increased for all the segments (Core-Residential and Commercial, the Industrial segment and transportation volumes).

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q1 2011	Q1 2010	chg y/y
FortisBC Energy	76.0	73.0	4%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)*C\$ in millions, unless otherwise stated*

	Q1 2011	Q1 2010	chg y/y
FortisAlberta	21	14	50%
FortisBC Electric	19	14	36%
Newfoundland Power	7	7	0%
Other Cdn Electric Utilities	6	5	20%
Earnings	53	40	33%

*Source: Company data and Credit Suisse***FortisAlberta**

Earnings at this regulated utility were up by roughly 50% comparing Q1 2011 versus the prior period. The increase was primarily due to increase in electricity distribution rates due to continued growth in the system, customer growth and higher volumes due to cooler-than-normal temperatures and increased economic activity in the province. See Exhibit 4 for selected highlights.

Increase in energy delivery
in Alberta

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	4,402	4,109	7%
Revenue (C\$/MWh)	23.40	21.17	11%
Operating expenses (C\$/MWh)	7.95	8.52	-7%
Gross margin (C\$/MWh)	15.45	12.66	22%
Earnings (C\$millions)	21	14	50%

*Source: Company data and Credit Suisse***FortisBC Electric**

Segmented earnings at FortisBC Electric increased by 36% compared to the same period last year. The increase was due to increase in electricity sales growth and rate base growth due to continued investment in utility capital assets. See Exhibit 5 for selected highlights.

Increase in energy
deliveries in BC

Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	905	820	10%
Revenue (C\$/MWh)	91.71	87.80	4%
Energy supply costs (C\$/MWh)	25.41	25.61	-1%
Operating expenses (C\$/MWh)	19.89	20.73	-4%
Gross margin (C\$/MWh)	46.41	41.46	12%
Earnings (C\$millions)	19	14	36%

*Source: Company data and Credit Suisse***Newfoundland Power**

This segment's earnings generation was flat when comparing Q1 2011 versus Q1 2010. Higher electricity sales were offset by timing of certain labour costs in Q1 2011, higher maintenance costs and lower allowed ROE. Energy deliveries were up by approximately 2% (see Exhibit 6).

Slight increase in NP's
energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	1,834	1,795	2%
Revenue (C\$/MWh)	99.78	99.16	1%
Energy supply costs (C\$/MWh)	73.06	72.98	0%
Operating expenses (C\$/MWh)	10.91	8.91	22%
Gross margin (C\$/MWh)	15.81	17.27	-8%
Earnings (C\$millions)	7	7	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

The roughly 3% increase in energy deliveries was primarily the result of higher average consumption due to colder temperatures in Ontario and Prince Edward Island. Exhibit 7 contains selected highlights.

Increase in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	654	632	3%
Revenue (C\$/MWh)	139.14	129.75	7%
Energy supply costs (C\$/MWh)	91.74	83.86	9%
Operating expenses (C\$/MWh)	18.35	17.41	5%
Gross margin (C\$/MWh)	29.05	28.48	2%
Earnings (C\$millions)	6	5	20%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat when compared the same quarter last year at C\$4m. Energy deliveries were also flat on a year-over-year basis. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

Awaiting a decision in Belize

“In March 2011 the Supreme Court of Belize dismissed Belize Electricity’s appeal of the regulator’s June 2008 Final Rate Decision. The Company is in the process of filing an appeal of the trial judgment with the Belize Court of Appeal and has filed an application to restrain the regulator from initiating any rate action pending the hearing and determination of the appeal.”

Fortis Turks and Caicos, in March 2011 submitted “its 2010 annual regulatory filing outlining the Company’s performance in 2010.” Fortis “intends to submit a new Rate Variation Application in 2011, which takes into account changes in the utility’s rate base and in the local business and regulatory environment since filing its 2010 application. The 2010 application was not accepted by the Governor of the Turks and Caicos Islands due to concern about the impact a proposed rate increase might have on key sectors of the local economy.”

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	257	256	0%
Revenue (C\$/MWh)	295.72	296.88	0%
Energy supply costs (C\$/MWh)	178.99	175.78	2%
Operating expenses (C\$/MWh)	42.80	46.88	-9%
Gross margin (C\$/MWh)	73.93	74.22	0%
Earnings (C\$millions)	4	4	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 50% from the current quarter compared to the same quarter last year. Energy deliveries increased by 13% from Q1 2010 to Q1 2011 due the commissioning of the Vaca hydroelectric facility in Belize in late March 2010. See the table below for selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	76	67	13%
Revenue (C\$/MWh)	92.11	74.63	23%
Energy supply costs (C\$/MWh)	-	-	n/a
Operating expenses (C\$/MWh)	39.47	29.85	32%
Gross margin (C\$/MWh)	52.63	44.78	18%
Earnings (C\$millions)	3	2	50%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$1m which is lower than Q1 2010 earnings of C\$2m. REVPAR slightly increased to C\$63.29 from C\$62.93 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 94.3% versus last year's 95.8%.

Corporate

Corporate expenses decreased to C\$20 million in Q1 2011 from C\$21m in Q4 2009.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$233 million, of which C\$207 million was spent at regulated utilities. Fortis continues to guide that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2011-2015) approaching C\$5.5bn with 63% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 20% of the total capex amount, and 17% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board in the regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "We will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada that will add value for our shareholders". Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;

- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "*Pondering a Portland purchase?*"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. As a result of the quarter, we slightly revised our EPS estimates for 2011 to C\$1.77 from C\$1.76. Our Neutral rating and C\$34.00 target price is obtained from multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target: C\$34

Companies Mentioned (Price as of 04 May 11)

Fortis Inc. (FTS.TO, C\$32.35, NEUTRAL, TP C\$34.00)

Disclosure Appendix

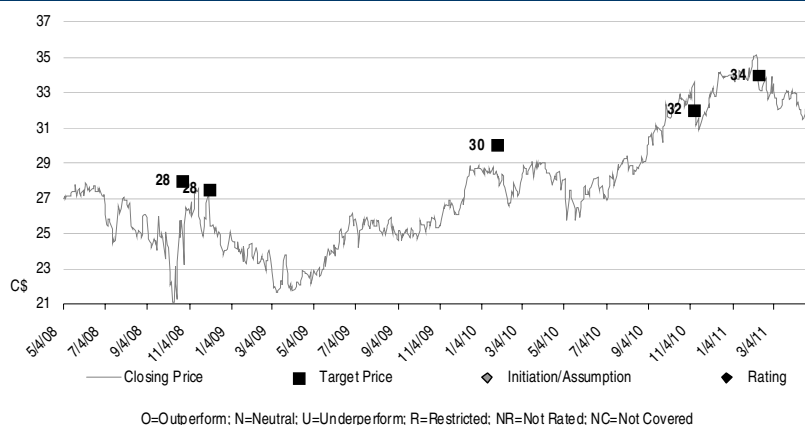
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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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Neutral/Hold*	40%	(57% banking clients)
Underperform/Sell*	11%	(50% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (27 May 11, C\$)	33.66
Target price (C\$)	34.00 [†]
52-week price range	35.15 - 26.50
Market cap. (C\$ m)	5,904.69
Enterprise value (C\$ m)	12,951.03

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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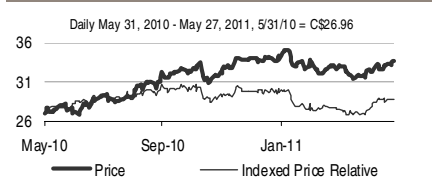
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ACQUISITION

Cross border connections

- **Accretive action:** Fortis plans to acquire Central Vermont Public Service (CV.N) for US\$700m (including the assumption of US\$230m in debt) for US\$35.10/share in cash representing a 44% premium to Friday's closing price of US\$24.32. FTS believes the deal will close in 6-12 months and will be EPS accretive in the first full year of ownership. We view this long-awaited initial FTS foray into the US as incrementally positive. From our perspective, we believe Fortis is very well positioned to consolidate the small to mid-cap US utility sector. Given Central Vermont's potential future rate base growth, we view this deal positively. Additionally, we believe Fortis is very well positioned for more US targeted deals.
- **Deal details:** Under simple assumptions, we believe this deal may result in more than C\$0.10/sh of earnings accretion for Fortis in the first full year after close. Similar to past FTS acquisitions, CV's large investment plan may result in 9% compound average annual growth from 2010 to 2015. Such growth should provide further financial upside, however, in the near-term, significant earnings accretion is possible largely the result of the wide valuation gap between Canadian and US utilities. Given the current appetite for yield in the Canadian market, we expect ongoing US targeted deals that are also aided by the level of the CAD/USD.
- **Improving capital market conditions:** Historically, Fortis is very adept at acquisitions and this transaction highlights long-term and low-risk growth.
- **Valuation:** We have not adjusted our numbers for this deal, but will do so over time. Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 05/27/11 the Canada S&P/TSX Composite Index index closed at 13797.59

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.9	19.0	18.1	17.6
P/E rel. (%)	137.2	142.9	145.7	145.3
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	8.2	8.7	8.3
EV/EBITDA (current)	10.9	10.7	10.4	9.6
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.4

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 27 May 11)
Fortis Inc. (FTS.TO, C\$33.66, NEUTRAL, TP C\$34.00)

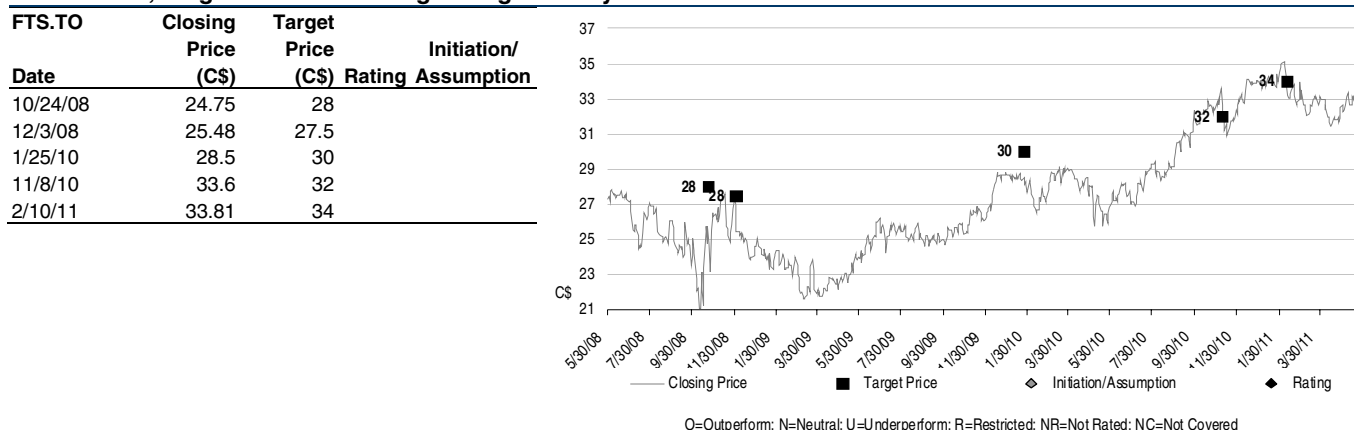
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Neutral/Hold*	40%	(56% banking clients)
Underperform/Sell*	10%	(50% banking clients)
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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (10 Jun 11, C\$)	31.65
Target price (C\$)	34.00 [†]
52-week price range	35.15 - 26.89
Market cap. (C\$ m)	5,552.10
Enterprise value (C\$ m)	12,598.43

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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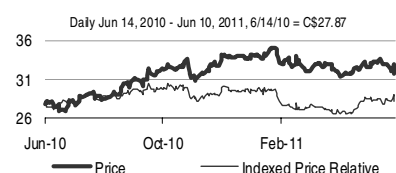
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BUSINESS DISPOSAL

Bye-bye Belize?

- **A government grab:** Fortis Inc. press released the Government of Belize's interest "...in purchasing majority shares in BEL so as to assume control of the company." Fortis has yet to receive a purchase proposal for the approximate 70% interest in Belize Electricity Limited (BEL). At this time, we view the prospects for BEL disposition as a potentially minor positive for FTS. We take that view for multiple reasons, including: (a) over the last few years, BEL experienced regulatory issues that led to a lengthy legal battle; (b) FTS would likely repatriate the BEL proceeds towards a combination of organic and acquisition oriented growth activities in North American; and, (c) clearly, we assume any BEL disposition will occur at a fair value. A future deal price is critical to assessing impact, but a potential dispute resolution is positive.
- **Some details:** Without delving into the history of Fortis in Belize, we believe selected points are pertinent, including: (a) FTS owns roughly 70% of Belize Electricity Limited which is an integrated electric utility in Belize; (b) FTS owns the Belize Electric Company Limited (BECOL), an unregulated hydroelectric generation company, in Belize; and, and, (c) for FTS less than 2% of total assets are exposed at BEL (~C\$259m) and the combination of BEL and BECOL amount to only 3% of the total assets as of March 31, 2011.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 06/10/11 the Canada S&P/TSX Composite Index index closed at 13084.

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.7	17.8	17.0	16.6
P/E rel. (%)	135.8	141.5	144.2	143.8
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.7	8.2	7.8
EV/EBITDA (current)	10.6	10.4	10.1	9.4
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.7

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 10 Jun 11)
Fortis Inc. (FTS.TO, C\$31.65, NEUTRAL, TP C\$34.00)

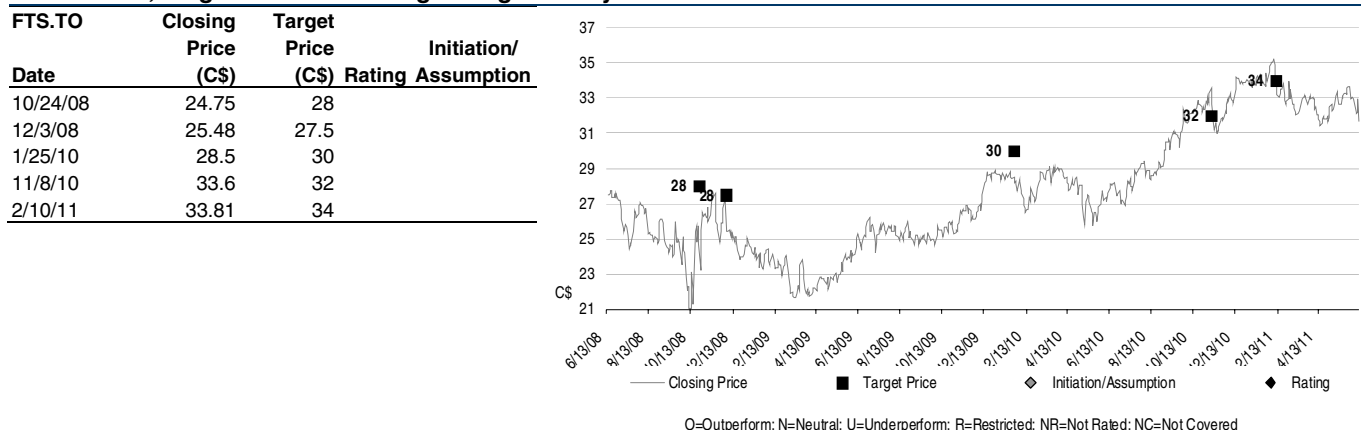
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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (23 Jun 11, C\$)	31.64
Target price (C\$)	34.00 [†]
52-week price range	35.15 - 26.89
Market cap. (C\$ m)	5,550.34
Enterprise value (C\$ m)	12,596.67

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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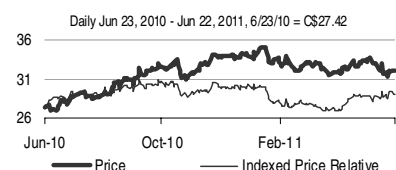
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COMPANY UPDATE

Valuing Vermont

- **Competing bid:** Roughly three and a half weeks after Central Vermont Public Service Corporation (CVPS) agreed to be purchased by Fortis Inc. for US\$35.10 per share, Northern New England Energy Corp. (NNEEC), a wholly owned subsidiary of Gaz Métro Limited Partnership made an unsolicited offer for CVPS. CVPS announced its board of directors “will review the unsolicited offer in due course based on its fiduciary responsibilities and contractual commitments to Fortis.” We believe FTS is a very disciplined buyer of assets. The recent equity offering, CV deal and Belize issues have weighed on the stock.
- **Deal differences:** Selected differences between the NNEEC and FTS offers include: (a) NNEEC bid US\$35.25 per CVPS share vs. FTS at US\$35.10/sh; (b) under NNEEC’s bid, CVPS shareholders will receive quarterly dividend payments of US\$0.23/sh until closing versus FTS’s offer capping dividends at US\$0.46; (c) NNEEC stated the transaction will create roughly US\$144m over 10-year customer savings to CVPS and, wholly-owned subsidiary, Green Mountain Energy (GMP) rate payers versus US\$21m in the FTS transaction; and (d) the NNEEC deal will see CVPS and GMP contribute roughly 30% ownership interest in VELCO to a “permanent trust under public direction”. As with many utility transactions, the potential for greater customer benefits may be critical in the regulatory approval process.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company’s ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation.

Share price performance



On 06/22/11 the Canada S&P/TSX Composite Index index closed at 13060.56

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.7	17.8	17.0	16.6
P/E rel. (%)	136.0	141.7	144.4	144.0
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.7	8.2	7.8
EV/EBITDA (current)	10.6	10.4	10.1	9.4
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.7

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 23 Jun 11)
 Central Vermont Pub Serv (CV, \$34.41)
 Fortis Inc. (FTS.TO, C\$31.64, NEUTRAL, TP C\$34.00)

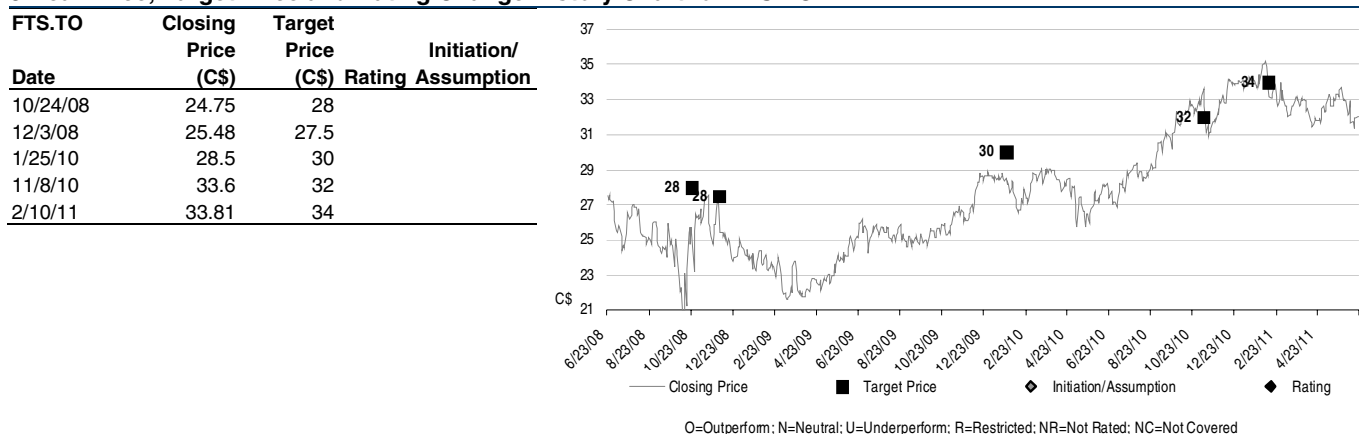
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (11 Jul 11, C\$)	32.38
Target price (C\$)	34.00 [†]
52-week price range	35.15 - 27.73
Market cap. (C\$ m)	5,680.15
Enterprise value (C\$ m)	12,726.49

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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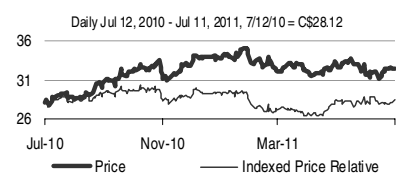
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COMPANY UPDATE

A positive pass

- **Terminating transaction:** Fortis Inc. announced the Central Vermont Public Service Corporation's (CVPS) Board of Directors determined Gaz Métro Limited Partnership's acquisition proposal was a "Superior Proposal". Thus, CVPS terminated the Merger Agreement with Fortis Inc. As a result, Fortis will receive a termination fee of US\$17.5m plus US\$2.0m in expenses. We believe the transaction illustrates the company's traditional discipline by not engaging in a bidding war. Roughly concurrent with the initial bid for CV, Fortis raised more than C\$300m of gross proceeds from an equity issue. We believe the money gives more flexibility for Fortis to potentially accelerate the existing capital program, de-levering or engage in further acquisitions.
- **Positive pass:** We continue to believe Fortis is extremely well positioned to consolidate the small to mid-cap US utility sector. In our view, Fortis remains a disciplined buyer of assets with a view for longer-term rate base growth. In light of the difficulties around many utility transactions, we do not expect FTS to announce another deal in short order. Yet, we believe FTS will continue to be very active in the US market for the "right" utility deal. Despite the Street's potential lingering M&A concerns, we believe the shares rally on the CV deal termination.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 07/11/11 the Canada S&P/TSX Composite Index index closed at 13179.75

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.2	18.3	17.4	17.0
P/E rel. (%)	136.0	141.6	144.4	144.0
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.9	8.4	8.0
EV/EBITDA (current)	10.7	10.5	10.2	9.5
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.6

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 11 Jul 11)
 Central Vermont Pub Serv (CV, \$36.00)
 Fortis Inc. (FTS.TO, C\$32.38, NEUTRAL, TP C\$34.00)

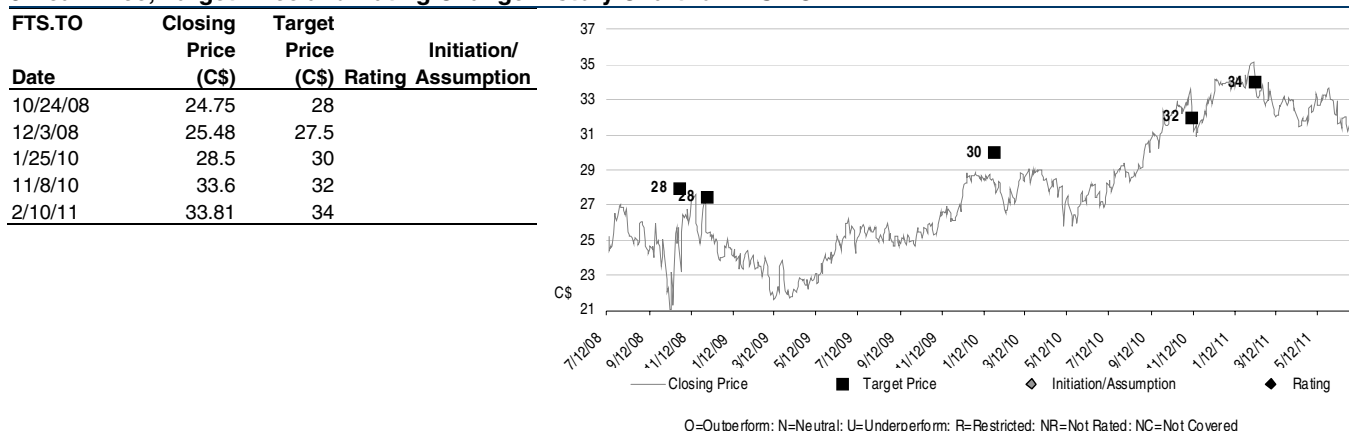
Disclosure Appendix

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

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**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Neutral/Hold*	40%	(57% banking clients)
Underperform/Sell*	10%	(52% banking clients)
Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating (from Neutral) **OUTPERFORM***
Price (03 Aug 11, C\$) 30.87
Target price (C\$) 34.00[†]
52-week price range 35.15 - 28.36
Market cap. (C\$ m) 5,751.06
Enterprise value (C\$ m) 11,622.72

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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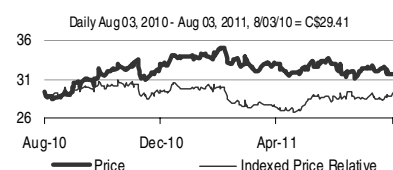
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UPGRADE RATING

Caught in the downdraft

- **Earnings review:** Fortis reported Q1 2011 headline EPS (FD) of C\$0.33 slightly below our C\$0.34 estimate, the Street's C\$0.347 view and at the bottom end of the C\$0.33-C\$0.36 range. Year-to-date, Fortis shares have been the weakest performer in the Canadian utility universe returning -9%. We believe Fortis delivers organic growth that is combined with a disciplined acquisition framework. In our view, the market remains somewhat concerned about deal potential and the Belize Electricity situation. Given the potential excess return, we upgrade FTS to Outperform from the previous Neutral. Our target is maintained at C\$34.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with a reiteration of the C\$1.2bn target for 2011. Additionally, Fortis increased the 5-year capex outlook to C\$5.7b from C\$5.5bn. Eighty-four percent of that total amount is expected to go towards utility activity that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We are disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** With the recent sell-off, we upgrade our FTS rating to Outperform from the previous Neutral. We also maintain our C\$34 that is obtained via multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We introduce our Outperform rating.

Share price performance



On 08/03/11 the S&P/TSX COMPS INDEX closed at 12816.03

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.33	0.28	0.51
2012E	0.72	0.32	0.28	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.2	17.5	16.6	16.2
P/E rel. (%)	—	91.8	111.9	126.7
Revenue (C\$ m)	3,664.0	3,806.8	4,133.5	4,320.4
EBITDA (C\$ m)	1,150.0	1,215.8	1,304.2	1,378.2
OCFPS (C\$)	4.01	4.44	3.83	4.02
P/OCF (x)	8.5	7.0	8.0	7.7
EV/EBITDA (current)	9.8	9.3	8.7	8.2
Net debt (C\$ m)	5,914	5,872	6,488	6,973
ROIC (%)	6.30	6.25	6.18	6.10
Number of shares (m)	186.30	IC (current, C\$ m)		10,237.80
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	5,737.5	Dividend (Next Qtr., C\$)		0.29
Net debt/tot. cap. (Next Qtr..	135.4	Dividend yield (%)		0.94

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Largely inline results

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2011	Q2 2010	chg y/y
Regulated Gas Utilities - Canadian	15	17	-12%
Regulated Electric Utilities - Canadian	45	40	13%
Regulated Electric Utilities - Caribbean	7	7	0%
Non-regulated - Fortis Generation	2	3	-33%
Non-regulated - Fortis Properties	7	8	-13%
Corporate and other	(18)	(20)	10%
Net earnings applicable to common shares	58	55	5%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 12% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 1,002 during H1 2011 versus net addition of 1,829 during the H1 2010;
- The amount of customer additions decreased versus H1 2010 due to lower building activity; and,
- Sales volumes for the quarter increased for all the segments (Core-Residential and Commercial, the Industrial segment and transportation volumes).

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q2 2011	Q2 2010	chg y/y
FortisBC Energy	15.0	17.0	-12%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2011	Q2 2010	chg y/y
FortisAlberta	19	17	12%
FortisBC Electric	9	8	13%
Newfoundland Power	11	11	0%
Other Cdn Electric Utilities	6	4	50%
Earnings	45	40	13%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were up by roughly 12% comparing Q2 2011 versus the prior period. See Exhibit 4 for selected highlights.

Increase in energy delivery in Alberta

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	3,822	3,784	1%
Revenue (C\$/MWh)	27.21	24.31	12%
Operating expenses (C\$/MWh)	9.42	9.51	-1%
Gross margin (C\$/MWh)	17.79	14.80	20%
Earnings (C\$millions)	19	17	12%

Source: Company data and Credit Suisse

FortisBC Electric

Segmented earnings at FortisBC Electric increased by 13% compared to the same period last year. The increase was due rate base growth due to continued investment in utility capital assets and lower-than-expected average market priced purchase power costs. See Exhibit 5 for selected highlights.

Increase in energy deliveries in BC

Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	682	671	2%
Revenue (C\$/MWh)	93.84	87.93	7%
Energy supply costs (C\$/MWh)	16.13	19.37	-17%
Operating expenses (C\$/MWh)	30.79	28.32	9%
Gross margin (C\$/MWh)	46.92	40.24	17%
Earnings (C\$millions)	9	8	13%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings generation was flat when comparing Q2 2011 versus Q2 2010. Higher electricity sales and lower effective income taxes were offset by timing of certain labour costs in H1 2011, wage and inflationary increases and lower allowed ROE. Energy deliveries were up by approximately 4% (see Exhibit 6).

Increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	1,269	1,220	4%
Revenue (C\$/MWh)	104.81	103.28	1%
Energy supply costs (C\$/MWh)	63.04	61.48	3%
Operating expenses (C\$/MWh)	13.40	12.30	9%
Gross margin (C\$/MWh)	28.37	29.51	-4%
Earnings (C\$millions)	11	11	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

The roughly 5% increase in energy deliveries was primarily the result of higher average consumption due to colder temperatures in Ontario and Prince Edward Island. Exhibit 7 contains selected highlights.

Increase in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	562	535	5%
Revenue (C\$/MWh)	138.79	140.19	-1%
Energy supply costs (C\$/MWh)	83.63	85.98	-3%
Operating expenses (C\$/MWh)	19.57	20.56	-5%
Gross margin (C\$/MWh)	35.59	33.64	6%
Earnings (C\$millions)	6	4	50%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

Awaiting a decision in Belize

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat when compared the same quarter last year at C\$7m. Energy deliveries declined 6% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time.

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	290	307	-6%
Revenue (C\$/MWh)	300.00	270.36	11%
Energy supply costs (C\$/MWh)	182.76	153.09	19%
Operating expenses (C\$/MWh)	37.93	35.83	6%
Gross margin (C\$/MWh)	79.31	81.43	-3%
Earnings (C\$millions)	7	7	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 33% from the current quarter compared to the same quarter last year. Energy deliveries increased by 3% from Q2 2010 to Q2 2011 due increased production New York and Ontario caused by higher rainfall. Exhibit 9 provides selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	90	87	3%
Revenue (C\$/MWh)	77.78	91.95	-15%
Energy supply costs (C\$/MWh)	11.11	11.49	-3%
Operating expenses (C\$/MWh)	11.11	22.99	-52%
Gross margin (C\$/MWh)	55.56	57.47	-3%
Earnings (C\$millions)	2	3	-33%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution during the quarter was C\$7m which is lower than Q2 2010 earnings of C\$8m. REVPAR slightly decreased to C\$83.57 from C\$83.77 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 93.4% versus last year's 94.8%.

Corporate

Corporate expenses decreased to C\$18million in Q2 2011 from C\$20m in Q2 2010.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$286 million, of which C\$221 million was spent at regulated utilities. Fortis continues to guide that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis increased consolidated gross capital expenditures expectations over the 5 year plan (2011-2015) to C\$5.7bn from the previous guidance of C\$5.5bn with 84% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 16% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board in the regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "We will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada that will add value for our shareholders". Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability.

Rating: Upgrade to Outperform from Neutral

Target: C\$34

Year-to-date, Fortis shares have been the weakest performer in the Canadian utility universe returning -9%. We believe Fortis delivers organic growth that is combined with a

disciplined acquisition framework. In our view, the market remains somewhat concerned about deal potential and the Belize Electricity situation. Given the potential excess return, we upgrade FTS to Outperform from the previous Neutral. Our target is maintained at C\$34 and is obtained via multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; 10.2x EV/EBITDA; a 1.7x book value multiple; an implied 3.4% dividend yield; and, a DCF based valuation. We introduce our Outperform rating.

For greater valuation context, please see the series of historical valuations below.

The 10-year historical 2-year forward P/E is 15.8x, while the 1-year and 2-year averages are 17.9x and 16.9x, respectively. (see Exhibit 11)

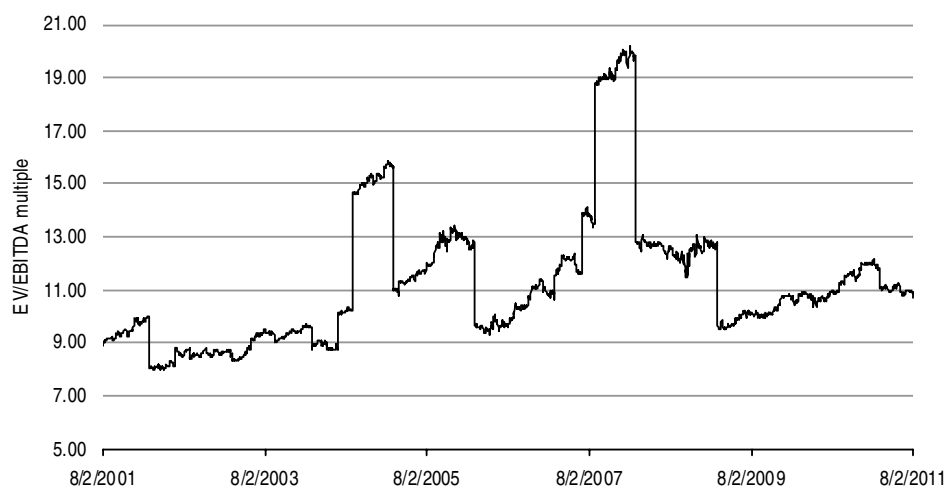
Exhibit 11: FTS historical 2 year forward P/E



Source: FactSet and Credit Suisse

The 10-year historical EV/EBITDA multiple is 11.2x, while the 1-year and 2-year averages are 11.3x and 10.9x, respectively. (see Exhibit 12)

Exhibit 12: FTS historical EV/EBITDA



Source: FactSet and Credit Suisse

The 10-year historical dividend yield is 3.37%, while the 1-year and 2-year averages are 3.44% and 3.63%, respectively. (see Exhibit 13)

Exhibit 13: Historical dividend yield

Source: FactSet and Credit Suisse

Companies Mentioned (Price as of 03 Aug 11)
 Fortis Inc. (FTS.TO, C\$30.87, OUTPERFORM, TP C\$34.00)

Disclosure Appendix

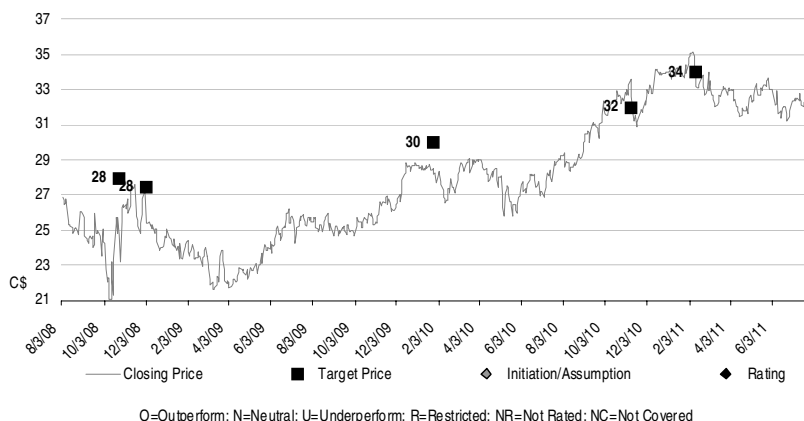
Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
Outperform/Buy*	48%	(61% banking clients)
Neutral/Hold*	40%	(57% banking clients)
Underperform/Sell*	10%	(50% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names.

Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

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Fortis Inc. (FTS.TO)

DOWNGRADE RATING

Reduced rating after run-up

Rating	(from Outperform) NEUTRAL*
Price (27 Sep 11, C\$)	33.44
Target price (C\$)	34.00 ¹
52-week price range	35.15 - 29.11
Market cap. (C\$ m)	6,230.57
Enterprise value (C\$ m)	12,102.24

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

Research Analysts

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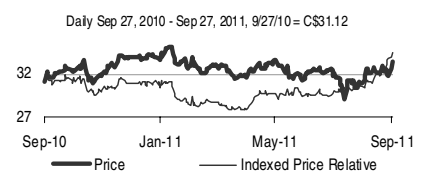
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- **Revising rating:** In a relatively short period of time following the Fortis Inc. Q2 results, the stock appreciated by more than 8% (not including dividends). Given this performance, the stock offers a total potential return of roughly 5%. We view that total potential return as being insufficient to justify our Outperform rating. Accordingly, we downgrade our rating to Neutral, however, we maintain our target price at C\$34.00.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with a reiteration of the C\$1.2bn target for 2011 in their Q2 results. Additionally, Fortis increased the 5-year capex outlook to C\$5.7b from C\$5.5bn in their Q2. Eighty-four percent of that total amount is expected to go towards utility activity that should deliver favourable risk adjusted returns over a period of time.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We are disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** With the recent stock performance, we downgrade our FTS rating to Neutral from the previous Outperform. We maintain our C\$34.00 that is obtained via multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We introduce our Neutral rating.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.33	0.28	0.51
2012E	0.72	0.32	0.28	0.54

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.8	18.9	18.0	17.5
P/E rel. (%)	—	108.7	134.0	149.6
Revenue (C\$ m)	3,664.0	3,806.8	4,133.5	4,320.4
EBITDA (C\$ m)	1,150.0	1,215.8	1,304.2	1,378.2
OCFPS (C\$)	4.01	4.44	3.83	4.02
P/OCF (x)	8.5	7.5	8.7	8.3
EV/EBITDA (current)	10.3	9.7	9.0	8.6
Net debt (C\$ m)	5,914	5,872	6,488	6,973
ROIC (%)	6.30	6.25	6.18	6.10
Number of shares (m)	186.32	IC (current, C\$ m)		10,305.54
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.2
Net debt (Next Qtr., C\$ m)	5,737.5	Dividend (Next Qtr., C\$)		0.29
Net debt/tot. cap. (Next Qtr.,	133.0	Dividend yield (%)		0.87

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 27 Sep 11)
 Fortis Inc. (FTS.TO, C\$33.44, NEUTRAL, TP C\$34.00)

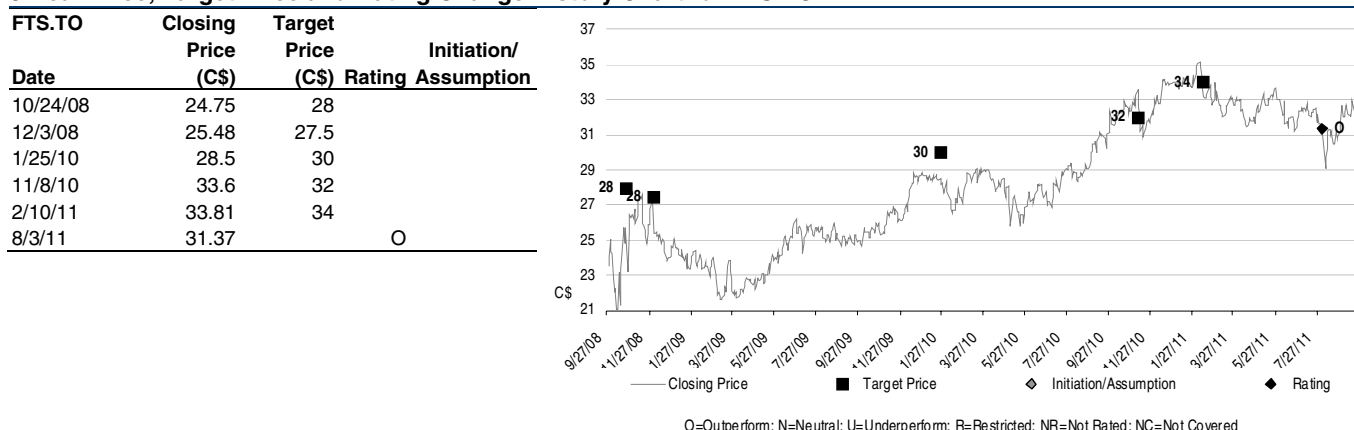
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

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Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Bountiful break-up

Rating	NEUTRAL*
Price (03 Nov 11, C\$)	34.06
Target price (C\$)	34.00 ¹
52-week price range	35.15 - 29.11
Market cap. (C\$ m)	6,366.95
Enterprise value (C\$ m)	12,230.44

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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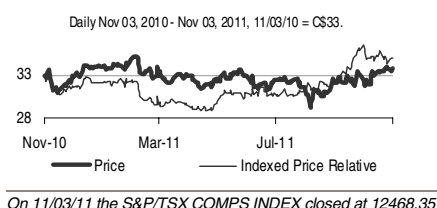
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- **Earnings review:** Fortis reported Q3 2011 headline EPS (FD) of C\$0.31, adjusting for the termination fee paid to FTS by Central Vermont Public Service Corp. the adjusted figure is C\$0.26, which missed our C\$0.28 estimate but was higher than the Street's C\$0.244 view and within the C\$0.22-C\$0.28 range. In general, we believe Fortis is making steady progress in delivering consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with a reiteration of their C\$1.2bn target for 2011. Additionally, Fortis reiterated its 5-year capex outlook of C\$5.7bn. Eighty-four percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We are disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: a 19.0x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We reiterate our Neutral rating.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.33	0.26	0.50
2012E	0.70	0.32	0.28	0.52

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.74	1.82	1.87
Prev. EPS (C\$)	—	1.77	1.86	1.91
P/E (x)	21.2	19.6	18.7	18.2
P/E rel. (%)	126.2	147.3	163.3	175.7
Revenue (C\$ m)	3,664.0	3,836.0	4,133.5	4,320.4
EBITDA (C\$ m)	1,150.0	1,225.7	1,304.2	1,378.2
OCFPS (C\$)	4.01	4.35	3.70	3.88
P/OCF (x)	8.5	7.8	9.2	8.8
EV/EBITDA (current)	10.5	9.9	9.3	8.8
Net debt (C\$ m)	5,914	5,863	6,488	6,989
ROIC (%)	6.30	6.37	6.14	6.06
Number of shares (m)	186.93	IC (current, C\$ m)		10,426.38
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)		1.2
Net debt (Next Qtr., C\$ m)	5,863.5	Dividend (Next Qtr., C\$)		0.29
Net debt/tot cap (Next Qtr., %)	128.9	Dividend yield (%)		0.85

Source: Company data, Credit Suisse estimates.

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This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results missed our estimated but beat the Street's

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2011	Q3 2010	chg y/y
Regulated Gas Utilities - Canadian	(3)	(5)	40%
Regulated Electric Utilities - Canadian	43	43	0%
Regulated Electric Utilities - Caribbean	6	8	-25%
Non-regulated - Fortis Generation	8	9	-11%
Non-regulated - Fortis Properties	9	9	0%
Corporate and other	(5)	(19)	74%
Net earnings applicable to common shares	58	45	29%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment improved by roughly 40% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Net customer additions were 1,965 during 9M 2011 versus net additions of 3,460 during the 9M 2010;
- The amount of customer additions decreased versus 9M 2010 due to lower building activity; and,
- Sales volumes for the quarter decreased for both the Core-residential and commercial and for the industrial segment while transportation volumes increased.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q3 2011	Q3 2010	chg y/y
FortisBC Energy	(3.0)	(5.0)	40%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q3 2011	Q3 2010	chg y/y
FortisAlberta	19	19	0%
FortisBC Electric	10	11	-9%
Newfoundland Power	8	8	0%
Other Cdn Electric Utilities	6	5	20%
Earnings	43	43	0%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were flat comparing Q3 2011 versus the prior period. See Exhibit 4 for selected highlights.

Increase in energy delivery
in Alberta

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	3,911	3,778	4%
Revenue (C\$/MWh)	26.34	28.85	-9%
Operating expenses (C\$/MWh)	8.95	8.73	2%
Gross margin (C\$/MWh)	17.39	20.12	-14%
Earnings (C\$millions)	19	19	0%

Source: Company data and Credit Suisse

FortisBC Electric

Segmented earnings at FortisBC Electric decreased by 9% compared to the same period last year. The decrease was due to higher effective corporate income taxes, mainly due to lower deductions for income tax purposes compared to accounting purposes and lower capitalized AFUDC, due to fewer assets under construction during 2011.

Increase in energy
deliveries in BC

See Exhibit 5 for selected highlights.

Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	713	709	1%
Revenue (C\$/MWh)	93.97	87.45	7%
Energy supply costs (C\$/MWh)	21.04	22.57	-7%
Operating expenses (C\$/MWh)	26.65	23.98	11%
Gross margin (C\$/MWh)	46.28	40.90	13%
Earnings (C\$millions)	10	11	-9%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings generation was flat when comparing Q3 2011 versus Q3 2010. Higher electricity sales and lower effective income taxes were offset by wage and inflationary increases, higher employee-related operating expenses and lower allowed ROE. Energy deliveries were up by approximately 1% (see Exhibit 6).

Increase in NP's energy
deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	923	916	1%
Revenue (C\$/MWh)	109.43	108.08	1%
Energy supply costs (C\$/MWh)	56.34	54.59	3%
Operating expenses (C\$/MWh)	18.42	17.47	5%
Gross margin (C\$/MWh)	34.67	36.03	-4%
Earnings (C\$millions)	8	8	0%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

This segment's earning generation increased by 20% in Q3 2011 versus Q3 2010 primarily due to higher allowed ROE at Algoma Power and lower effective corporate income taxes at Fortis Ontario. The energy deliveries for the period remained flat. Exhibit 7 contains selected highlights.

Flat energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	582	583	0%
Revenue (C\$/MWh)	151.20	149.23	1%
Energy supply costs (C\$/MWh)	96.22	97.77	-2%
Operating expenses (C\$/MWh)	20.62	18.87	9%
Gross margin (C\$/MWh)	34.36	32.59	5%
Earnings (C\$millions)	6	5	20%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 25% in Q3 2011 versus the same quarter last year. Energy deliveries declined 38% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. The company stated that it has “commissioned an independent valuation of its previous investment in Belize Electricity and expects to submit its claim for compensation to the GOB during the fourth quarter of 2011.”

Awaiting a decision in Belize

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	197	318	-38%
Revenue (C\$/MWh)	370.56	289.31	28%
Energy supply costs (C\$/MWh)	238.58	179.25	33%
Operating expenses (C\$/MWh)	40.61	37.74	8%
Gross margin (C\$/MWh)	91.37	72.33	26%
Earnings (C\$millions)	6	8	-25%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 11% from the current quarter compared to the same quarter last year. Energy deliveries decreased by 17% from Q3 2010 to Q3 2011 due to decreased production in Upper New York and Belize caused by generating plant being out of service and longer dry season in 2011, respectively. Exhibit 9 provides selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	111	134	-17%
Revenue (C\$/MWh)	99.10	97.01	2%
Operating expenses (C\$/MWh)	18.02	14.93	21%
Gross margin (C\$/MWh)	81.08	82.09	-1%
Earnings (C\$millions)	8	9	-11%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution remained flat during the quarter at C\$9m. REVPAR increased to C\$94.83 from C\$89.54 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was up at 94.2% versus last year's 93.7%.

Corporate

Corporate expenses decreased to C\$5million in Q3 2011 from C\$19m in Q3 2010. The figures for Q3 2011 included the C\$17m (C\$11m after tax) fee paid to Fortis upon the termination of the merger agreement with Central Vermont Public Service Corp.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$287 million, of which C\$227 million was spent at regulated utilities. Fortis continues to guide that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis reiterated its consolidated gross capital expenditures expectations over the 5 year plan (2011-2015) at C\$5.7bn with 84% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 16% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board in the regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside.

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. Fortis management has been reiterating this. For instance, the company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see "*A positive pass*" published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

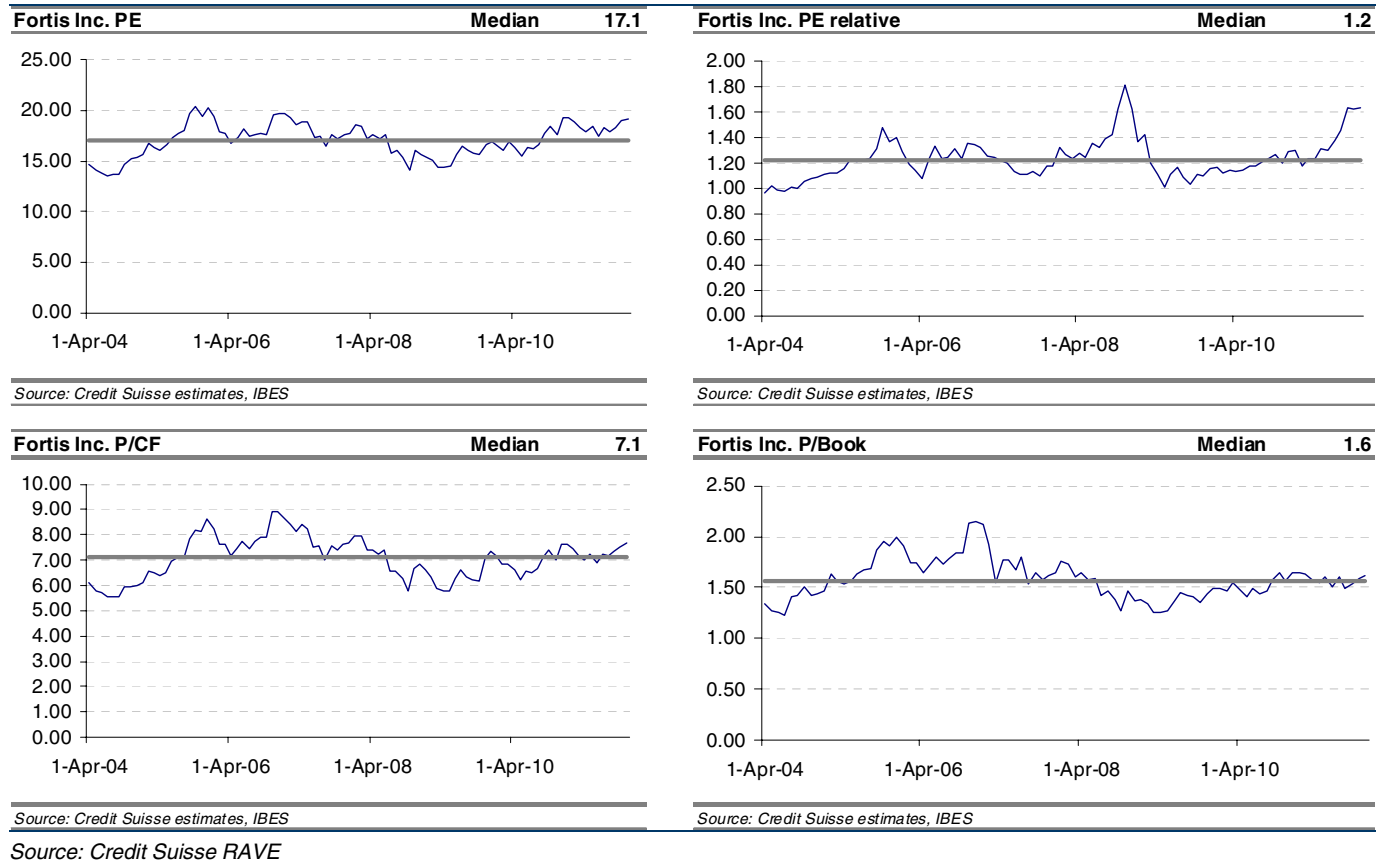
Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. As a result of the quarter, we revised our EPS estimates for 2011, 2012 and 2013 to C\$1.74, C\$1.82 and C\$1.87 from C\$1.77, C\$1.86 and C\$1.91, respectively. Our Neutral rating and C\$34.00 target price is obtained

Rating: Neutral

Target: C\$34

from multiple valuation approaches, including: a 19.0x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We reiterate our Neutral rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

Exhibit 11: Fortis historical valuation


The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.

Companies Mentioned (Price as of 03 Nov 11)
 Fortis Inc. (FTS.TO, C\$34.06, NEUTRAL, TP C\$34.00)

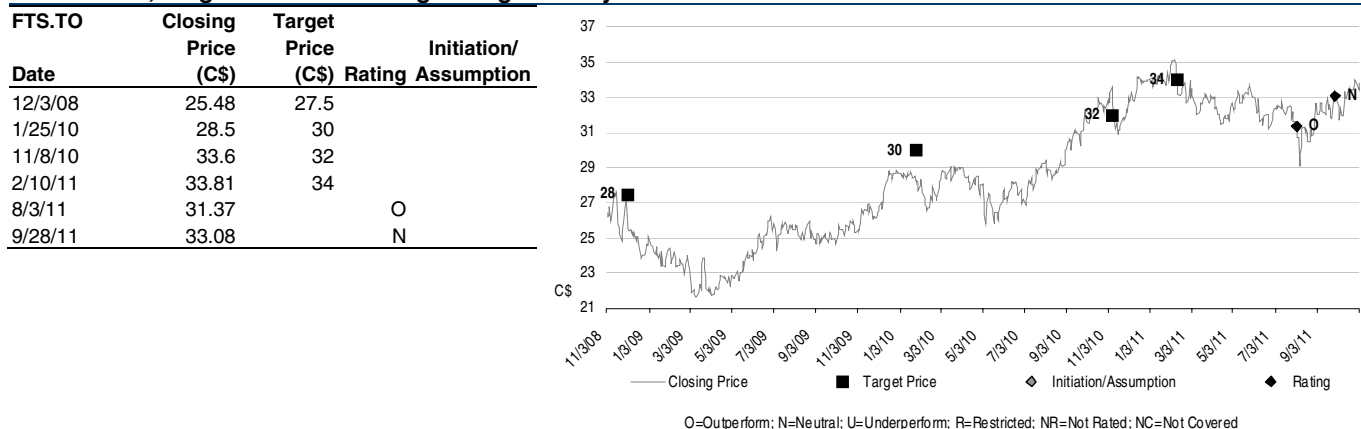
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 19.0x our 2012 EPS (earnings per share) estimate of C\$1.82 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating	NEUTRAL*
Price (09 Feb 12, C\$)	33.89
Target price (C\$)	34.00 ¹
52-week price range	34.24 - 29.11
Market cap. (C\$ m)	6,399.39
Enterprise value (C\$ m)	13,041.90

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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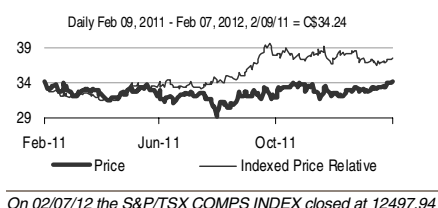
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Delivering on dividends

- **Earnings review:** Fortis reported Q4 2011 headline EPS (FD) of C\$0.45, which missed our C\$0.50 and the Street's C\$0.48 view and at the low end of the C\$0.45-C\$0.50 range. Positively, the company increased its quarterly dividend to C\$0.30 from the previous C\$0.29. The increase was inline with our estimate but slightly missed the Street's C\$1.21 annualized figure. In general, we believe Fortis is making steady progress in delivering consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis updated its 5-year capex outlook to C\$5.5bn. Eighty-seven percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.71	0.31	0.26	0.51
2013E	0.72	0.32	0.27	0.53

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.79	1.85	1.87
Prev. EPS (C\$)	—	1.82	1.87	—
P/E (x)	20.0	18.9	18.4	18.1
P/E rel. (%)	113.5	134.6	147.3	166.2
Revenue (C\$ m)	3,747.0	4,112.1	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,297.7	1,373.6	1,435.0
OCFPS (C\$)	4.51	3.67	3.82	3.95
P/OCF (x)	7.4	9.2	8.9	8.6
EV/EBITDA (current)	10.3	9.4	8.9	8.5
Net debt (C\$ m)	5,855	6,643	7,227	7,717
ROIC (%)	5.96	5.98	5.92	5.82
Number of shares (m)	188.83	IC (current, C\$ m)		10,631.41
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.2
Net debt (Next Qtr., C\$ m)	6,004.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	126.7	Dividend yield (%)		0.89

Source: Company data, Credit Suisse estimates.

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This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our and the Street's estimate

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2011	Q4 2010	chg y/y
Regulated Gas Utilities - Canadian	51	45	13%
Regulated Electric Utilities - Canadian	40	41	-2%
Regulated Electric Utilities - Caribbean	3	4	-25%
Non-regulated - Fortis Generation	5	6	-17%
Non-regulated - Fortis Properties	5	7	-29%
Corporate and other	(18)	(18)	0%
Net earnings applicable to common shares	86	85	1%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment improved by roughly 13% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Net customer additions were 7,450 during 2011 versus net additions of 9,393 during 2010;
- The amount of customer additions decreased versus 2010 due to lower building activity; and,
- Sales volumes for the quarter increased for all the segments, which includes Core-residential, Commercial, Industrial and Transportation segment.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q4 2011	Q4 2010	chg y/y
FortisBC Energy	51.0	45.0	13%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q4 2011	Q4 2010	chg y/y
FortisAlberta	17	17	0%
FortisBC Electric	11	10	10%
Newfoundland Power	8	9	-11%
Other Cdn Electric Utilities	4	5	-20%
Earnings	40	41	-2%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were flat comparing Q4 2011 versus the prior period. See Exhibit 4 for selected highlights.

Slight decrease in energy delivery in Alberta

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	4,232	4,255	-1%
Revenue (C\$/MWh)	24.10	23.27	4%
Operating expenses (C\$/MWh)	8.74	8.70	1%
Gross margin (C\$/MWh)	15.36	14.57	5%
Earnings (C\$millions)	17	17	0%

Source: Company data and Credit Suisse

FortisBC Electric

Segmented earnings at FortisBC Electric increased by 10% compared to the same period last year. The increase was due to growth in rate base.

Flat energy deliveries in BC

See Exhibit 5 for selected highlights.

Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	843	847	0%
Revenue (C\$/MWh)	96.09	86.19	11%
Energy supply costs (C\$/MWh)	26.10	27.15	-4%
Operating expenses (C\$/MWh)	29.66	24.79	20%
Gross margin (C\$/MWh)	40.33	34.24	18%
Earnings (C\$millions)	11	10	10%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings reduced by 11% when comparing Q4 2011 versus Q4 2010. Higher electricity sales and reduction in energy supply cost were offset by wage and inflationary increases, higher effective corporate taxes and lower allowed ROE. Energy deliveries were up by approximately 3% (see Exhibit 6).

Increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	1,527	1,488	3%
Revenue (C\$/MWh)	102.16	102.15	0%
Energy supply costs (C\$/MWh)	67.45	68.55	-2%
Operating expenses (C\$/MWh)	13.10	10.08	30%
Gross margin (C\$/MWh)	21.61	23.52	-8%
Earnings (C\$millions)	8	9	-11%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

This segment's earning decreased by 20% in Q4 2011 versus Q4 2010 primarily due to lower electricity sales at FortisOntario and higher operating expense. The energy deliveries for the period declined by 2%, when compared Q4 2010. Exhibit 7 contains selected highlights.

Decrease in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	568	578	-2%
Revenue (C\$/MWh)	147.89	150.52	-2%
Energy supply costs (C\$/MWh)	96.83	102.08	-5%
Operating expenses (C\$/MWh)	26.41	20.76	27%
Gross margin (C\$/MWh)	24.65	27.68	-11%
Earnings (C\$millions)	4	5	-20%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 25% in Q4 2011 versus the same quarter last year. Energy deliveries declined 21% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. The company stated that it “commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011.”

Awaiting a decision in Belize

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	174	220	-21%
Revenue (C\$/MWh)	402.30	381.82	5%
Energy supply costs (C\$/MWh)	264.37	236.36	12%
Operating expenses (C\$/MWh)	51.72	59.09	-12%
Gross margin (C\$/MWh)	86.21	86.36	0%
Earnings (C\$millions)	3	4	-25%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 17% in Q4 2011 compared to the same quarter last year. Energy deliveries decreased by 18% from Q4 2010 to Q4 2011 due to decreased production in Upper New York and Belize. Exhibit 9 provides selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	112	137	-18%
Revenue (C\$/MWh)	80.36	65.69	22%
Operating expenses (C\$/MWh)	17.86	7.30	145%
Gross margin (C\$/MWh)	62.50	58.39	7%
Earnings (C\$millions)	5	6	-17%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution decreased by 29% in the Q4 2011 compared to Q4 2010. REVPAR increased to C\$72.39 from C\$70.76 for the comparable period last year. While, the occupancy rate of the Real Estate Division was down at 93.2% versus last year's 94.5%.

Corporate

Corporate expenses remained flat to C\$18million in Q4 2011, when compared to Q4 2010.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$368 million, of which C\$315 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 87% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 13% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. Fortis management has been reiterating this. For instance, the company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see "A positive pass" published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "*Pondering a Portland purchase?*"

Valuation

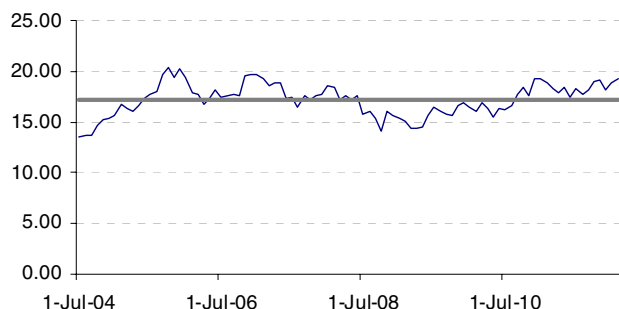
We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. As a result of the quarter, we revised our EPS estimates for 2012 and 2013 to C\$1.79 and C\$1.85 from C\$1.82 and C\$1.87, respectively. Our Neutral rating and C\$34.00 target price is obtained from multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

Rating: Neutral

Target: C\$34

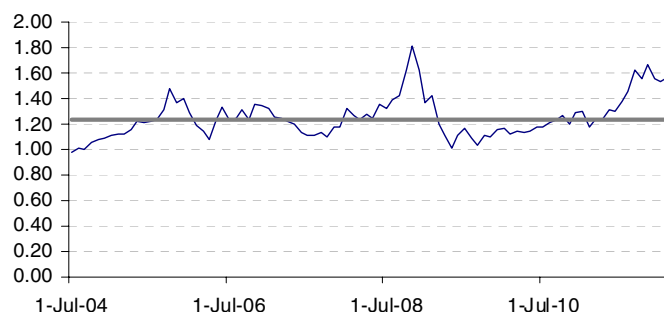
Exhibit 11: Fortis historical valuation

Fortis Inc. PE **Median** **17.2**



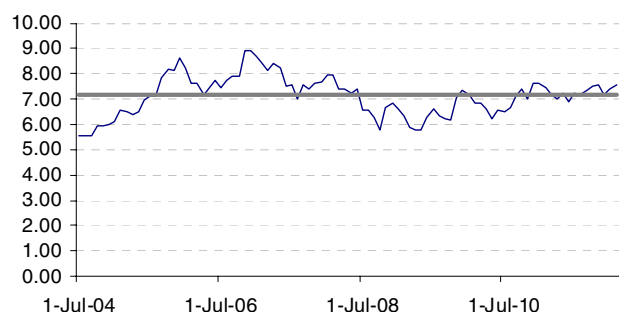
Source: Credit Suisse estimates, IBES

Fortis Inc. PE relative **Median** **1.2**



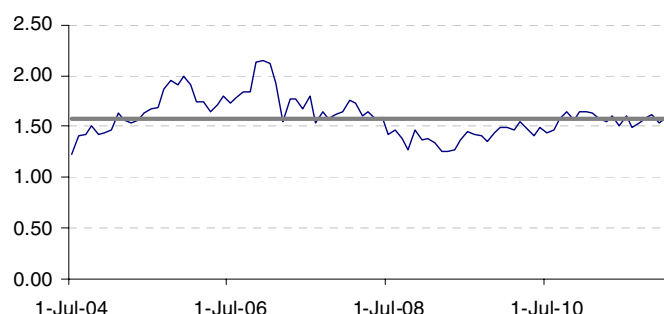
Source: Credit Suisse estimates, IBES

Fortis Inc. P/CF **Median** **7.2**



Source: Credit Suisse estimates, IBES

Fortis Inc. P/Book **Median** **1.6**



Source: Credit Suisse estimates, IBES

Source: Credit Suisse RAVE

The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.

Companies Mentioned (Price as of 09 Feb 12)

Fortis Inc. (FTS.TO, C\$33.89, NEUTRAL, TP C\$34.00)

Disclosure Appendix

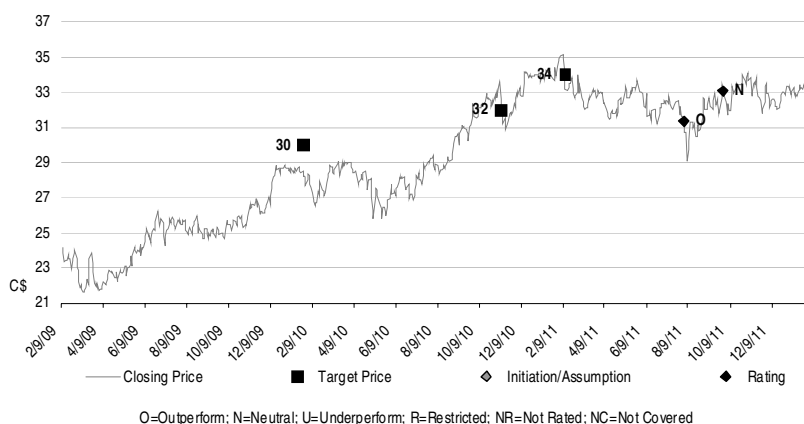
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I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Assumption
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating	NEUTRAL*
Price (17 Feb 12, C\$)	32.85
Target price (C\$)	34.00 [†]
52-week price range	34.08 - 29.11
Market cap. (C\$ m)	6,203.53
Enterprise value (C\$ m)	12,846.04

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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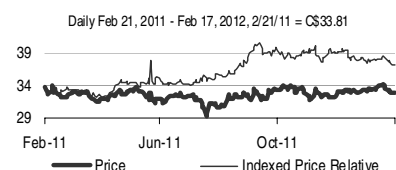
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ACQUISITION

Acquiring American assets

- **American acquisition:** Fortis Inc. announced that it has entered into an agreement to acquire CH Energy Group, Inc. (CHG) for US\$65 per share for a total consideration of roughly US\$1.5b. The purchase price is roughly a 10.5% premium above CHG's most recent stock price close. We calculate the transaction to be modestly accretive to FTS under conservative assumptions. Several reasons to like this deal include: (a) single state results in less complexity; (b) relatively smaller size of the transaction versus some other potential transactions; and, (c) good near to medium-term organic growth at CHG.
- **Deal details:** Selected details include: (a) FTS will be using debt to finance the transaction in the short-term; (b) 97% of CHG net income comes from regulated business; (c) FTS expects closing of the transaction within 12 months; (d) capex at the regulated business to "exceed" US\$100m on average through 2016; (e) CHG total asset roughly US\$1.7b; and (f) for the last three years, CHG regulated business has operated under 10% ROE with 48% common equity (both are higher than many equivalents in Canada).
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



On 02/17/12 the S&P/TSX COMPS INDEX closed at 12458.3

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.71	0.31	0.26	0.51
2013E	0.72	0.32	0.27	0.53

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.79	1.85	1.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.4	18.3	17.8	17.6
P/E rel. (%)	137.3	142.5	158.3	167.0
Revenue (C\$ m)	3,747.0	4,112.1	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,297.7	1,373.6	1,435.0
OCFPS (C\$)	4.51	3.67	3.82	3.95
P/OCF (x)	7.4	8.9	8.6	8.3
EV/EBITDA (current)	10.2	9.3	8.8	8.4
Net debt (C\$ m)	5,855	6,643	7,227	7,717
ROIC (%)	5.96	5.98	5.92	5.82
Number of shares (m)	188.84	IC (current, C\$ m)		10,661.23
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,004.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	127.1	Dividend yield (%)		0.91

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 17 Feb 12)
 Ch Energy Group, Inc. (CHG, \$58.77)
 Fortis Inc. (FTS.TO, C\$32.85, NEUTRAL, TP C\$34.00)

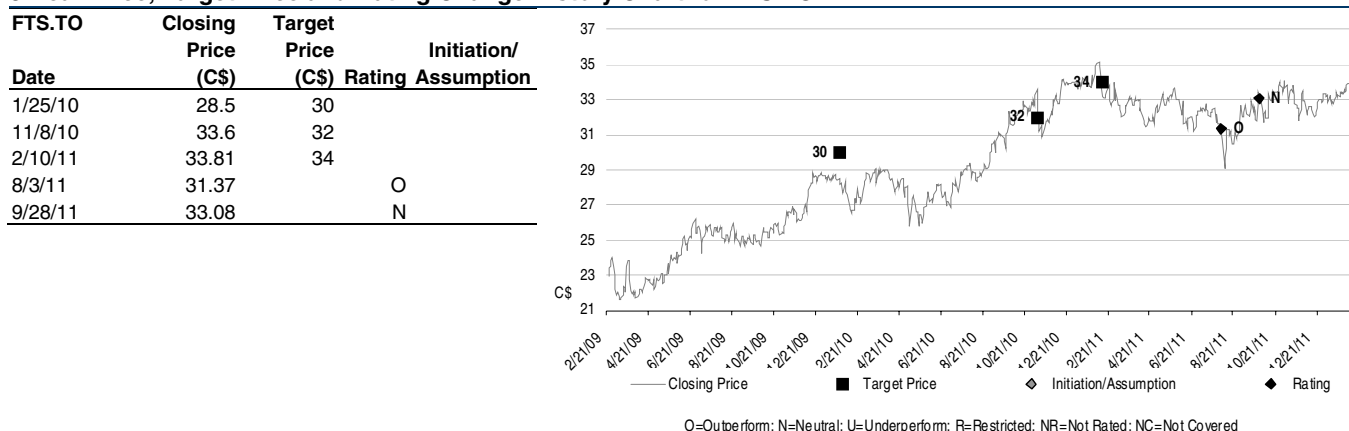
Disclosure Appendix

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Restricted	2%	

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating **NEUTRAL***
Price (24 Apr 12, C\$) 33.27
Target price (C\$) 34.00[†]
52-week price range 29.08 - 29.11
Market cap. (C\$ m) 6,297.16
Enterprise value (C\$ m) 12,945.67

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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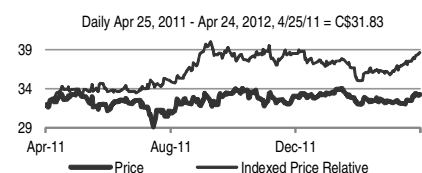
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Q1 earnings preview

- **Earnings revisions:** For several reasons, we made a number of revisions to our Fortis Inc. financial model. Our changes focused on several areas ahead of the forthcoming Q1 2012 results. Specifically, our Q1 EPS estimate declined from C\$0.71 to C\$0.68. Our annual estimate declines from C\$1.79 to C\$1.76. For greater details, please refer to our Canadian Infrastructure Q1 2012 earnings preview "Starting the season: Q1 earnings preview" (25 April 2012).

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.68	0.31	0.26	0.51
2013E	0.72	0.32	0.27	0.53

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.76	1.85	1.87
Prev. EPS (C\$)	—	1.79	—	—
P/E (x)	19.6	18.9	18.0	17.8
P/E rel. (%)	137.6	143.0	157.6	170.3
Revenue (C\$ m)	3,747.0	4,112.1	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,291.7	1,373.6	1,435.0
OCFPS (C\$)	4.51	3.64	3.82	3.95
P/OCF (x)	7.4	9.1	8.7	8.4
EV/EBITDA (current)	10.3	9.4	8.8	8.5
Net debt (C\$ m)	5,855	6,649	7,233	7,723
ROIC (%)	5.80	5.68	5.74	5.67
Number of shares (m)	189.27	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,010.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	126.5	Dividend yield (%)		0.90

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 24 Apr 12)
 Fortis Inc. (FTS.TO, C\$33.27, NEUTRAL, TP C\$34.00)

Disclosure Appendix

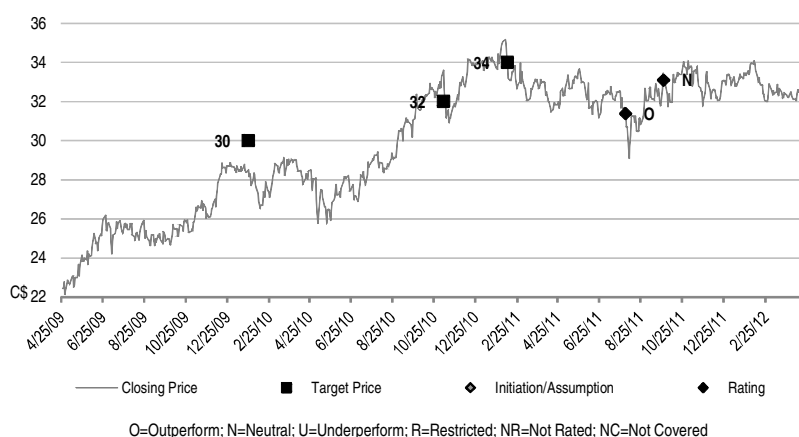
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Rating Assumption
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N



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Restricted	2%	

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Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

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Fortis Inc. (FTS.TO)

FORECAST REDUCTION

Rating **NEUTRAL***
Price (02 May 12, C\$) 34.55
Target price (C\$) 34.00¹
52-week price range 34.55 - 29.11
Market cap. (C\$ m) 6,539.43
Enterprise value (C\$ m) 13,042.34

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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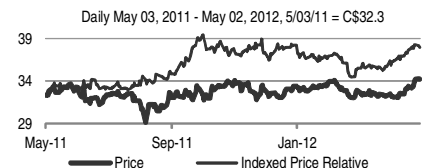
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The regulatory march

- **Earnings review:** Fortis reported Q1 2012 headline EPS (FD) of C\$0.62, which missed our C\$0.68 and the Street's C\$0.67 view and at the low end of the C\$0.62-C\$0.69 range. In general, we believe Fortis is making steady progress in delivering consistent financial results from a largely regulated asset base. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until sometime after close. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis' 5-year capex outlook continues to stand at C\$5.5bn. Eighty-seven percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition. The company stated, "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.32	0.27	0.51
2013E	0.72	0.32	0.28	0.53

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.72	1.85	1.87
Prev. EPS (C\$)	—	1.76	—	—
P/E (x)	20.4	20.1	18.7	18.4
P/E rel. (%)	142.8	151.9	163.3	176.5
Revenue (C\$ m)	3,747.0	3,855.4	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,279.6	1,373.6	1,435.0
OCFPS (C\$)	4.51	4.10	3.83	3.96
P/OCF (x)	7.4	8.4	9.0	8.7
EV/EBITDA (current)	10.5	9.7	9.0	8.6
Net debt (C\$ m)	5,855	6,503	7,084	7,571
ROIC (%)	5.80	5.72	5.67	5.60
Number of shares (m)	189.27	IC (current, C\$ m)	10,532.00	
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)	1.1	
Net debt (Next Qtr., C\$ m)	6,091.1	Dividend (Next Qtr., C\$)	0.30	
Net debt/tot cap (Next Qtr., %)	120.3	Dividend yield (%)	0.87	

Source: Company data, Credit Suisse estimates.

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This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our and the Street's estimate

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2012	Q1 2011	chg y/y
Regulated Gas Utilities - Canadian	82	75	9%
Regulated Electric Utilities - Canadian	51	52	-2%
Regulated Electric Utilities - Caribbean	3	4	-25%
Non-regulated - Fortis Generation	5	3	67%
Non-regulated - Fortis Properties	1	1	0%
Corporate and other	(21)	(19)	-11%
Net earnings applicable to common shares	121	116	4%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment improved by roughly 9% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Net customer additions were 1,000 during Q1 2012 versus net additions of 1,400 in Q1 2011;
- The amount of customer additions decreased versus Q1 2012 due to lower building activity; and,
- Sales volumes for the quarter decreased for the residential and commercial, industrial segments, while increased for the transportation segment.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q1 2012	Q1 2011	chg y/y
FortisBC Energy	82.0	75.0	9%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q1 2012	Q1 2011	chg y/y
FortisAlberta	21	21	0%
FortisBC Electric	16	19	-16%
Newfoundland Power	7	6	17%
Other Cdn Electric Utilities	7	6	17%
Earnings	51	52	-2%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were flat comparing Q1 2012 versus the prior period. See Exhibit 4 for selected highlights.

Slight increase in energy delivery in Alberta

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	4,482	4,402	2%
Revenue (C\$/MWh)	24.10	22.72	6%
Operating expenses (C\$/MWh)	8.70	7.95	9%
Gross margin (C\$/MWh)	15.39	14.77	4%
Earnings (C\$millions)	21	21	0%

Source: Company data and Credit Suisse

FortisBC Electric

Segmented earnings at FortisBC Electric decreased by 16% compared to the same period last year. The decrease was due to increased operating expense, lower capitalized AFUDC and expiry of PBR mechanism on December 31, 2011.

Flat energy deliveries in BC

See Exhibit 5 for selected highlights.

Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	909	905	0%
Revenue (C\$/MWh)	95.71	91.71	4%
Energy supply costs (C\$/MWh)	27.50	25.41	8%
Operating expenses (C\$/MWh)	23.10	19.89	16%
Gross margin (C\$/MWh)	45.10	46.41	-3%
Earnings (C\$millions)	16	19	-16%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings gained by 17% when comparing Q1 2012 versus Q1 2011. Higher electricity sales and lower effective corporate taxes led to result in higher earnings. Energy deliveries were up by approximately 4% (see Exhibit 6).

Increase in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	1,914	1,834	4%
Revenue (C\$/MWh)	100.31	99.78	1%
Energy supply costs (C\$/MWh)	74.19	73.06	2%
Operating expenses (C\$/MWh)	10.45	10.91	-4%
Gross margin (C\$/MWh)	15.67	15.81	-1%
Earnings (C\$millions)	7	6	17%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

This segment's earning increased by 17% in Q1 2012 versus Q1 2011 primarily due to increased electricity sales on PEI and lower effective corporate income taxes. The energy deliveries for the period declined by 1% compared to Q1 2011. Exhibit 7 contains selected highlights.

Decrease in energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	645	654	-1%
Revenue (C\$/MWh)	141.09	139.14	1%
Energy supply costs (C\$/MWh)	89.92	91.74	-2%
Operating expenses (C\$/MWh)	18.60	18.35	1%
Gross margin (C\$/MWh)	32.56	29.05	12%
Earnings (C\$millions)	7	6	17%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 25% in Q1 2012 versus the same quarter last year. Energy deliveries declined 35% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time.

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	166	257	-35%
Revenue (C\$/MWh)	379.52	291.83	30%
Energy supply costs (C\$/MWh)	240.96	178.99	35%
Operating expenses (C\$/MWh)	48.19	42.80	13%
Gross margin (C\$/MWh)	90.36	70.04	29%
Earnings (C\$millions)	3	4	-25%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 67% in Q1 2012 compared to the same quarter last year. Energy deliveries increased by 16% from Q1 2011 to Q1 2012 due to increased production in Belize. Exhibit 9 provides selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	88	76	16%
Revenue (C\$/MWh)	102.27	92.11	11%
Operating expenses (C\$/MWh)	34.09	39.47	-14%
Gross margin (C\$/MWh)	68.18	52.63	30%
Earnings (C\$millions)	5	3	67%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution remained flat during the quarter. REVPAR increased by 5% to C\$66.54 on a year over year comparison. While, the occupancy rate of the Real Estate Division was down by 2.1%.

Corporate

Corporate expenses increase by C\$2 million to C\$10 million in Q1 2012, when compared with last quarter during the same period.

Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$229 million, of which C\$176 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 87% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 13% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the

company's growth strategy. Fortis is currently working towards to complete its acquisition of CH Energy Group (see "Acquiring American assets" on 21 February 2012), which it expects to occur by the end of Q1 2013. We view Fortis management to continue to look to further grow in the US. The company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see "A positive pass" published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp.	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

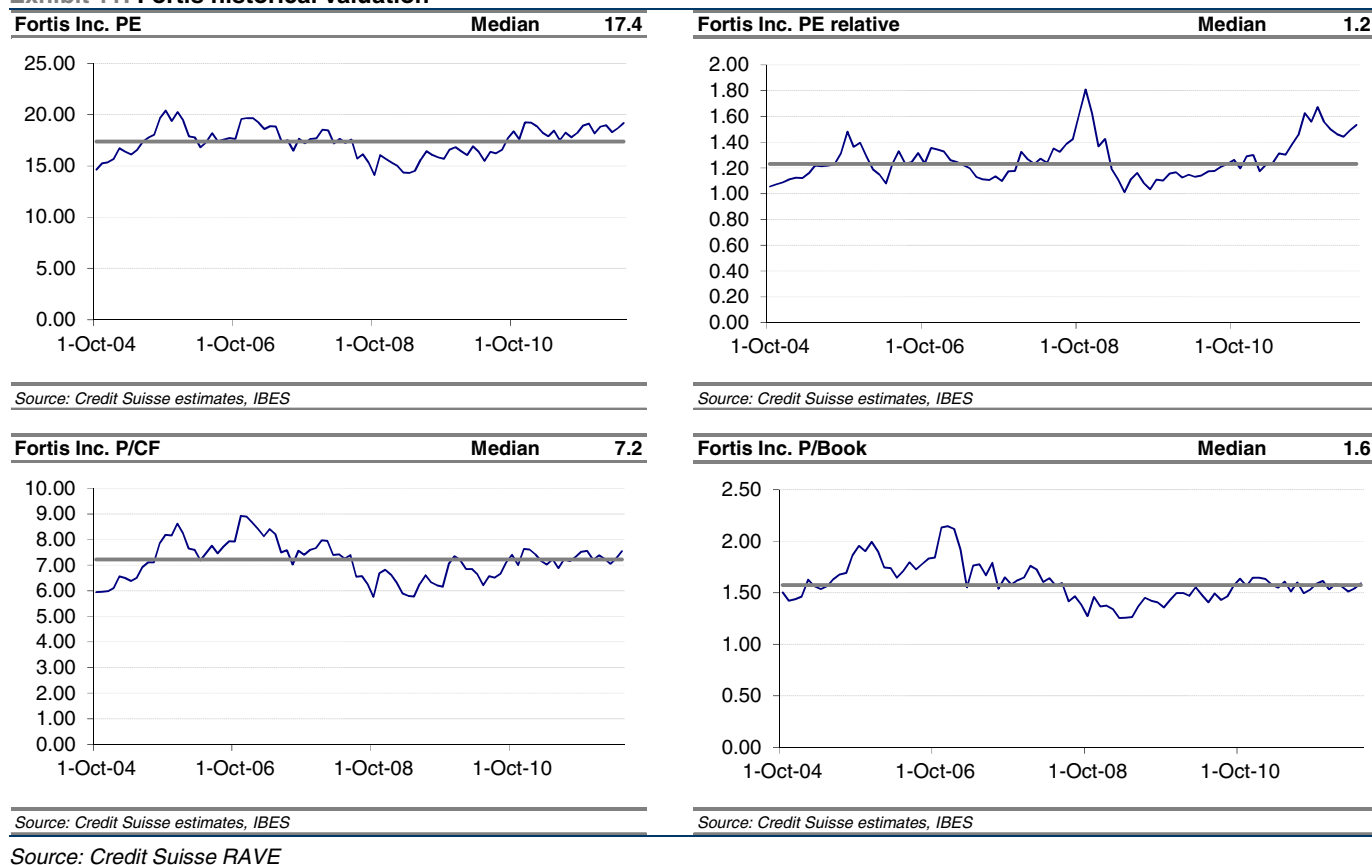
Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. After the quarter, we revised our EPS estimates for 2012 to C\$1.72 from C\$1.76. Our Neutral rating and C\$34.00 target price is obtained from multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

Rating: Neutral

Target: C\$34

Exhibit 11: Fortis historical valuation



The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.

Companies Mentioned (Price as of 02 May 12)

Fortis Inc. (FTS.TO, C\$34.55, NEUTRAL, TP C\$34.00)

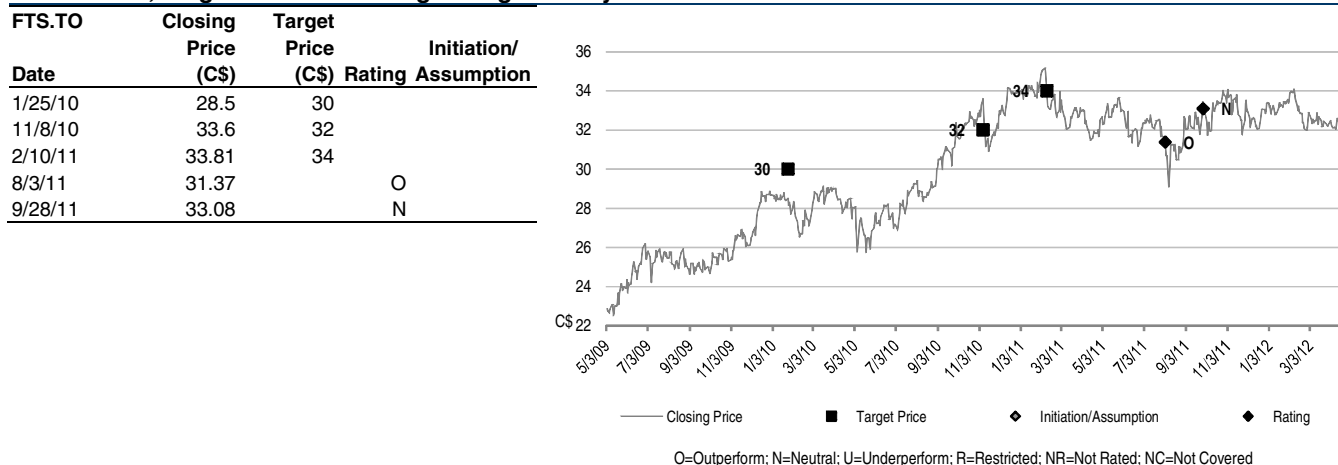
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3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Restricted

2%

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Fortis Inc. (FTS.TO)

Rating **NEUTRAL***
Price (19 Jun 12, C\$) 33.08
Target price (C\$) 34.00[†]
52-week price range 34.55 - 29.11
Market cap. (C\$ m) 6,262.13
Enterprise value (C\$ m) 12,765.04

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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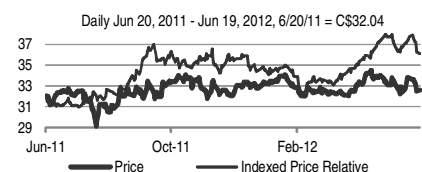
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COMPANY UPDATE

Finalizing funding for CH

- **Funding announcement:** Fortis Inc. announced an underwriter agreement for an 18.5m subscription receipt bought deal at C\$32.50 (~1.8% discount to the share price prior to announcement). Gross proceeds equate to roughly C\$601m before the 2.775m over-allotment option (C\$691m with the exercise of that option). As largely expected, the net proceeds will be used to fund a portion of the previously announced CH Energy Group Inc. acquisition for roughly US\$1.5 billion. Unlike some other offerings in the market, we believe this deal is likely better placed for a variety of reasons. Given the offering and some other factors, we believe the stock is likely to be somewhat range-bound until the closing of the acquisition.
- **Transaction timing:** Fortis expects the offering to close on or about 27 June 2012. Additionally, the company continues to expect the CH deal closes by the end of Q1 2013. In our view, Fortis will continue to be acquisitive and is well positioned to benefit from potential North American asset sales from selected Spanish companies (see the 23 April note for details).
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. After the closing of the CH deal, we believe FTS is well positioned for additional opportunities. Fortis stated, "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders."
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We reiterate our Neutral rating.

Share price performance



On 06/19/12 the S&P/TSX COMPS INDEX closed at 11736.

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.32	0.27	0.51
2013E	0.72	0.32	0.28	0.53

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.72	1.85	1.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.5	19.2	17.9	17.7
P/E rel. (%)	146.0	150.4	161.7	177.4
Revenue (C\$ m)	3,747.0	3,855.4	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,279.6	1,373.6	1,435.0
OCFPS (C\$)	4.51	4.10	3.83	3.96
P/OCF (x)	7.4	8.1	8.6	8.4
EV/EBITDA (current)	10.2	9.5	8.8	8.5
Net debt (C\$ m)	5,855	6,503	7,084	7,571
ROIC (%)	5.80	5.72	5.67	5.60
Number of shares (m)	189.30	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,091.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	120.3	Dividend yield (%)		0.91

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 19 Jun 12)
 Ch Energy Group, Inc. (CHG, \$65.10)
 Fortis Inc. (FTS.TO, C\$33.08, NEUTRAL, TP C\$34.00)

Disclosure Appendix

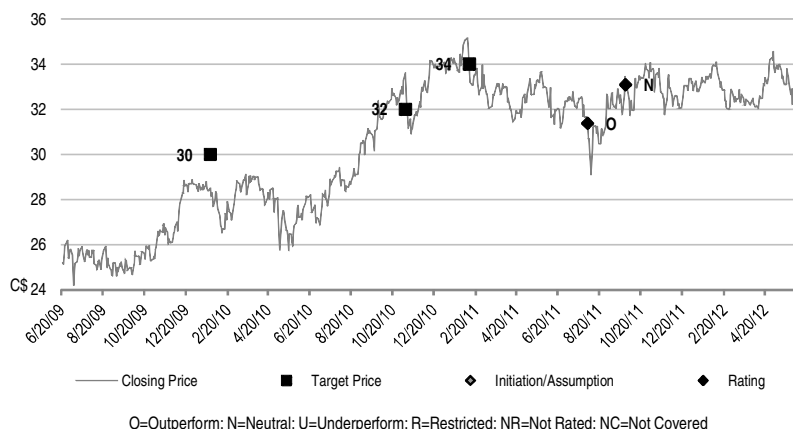
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I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Rating Assumption
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Neutral/Hold*	41%	(56% banking clients)
Underperform/Sell*	9%	(51% banking clients)
Restricted	2%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

Risks: There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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Americas / Canada
Multi Utilities**Fortis Inc.** (FTS.TO)

Rating (from Neutral) **OUTPERFORM***
 Price (19 Jul 12, C\$) 33.00
 Target price (C\$) (from 34.00) 38.00¹
 52-week price range 34.55 - 29.11
 Market cap. (C\$ m) 6,246.99
 Enterprise value (C\$ m) 12,749.90

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

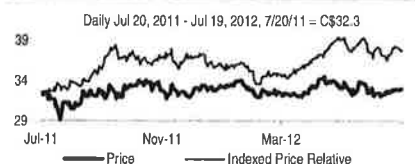
Research Analysts**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

Upgrade to Outperform; acquisitions on the sidelines with CH Energy regulatory process

- **Upgrade to Outperform:** We upgrade Fortis to Outperform from our prior Neutral rating and boost our target price to C\$38 from the previous C\$34. In historical terms, Fortis is trading more than 200 bps wide of the 10-year yield spread average. That value combined with completion of the CH Energy deal funding, along with other acquisitions being more distant in time, provides the rationale for the upgrade. Additionally, those factors are also supported by the prolonged low interest rate environment further benefitting the corporate valuation.
- **Transaction timing:** Fortis expects the CH Energy deal to close by the end of Q1 2013. In our view, Fortis will largely be on the sidelines from the M&A market until this deal officially closes with the necessary regulatory approvals. Therefore, we do not expect a typical acquisition overhang to surround the potential deal-making activities of the stock. Yet, we believe a greater focus on the potential of CH, among other prospects, will come into the stock over the next few quarters.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. After the closing of the CH deal, we believe FTS is well positioned for additional opportunities. Fortis recently stated, "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** We obtain our revised C\$38 target price (up from the prior C\$34) from multiple valuation methods, but we primarily rely upon a targeted dividend yield of 3.25%. We upgrade Fortis to Outperform.

Share price performance

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.32	0.27	0.51
2013E	0.72	0.32	0.28	0.53

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P/E rel. (%)	145.7	150.0	161.3	177.0
Revenue (C\$ m)	3,747.0	3,855.4	4,293.0	4,436.1
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OCFPS (C\$)	4.51	4.10	3.83	3.96
P/OCF (x)	7.4	8.0	8.6	8.3
EV/EBITDA (current)	10.2	9.5	8.8	8.4
Net debt (C\$ m)	5,855	6,503	7,084	7,578
ROIC (%)	5.80	5.72	5.67	5.60
Number of shares (m)	189.30	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,091.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	120.3	Dividend yield (%)		0.91

Source: Company data, Credit Suisse estimates.

Exhibit 129 contains a statistical perspective of the Fortis dividend yield and yield spread over several periods.

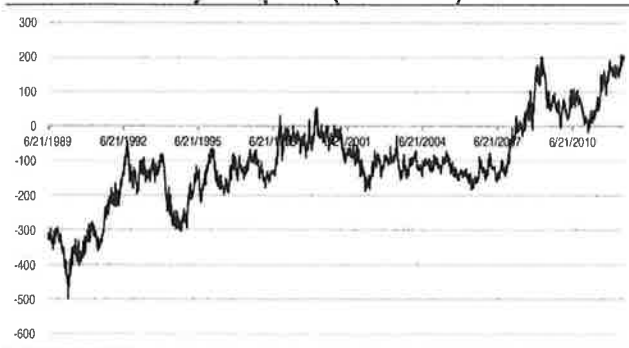
Exhibit 129: FTS dividend yield / yield spread over different time periods

FTS	Max	10-Year	5-Year	2-Year	9/2008-3/2009
Beginning Date	6/21/1989	7/16/2002	7/16/2007	7/16/2010	9/1/2008
Mean Yield (%)	4.78	3.53	3.77	3.59	4.22
Max Yield (%)	7.54	4.81	4.81	4.04	4.81
Min Yield (%)	2.46	2.46	2.97	3.30	3.63
Mean Spread (bps)	-102.68	-29.12	58.82	98.78	102.12
Max Spread (bps)	207.47	207.47	207.47	207.47	202.28
Min Spread (bps)	-497.22	-179.49	-150.99	-16.81	-9.60
Mean (10-Yr) (%)	5.80	3.82	3.18	2.60	3.20
Max (10-Yr) (%)	11.91	5.35	4.64	3.50	3.82
Min (10-Yr) (%)	1.61	1.61	1.61	1.61	2.56

Source: Bloomberg.

The Fortis dividend yield spread appears in Exhibit 130 and Exhibit 131 over two different timeframes.

Exhibit 130: FTS yield spread (since 1989)



Source: Bloomberg.

Exhibit 131: FTS yield spread (last two years)



Source: Bloomberg.

A hypothetical Fortis stock price can be generated by the dividend and yield variables in Exhibit 132, illustrating the sensitivity of a lower rate environment.

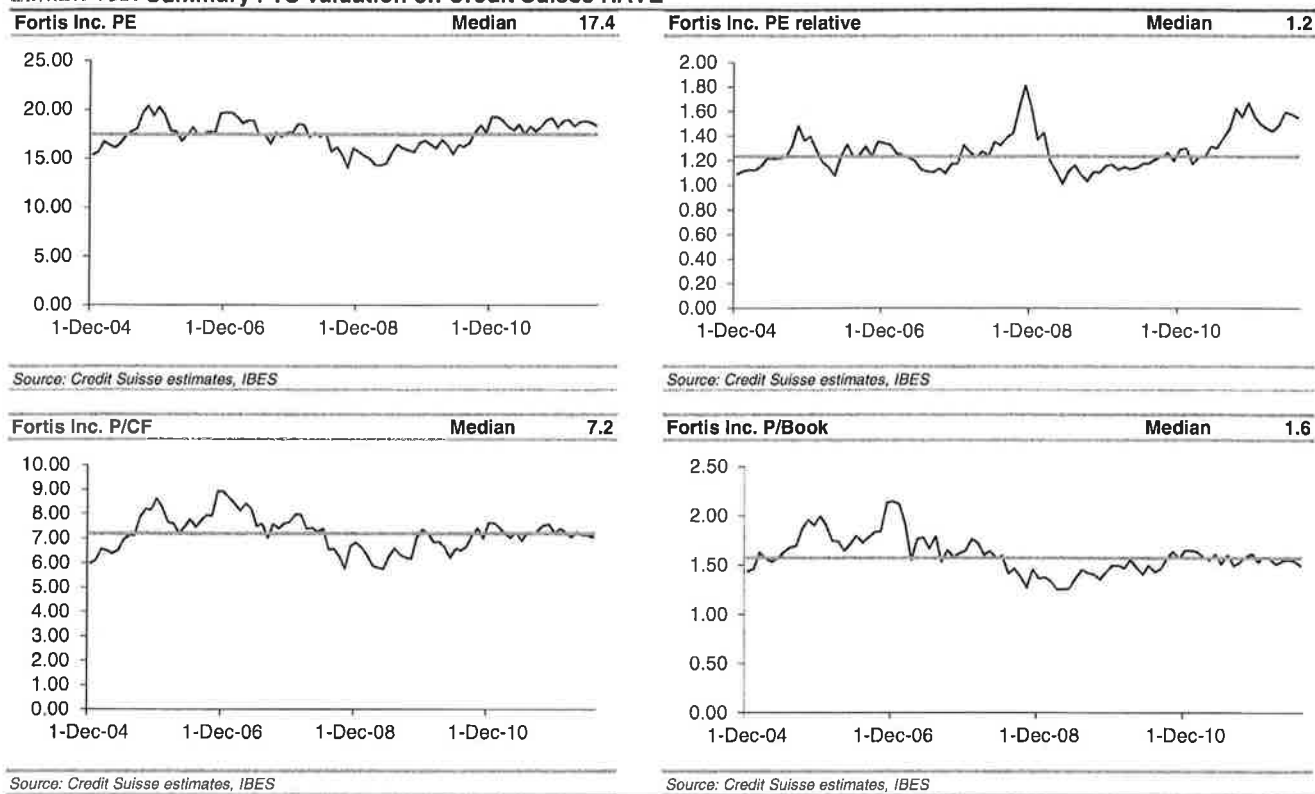
Exhibit 132: Hypothetical stock price at various distribution and target yields

		Dividend					
		1.16	1.20	1.24	1.28	1.32	1.36
Yield	3.25%	35.69	36.92	38.15	39.38	40.62	41.85
	3.50%	33.14	34.29	35.43	36.57	37.71	38.86
	3.75%	30.93	32.00	33.07	34.13	35.20	36.27
	4.00%	29.00	30.00	31.00	32.00	33.00	34.00
	4.25%	27.29	28.24	29.18	30.12	31.06	32.00
	4.50%	25.78	26.67	27.56	28.44	29.33	30.22
	4.75%	24.42	25.26	26.11	26.95	27.79	28.63
	5.00%	23.20	24.00	24.80	25.60	26.40	27.20
	5.25%	22.10	22.86	23.62	24.38	25.14	25.90
	5.50%	21.09	21.82	22.55	23.27	24.00	24.73

Source: Credit Suisse estimates.

In Exhibit 133, we highlight selected FTS valuations from Credit Suisse RAVE.

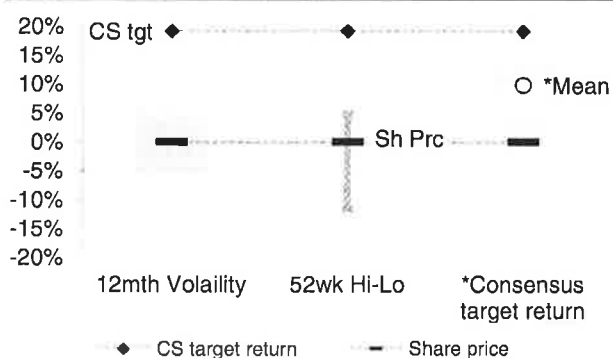
Exhibit 133: Summary FTS valuation on Credit Suisse RAVE



Source: Credit Suisse RAVE.

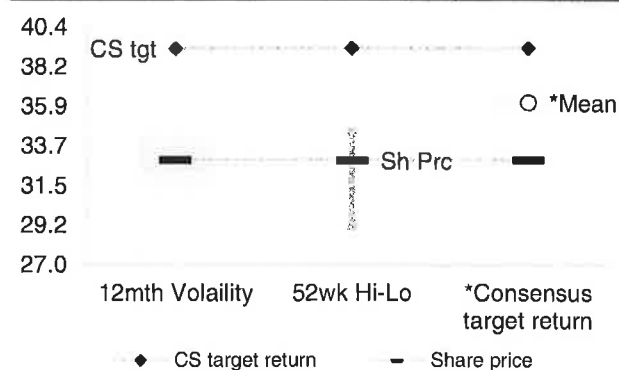
Exhibit 134 and Exhibit 135 put our rating into context versus the Street.

Exhibit 134: Total return forecast in perspective



Source: * Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

Exhibit 135: Total return forecast in perspective



Source: * Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

Fortis Inc. (FTS.TO)

Rating	OUTPERFORM*
Price (31 Jul 12, C\$)	33.54
Target price (C\$)	38.00 ¹
52-week price range	34.55 - 29.11
Market cap. (C\$ m)	6,371.50
Enterprise value (C\$ m)	13,043.71

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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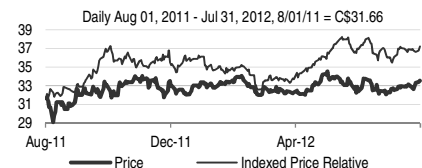
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FORECAST INCREASE

A British Columbia Bolt On

- **Earnings review:** Fortis reported Q2 2012 headline EPS (FD) of C\$0.33, which was ahead of our C\$0.32 and inline with the Street's C\$0.33 view and within the C\$0.32-C\$0.34 range. In general, we believe Fortis continues to deliver rather consistent financial results from a largely regulated asset base. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until sometime after close. Notably, FTS announced negotiations for the Kelowna, BC electricity utility's ownership that is already operated by the company's BC-based business. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis' 5-year capex outlook continues to stand at C\$5.5bn. Eighty-six percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** A large part of corporate growth has come from successfully acquiring and integrating assets. In our view, Fortis is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition. FTS stated, "[w]e remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** We obtain our C\$38 target price from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We maintain our Outperform rating.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.33	0.26	0.52
2013E	0.73	0.32	0.27	0.53

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.73	1.85	1.87
Prev. EPS (C\$)	—	1.72	—	—
P/E (x)	19.8	19.4	18.1	17.9
P/E rel. (%)	145.7	144.5	156.0	169.4
Revenue (C\$ m)	3,747.0	3,835.1	4,254.3	4,396.5
EBITDA (C\$ m)	1,185.0	1,291.0	1,368.4	1,429.7
OCFPS (C\$)	4.51	4.67	3.94	4.08
P/OCF (x)	7.4	7.2	8.5	8.2
EV/EBITDA (current)	10.7	9.8	9.2	8.8
Net debt (C\$ m)	5,855	6,672	7,270	7,782
ROIC (%)	5.80	5.77	5.54	5.48
Number of shares (m)	189.97	IC (current, C\$ m)	10,532.00	
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)	1.1	
Net debt (Next Qtr., C\$ m)	6,488.1	Dividend (Next Qtr., C\$)	0.30	
Net debt/tot cap (Next Qtr., %)	127.0	Dividend yield (%)	0.89	

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results surpassed our estimate

Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2012	Q2 2011	chg y/y
Regulated Gas Utilities - Canadian	13	15	-13%
Regulated Electric Utilities - Canadian	52	43	21%
Regulated Electric Utilities - Caribbean	6	6	0%
Non-regulated - Fortis Generation	5	2	150%
Non-regulated - Fortis Properties	8	8	0%
Corporate and other	(22)	(17)	-29%
Net earnings applicable to common shares	62	57	9%

Source: Company data and Credit Suisse

Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 13% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Sales volumes for the quarter decreased for the residential and commercial, industrial segments, while there was a slight increase for the transportation segment.

Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q2 2012	Q2 2011	chg y/y
FortisBC Energy	13.0	15.0	-13%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2012	Q2 2011	chg y/y
FortisAlberta	26	18	44%
FortisBC Electric	9	9	0%
Newfoundland Power	12	10	20%
Other Cdn Electric Utilities	5	6	-17%
Earnings	52	43	21%

Source: Company data and Credit Suisse

FortisAlberta

Earnings at this regulated utility were up comparing Q2 2012 versus the prior period. See Exhibit 4 for selected highlights.

Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	3,853	3,822	1%
Revenue (C\$/MWh)	28.55	26.95	6%
Operating expenses (C\$/MWh)	9.60	9.42	2%
Gross margin (C\$/MWh)	18.95	17.53	8%
Earnings (C\$millions)	26	18	44%

Source: Company data and Credit Suisse

Slight increase in energy delivery in Alberta

FortisBC Electric

Segmented earnings at FortisBC Electric remained flat compared to the same period last year.

See Exhibit 5 for selected highlights.

Slight decrease in energy deliveries in BC

Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	676	682	-1%
Revenue (C\$/MWh)	99.11	95.31	4%
Energy supply costs (C\$/MWh)	19.23	16.13	19%
Operating expenses (C\$/MWh)	31.07	30.79	1%
Gross margin (C\$/MWh)	48.82	48.39	1%
Earnings (C\$millions)	9	9	0%

Source: Company data and Credit Suisse

Newfoundland Power

This segment's earnings gained by 20% when comparing Q2 2012 versus Q2 2011. Higher ROE and lower effective corporate taxes led to result in higher earnings. Energy deliveries were down by approximately 1% (see Exhibit 6).

Slight decrease in NP's energy deliveries

Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	1,259	1,269	-1%
Revenue (C\$/MWh)	103.26	104.81	-1%
Energy supply costs (C\$/MWh)	61.95	63.04	-2%
Operating expenses (C\$/MWh)	13.50	13.40	1%
Gross margin (C\$/MWh)	27.80	28.37	-2%
Earnings (C\$millions)	12	10	20%

Source: Company data, Credit Suisse estimates

Other Canadian Electric Utilities

This segment's earning decreased by roughly 17% in Q2 2012 versus Q2 2011 primarily due to increased operating expenses at FortisOntario. The energy deliveries for the period were flat compared to Q2 2011. Exhibit 7 contains selected highlights.

Flat energy deliveries

Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	563	562	0%
Revenue (C\$/MWh)	145.65	138.79	5%
Energy supply costs (C\$/MWh)	90.59	83.63	8%
Operating expenses (C\$/MWh)	21.31	19.57	9%
Gross margin (C\$/MWh)	33.75	35.59	-5%
Earnings (C\$millions)	5	6	-17%

Source: Company data and Credit Suisse

Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat in Q2 2012 versus the same quarter last year. Energy deliveries declined 52% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rational manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time.

See Exhibit 8 below for selected highlights.

Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	184	383	-52%
Revenue (C\$/MWh)	364.13	221.93	64%
Energy supply costs (C\$/MWh)	211.96	138.38	53%
Operating expenses (C\$/MWh)	48.91	28.72	70%
Gross margin (C\$/MWh)	103.26	54.83	88%
Earnings (C\$millions)	6	6	0%

Source: Company data and Credit Suisse

Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 150% in Q2 2012 compared to the same quarter last year. Energy deliveries decreased by 3% from Q2 2011 to Q2 2012 due to decreased production in Upstate New York and in Ontario. Exhibit 9 provides selected highlights.

Exhibit 9: Non-regulated generation – selected highlights

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	87	90	-3%
Revenue (C\$/MWh)	103.45	77.78	33%
Energy supply costs (C\$/MWh)	11.49	11.11	n/a
Operating expenses (C\$/MWh)	11.49	11.11	3%
Gross margin (C\$/MWh)	80.46	55.56	45%
Earnings (C\$millions)	5	2	150%

Source: Company data and Credit Suisse

Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution remained flat during the quarter. REVPAR increased by 2.4% to C\$85.56 on a year over year comparison. While, the occupancy rate of the Real Estate Division was down by 2.0%.

Corporate

Corporate expenses increase by C\$5 million to C\$22 million in Q2 2012, when compared with last quarter during the same period.

Outlook

We continue to believe investors, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$282 million, of which C\$215 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on

Ongoing organic growth

Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 86% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 21% of the total capex amount, and 14% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. Fortis is currently working towards to complete its acquisition of CH Energy Group (see "*Acquiring American assets*" on 21 February 2012), which it expects to occur by the end of Q1 2013. On 31 July 2012, on the company's Q2 2012 results, announced that they are in discussion with the City of Kelowna (British Columbia) to acquire the city's electricity distribution utility. No details were given, however, we don't believe the amount to be meaningful to Fortis Inc. We view Fortis management to continue to look to further grow in the US. The company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a

bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see “A positive pass” published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

Valuation

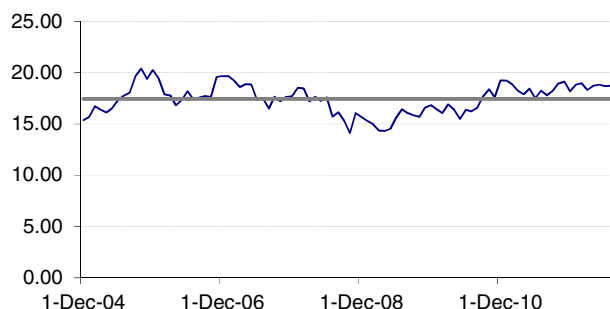
We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. After the quarter, we revised our EPS estimates for 2012 to C\$1.73 from C\$1.72. Our Outperform rating and C\$38.00 target price is obtained

Rating: Outperform
Target: C\$38

from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We reiterate our Outperform rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

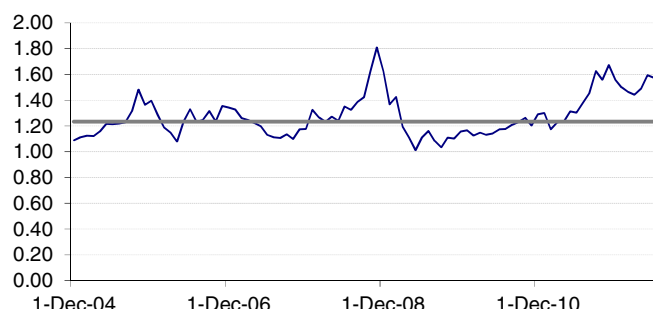
Exhibit 11: Fortis historical valuation

Fortis Inc. PE Median **17.5**



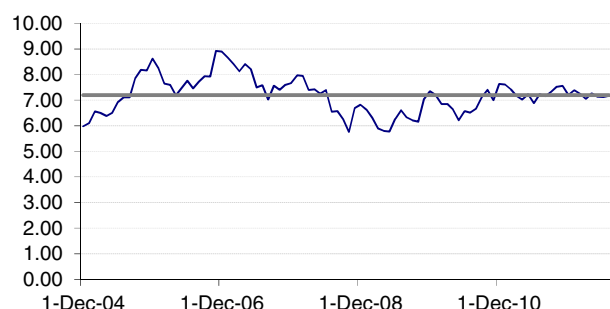
Source: Credit Suisse estimates, IBES

Fortis Inc. PE relative Median **1.2**



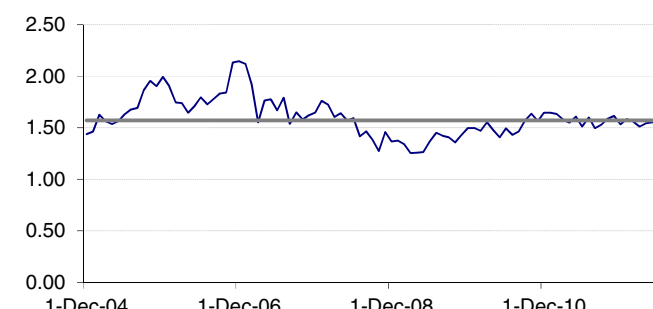
Source: Credit Suisse estimates, IBES

Fortis Inc. P/CF Median **7.2**



Source: Credit Suisse estimates, IBES

Fortis Inc. P/Book Median **1.6**

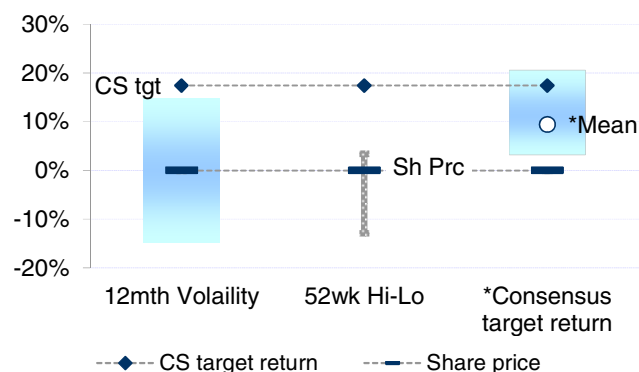


Source: Credit Suisse estimates, IBES

Source: Credit Suisse RAVE

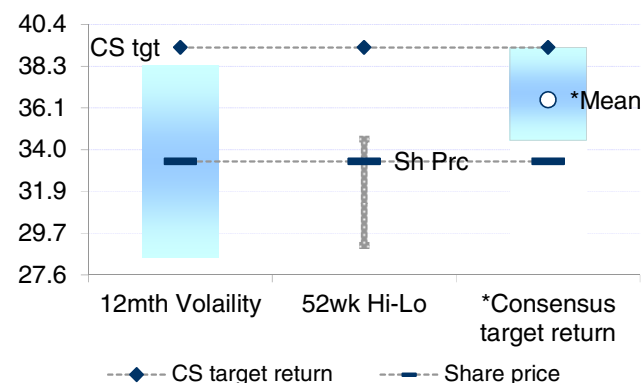
Exhibit 12 and Exhibit 13 put our rating into context versus the Street.

Exhibit 12: Total return forecast in perspective



Source: * Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

Exhibit 13: Total return forecast in perspective



Source: * Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

Companies Mentioned (Price as of 31 Jul 12)

Fortis Inc. (FTS.TO, C\$33.54, OUTPERFORM, TP C\$38.00)

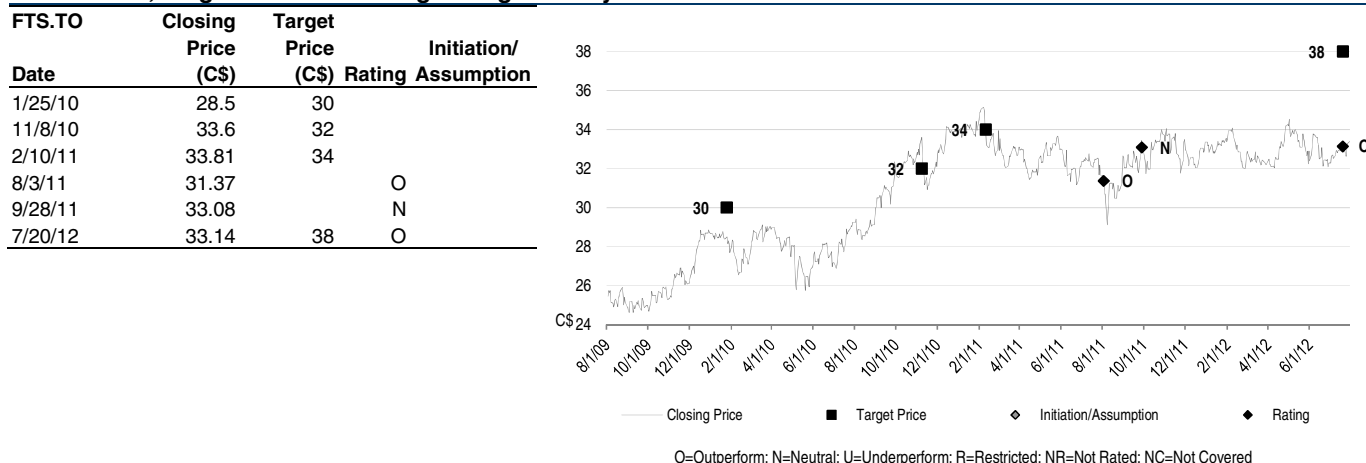
Disclosure Appendix

Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for FTS.TO



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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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Global Ratings Distribution		
Outperform/Buy*	46%	(59% banking clients)
Neutral/Hold*	42%	(55% banking clients)
Underperform/Sell*	10%	(48% banking clients)

Restricted

2%

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names.

Price Target: (12 months) for (FTS.TO)

Method: We obtain our C\$38.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.25% and an imputed 125 bps spread over a 2% Canadian 10-year bond yield.

Risks: There are a number of risks to Fortis' achievement of our C\$38.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

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